Profitability Management as an Enabler of Business Performance Through Employee Autonomy in Sourcing
JAAKKO SUNDBERG

Profitability Management as an Enabler of Business Performance Through Employee Autonomy in Sourcing

ACADEMIC DISSERTATION
To be presented, with the permission of the Faculty of Management and Business of Tampere University, for public discussion in the Pieni sali 1 auditorium of the Festia Building, Korkeakoulunkatu 8, Tampere, on 25th of August 2023, at 12 o’clock.
PREFACE

It has been said that in our journey of learning and growth, we all stand on the shoulders of the ones who came before us. We rely on the wisdom and guidance of those who preceded us. Writing this dissertation has reinforced the importance of community and the invaluable support I have received. Hence, I would like to take this opportunity to express my gratitude and acknowledge the individuals who have been instrumental in shaping my path.

First and foremost, I would like to extend my sincere appreciation to Petri Suomala for placing trust in my abilities and admitting me as a doctoral student. This initial act of belief marked the pivotal first step on the path toward accomplishing a doctoral degree, a journey that demands steadfast guidance and direction. Fortunately, I have been privileged enough to have two supervisors who have provided me with invaluable support. Teemu Laine, I am immensely grateful for your academic expertise and the wealth of experience you have shared with me. Collaborating with you has been remarkably smooth, and I deeply admire your balanced approach to life and work, as well as your down-to-earth leadership style. Jari Paranko, your extensive experience related to the Finnish manufacturing industry is truly commendable. You have imparted upon me invaluable lessons in critical thinking, and I genuinely appreciate your straightforward and candid communication style. Thank you for constantly challenging my thought process, engaging in fruitful idea exchanges, and stimulating discussions on market dynamics and industry trends.

Throughout my doctoral studies, during which I simultaneously pursued full-time employment, I have been fortunate to receive support also from my employer – AGCO Power. Within the AGCO Power team, I extend my deepest gratitude to Juha Tervala for your invaluable mentorship over the course of two years throughout the dissertation process. Our enlightening discussions encompassing business, management, and personal life have served as a wellspring of inspiration for this dissertation and have also contributed significantly to my personal growth. Additionally, I am profoundly grateful to Teuvo Mehtänen, who has provided me with encouraging guidance throughout our years of collaboration. Beyond offering
support, you have granted me the opportunity to explore new perspectives, broaden my knowledge, and evolve both professionally and personally. I frequently reminisce on our conversations spanning business and personal matters. Finally, I extend my heartfelt appreciation to Xavier Rodriguez. Our shared experiences, both in the realm of business and in our personal lives, have created countless memories. The substantial time we spent together on the road has allowed me to observe and learn from your exceptional performance, not only in business but also in sports, and I am truly grateful for the opportunity to benchmark my own growth against yours.

I have been incredibly fortunate to encounter numerous remarkable individuals throughout my life, and among them, a select few hold an irreplaceable place in my heart as family. Foremost, I extend a heartfelt thank you to my in-laws, the Kuokkala family, who consistently infuse the room they enter with lively energy and engaging discussions. Additionally, I express my sincere gratitude to Veli-Tapani for his invaluable contribution of commenting on and proofreading one of the draft versions of this dissertation. Just as one cannot soar to great heights without a solid foundation beneath their feet, I was provided early in my life with the most exceptional platform imaginable to reach new heights. For this, I am forever indebted to the Sundberg family: Markku, Päivi, and Tommi. The cherished memories of my upbringing alongside you bring me immense joy, and I often reflect upon those simple and carefree moments. Your unwavering support and guidance have been invaluable throughout my journey, and I could not have hoped for anything more – thank you!

The truth remains that this dissertation would never have come to fruition, from its inception to its completion, without the unparalleled inspiration and encouragement of my beloved wife, Hanna-Riikka. Your profound empathy, warmth, and virtuous character are truly something to look up to. Together, we have embarked on the most remarkable journey in life and are forming an exceptional team. I extend my heartfelt gratitude for consistently bringing out the best in me and for the greatest gift of all – our beautiful family.

Finally, to Emma and Matias, you have been profound sources of enlightenment and personal growth, offering invaluable lessons on self-discovery and the importance of prioritizing in life. Playing and spending time with you has been the epitome of joy, and for this, I am grateful and feel truly blessed. As you navigate the paths that lie before you, remember to stay curious, exercise patience, and remain persistent in your own journeys.

Jaakko Sundberg – Pirkkala 18.6.2023
ABSTRACT

Profitability is the key to the long-term success of for-profit organisations. Hence, understanding how profitability is managed from goal to outcome through employee actions is topical from managerial and academic perspectives. This research focuses on autonomy in profitability management and aims to understand how business performance is enabled through employee autonomy as a part of profitability management in sourcing.

A multiple embedded case study design has been employed to generate an understanding of the underlying phenomena. The dissertation is deepening the existing knowledge by interconnecting the themes of profitability management, sourcing, and autonomy and, thus, provides a more comprehensive understanding of the subject. The research is descriptive and utilises a rich data set collected using multiple methods from eight Finland-based companies operating in the manufacturing industry.

As a basis for unique contribution on autonomy, individual employees were chosen as the unit of analysis. The findings of the thesis suggest that autonomy is an integral part of sourcing and is even more valued among people with more experience. In particular, the autonomy of means was highly valued within the sample. The employees were satisfied with the amount of autonomy they possessed, and it was indicated to lead to further positive outcomes. More broadly, by creating a framework which allowed connecting the organisational and individual level analyses, this research was able to study profitability management on both levels. On the organisational level, the research reveals contrasting situations among the studied companies in terms of the appearance of profitability management in practice.

The findings contribute to the current literature by highlighting the characteristics of profitability management and autonomy through descriptive research. Extending the understanding of profitability management as an intricate and contingent topic will help in designing further studies and managing the issue more effectively. Moreover, recognising autonomy as an enabler of sourcing performance will help not only in achieving optimal results and higher employee satisfaction but also in better understanding autonomy as an important variable in modern management.
Kannattavuus on voittoa tavoittelevien organisaatioiden pitkäaikaisen menestyksen avain. Juuri siksi on tärkeää ymmärtää, sekä liikkbeenjohdon että akateemisen näkökulman kannalta, miten kannattavuutta johdetaan ja kuinka se työntekijöiden toimien kautta muotoutuu yrityksen tavoitteesta tulokseksi. Tämä tutkimus keskittyy autonomiaan kannattavuuden johtamisessa ja pyrkii ymmärtämään, hankintatoimen kehitettäessä ja ymmärtäessä miten autonomian avulla on mahdollista vaikuttaa yrityksen suorituskykyyn.

Taustalla vaikuttavien ilmiöiden ymmärtämiseksi, on tutkimusasetelmaksi valittu monitapaustutkimus. Tutkimus syventää nykytietämystä ja laajentaa aihealueen ymmärrystä yhdistelemällä kannattavuuden johtamisen, hankinnan ja autonomian teema-alueita. Tyypiltään työ on kuvaileva tutkimus, joka tukeutuu runsaaseen usealla eri tiedonkeruumenteollisesta tutkimuksesta ja käsittelee autonomian ja hankinnan suhdetta yrityksen tavoitteeseen tullutuksen ja yrityksen suorituskykyyn.

Analysoitavana yksikköön työssä on yksittäiset työntekijät, mikä luo pohjan tieteelliselle kontribuutiolle. Tutkimuksen tulokset osoittavat, että autonomia on olennainen osa hankintatoimintaa ja sen tärkeys kasvaa työntekijän kokemuksen karttuessa. Erityisen tärkeäksi koettiin autonomia liittynä vapauteen valita käytettävät keinot. Lisäksi työntekijät olivat tyytyväisiä heillä olevan valinnasta ja autonomin määrittämistä mahdollisuuksista. Lisäksi tutkimuksen osana luotiin malli, jonka mukaan työntekijät olivat tyytyväisiä autonomin liittymiseen yrityksen ja yrityksen suorituskykyyn.

Suhteessa kirjallisuuteen tutkimus kasvattaa ymmärrystä liittymisen ja autonomian ominaispiirteisiin. Tämä ymmärrys kannattavuuden johtamisesta monimutkaisena ja tilannesta riippuen aihepiiriinä auttaa sekä tulevien tutkimusten suunnittelussa että aiheen ymmärtämisessä. Lisäksi autonomian tunnistaminen hankintatoimien suorituskykyyn mahdollistajana ei ainoastaan tarjoa apua tavoiteltujen tulosten ja työntekijöiden tyytyväisyyden saavuttamisessa vaan myös auttaa ymmärtämään autonomian tärkeyttä osana nykyäikaista liikkujoukkoja.
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# ABBREVIATIONS

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<td>CEO</td>
<td>Chief executive officer</td>
</tr>
<tr>
<td>DSS</td>
<td>Decision-support systems</td>
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<tr>
<td>GPS</td>
<td>Global positioning system</td>
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<tr>
<td>IP</td>
<td>Interview package</td>
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<tr>
<td>KPI</td>
<td>Key performance indicator</td>
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<td>LOC</td>
<td>Levers of control</td>
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<td>MA</td>
<td>Management accounting</td>
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<tr>
<td>MAS</td>
<td>Management accounting systems</td>
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<td>MCS</td>
<td>Management control systems</td>
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<tr>
<td>MNC</td>
<td>Multinational corporation</td>
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<tr>
<td>OEM</td>
<td>Original equipment manufacturer</td>
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<tr>
<td>PSI</td>
<td>Post-survey interviews</td>
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<td>R&amp;D</td>
<td>Research and development</td>
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<td>ROA</td>
<td>Return on assets</td>
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<td>RQ</td>
<td>Research question</td>
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<td>RT</td>
<td>Research theme</td>
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<tr>
<td>S</td>
<td>Survey</td>
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<td>SDT</td>
<td>Self-determination theory</td>
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<td>SME</td>
<td>Small and medium-sized enterprises</td>
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1 INTRODUCTION

This study concerns profitability management and how it enables business performance through employee autonomy in sourcing. The introductory chapter is divided into four parts. First, the background of and motivation for the study are outlined to highlight the themes and perspectives selected. Second, the research objectives are outlined to present the focus of the dissertation. Third, the scope and limitations are presented to provide a clear understanding of the study’s boundaries. Fourth, the structure of the thesis is presented to provide an overview of the entire study.

1.1 Background and motivation

Profitability provides a justification of existence for for-profit corporations. According to the shareholder primacy norm, it can even be considered the primary goal, as “a business corporation is organized and carried on primarily for the profit of the stockholders” (Dodge v. Ford Motor Co. 1919). Profitability is undisputedly at the core of doing business, and sustainable profits ensure business longevity. A case can also be made for other important business goals, such as growth, employee happiness, and community welfare, but if a business is not profitable, it can only sustain other business goals for as long as its external financing lasts. Therefore, management must always consider business performance (i.e. financial success) and can only justify its existence and authority through the economic results it produces (Drucker 2012, p. 7). An easy mechanism for measuring business performance is to use financial indicators, such as return on assets (ROA), to see how much profit has been generated and how many assets it required.

When discussing profits, people are a key factor in generating them. A phrase often heard in business is “employees are a company’s greatest asset”, and assets, by definition, are used to produce positive economic value. Consequently, people are managed to create organisational outcomes and meet business goals. This, in turn, is
necessary since the actions taken by individuals lead companies to their financial results (Felin & Foss 2005). Thus, the collective phenomena that lead to a profitable corporation are powered by individuals, which also means that retaining human capital through employee well-being and job satisfaction is central to long-term business success (Van der Hauwaert et al. 2021). However, in the modern era, individuals are often neglected when analysing business results, with a greater focus on strategy, processes, and resources as the sources of success.

It is clear that business results are greatly influenced by individuals’ actions, but why do individuals deliver these business goals? After all, they have the free will to choose what to do and which actions to take. According to the agency theory (Eisenhardt 1989), an individual can be expected to have goals and preferences that partially vary from those of the business they work for, and they may strive to find a balance between these two sets of goals. To overcome this and gain goal congruence within an organisation, management control is utilised. This is conveyed through management control systems (MCS), which are used to influence employee behaviour to align their actions with the objectives of the business (Malmi & Brown 2008). In essence, MCS are used to generate organisational outcomes (e.g. profitability) by influencing the actions taken by individuals who are stakeholders in the organisation.

As people are at the core of management (Follett et al. 1941), their role in creating profitability through their autonomous actions is particularly interesting. Thus, this research also considers individuals as the subjects of management control and the antecedents of profitability. People in different positions have varying impacts on business profitability. One of the most impactful groups is the purchasing function, as it is responsible for third-party spending, which can account for up to 80% of product costs in industries such as machinery (Anderson & Katz 1998). Owing to this, the purchasing function has a major influence on the financial success of business organisations (Ellram et al. 2002; Chen et al. 2004; Quintens et al. 2006). As they are the major driver of profitability, the individual employees associated with purchasing offer an interesting sample for this research. The results of this study will help in understanding the role of autonomy in sourcing in terms of profitability management which the function is mainly driving by fostering supplier relationships, open communication, and strategic partnerships (Chen et al. 2004). Furthermore, this research will help develop a better understanding of how profitability
management appears in business organisations, and this understanding can be used to manage businesses more effectively.

How do individuals perceive the quest for corporate profitability? Individuals are managed to deliver this, but are they motivated by it? Do they autonomously take on the task, or is a push-type approach necessary? Given the importance and key role of individuals in business outcomes, academic research requires further understanding of how profitability is managed through them. For example, in terms of sourcing, it is well known that buyer–supplier relationships are important (Saccani & Perona 2007); however, it remains unclear when and with whom to pursue these partnerships (Goffin et al. 2006). The main issue regarding this is the contingent nature of buyer–supplier relationships (Saccani & Perona 2007), which makes it difficult to compose a one-size-fits-all conclusion and sets a requirement of autonomy for sourcing to manage the complexity. Taking this into consideration, this dissertation outlines the logic behind this phenomenon and provides a comprehensive overview of the theories related to the subject. The objective of this is to examine the appearance of profitability management and employees’ perception of autonomy in sourcing.

To study this subject from the correct angle, the perspective of an individual must be assumed, which requires a paradigm shift from managing a business with an aim towards profitability to managing individuals to generate profitability. This may initially seem like a small step, but it changes the perspective from corporate strategy, tactics, and operations to one that looks at humans, who they are, and what they work for. It is a shift towards human-centred management and a step away from seeing humans as resources, and it requires analysing humans as holistic beings rather than pieces of a machine.

1.2 Research objectives

The subject of this research is topical, as it touches on the very core of business and management by exploring the role of autonomy in managing employees to achieve the business motive of profitability. It is crucial to explore and understand how individuals perceive management control guiding them towards taking actions for profitable results, how the granted autonomy is perceived, and whether they are satisfied with the amount of autonomy they possess. This view is similar to
Spreitzer’s (1996) argument that it is individuals’ *perception* of their working environment rather than its *actual state* that impacts employees’ behaviour in business organisations.

At the surface level, the logic underlying this thesis is rather simple: A business targets profitability for long-term success, and management utilises management control to generate it by aligning individual actions by influencing their conditions, one of which is autonomy. As a result of these controls, individual employees perceive a certain level of autonomy and can be motivated to perform as intended by management. This underlying logic is visualised in Figure 1.

![Figure 1. The underlying logic of the research](image)

Figure 1 presents profitability as a top-level business motive. However, it should be noted that, as for-profit organisations differ considerably, the ways to reach this goal vary and can change with time. For example, some companies may use growth as a means to achieve profitability, while other companies may focus more on costs or differentiated high-margin products. Nevertheless, it is the business owners who specifically pursue this goal; however, a business also has other stakeholders. These stakeholders, such as managers or employees, may have interests that diverge from those of the shareholders (Eisenhardt 1989) regarding, for example, the optimal use of company assets (Berle & Means 1991). Furthermore, these stakeholders are likely interested in the profitability of the company in addition to their own targets and
expectations regarding their contribution to the company (Donaldson & Preston 1995). A business that is not meeting or complying with these targets may experience an adverse effect on its profitability. Hence, a business must balance the targets and expectations of its stakeholders with its own goals while garnering sufficient attention for the business goals from the stakeholders. In this research, the business goal of interest is profitability, which represents business performance in terms of economic success.

Management control is expected to be enforced to gain goal congruence and to change employee behaviour to ensure the profitability of the entire organisation. Conversely, management control would not be needed if all individuals were to always prioritise corporate interests, know what to do, and be motivated to act accordingly (Strauß & Zecher 2013). In essence, the right amount of management control should be used to influence the balance since individual stakeholders, especially internal ones, are also naturally interested in profitability, as the corporation being in good financial health will provide them with a more reliable outlook for the future and create more opportunities in the present.

As management control is utilised to influence the autonomy of individuals to ensure the delivery of business goals, the following questions arise: How is profitability managed, and how is autonomy perceived by employees working towards business profitability? Furthermore, are employees satisfied with the current situation, or would they like to see changes in it? With these questions, this research focuses on how profitability management appears in organisations and how autonomy is perceived by employees in sourcing. The perspective of individuals is explored to better understand their viewpoint and actor role, as influenced by their personal perception of autonomy and control and by their motivation to deliver the business outcomes. This dissertation’s objective and research questions (RQs) are presented below. The RQs are divided into two research themes (RTs) to better focus the study and consolidate the findings.

**Objective:** The objective of this research is to examine the appearance of profitability management and employees’ perception of autonomy in sourcing.

- **RT1:** The appearance of profitability management in business organisations
  - RQ1a: How does profitability management appear in daily operations?
  - RQ1b: What kinds of controls are used in profitability management?
• **RT2**: Employee perceptions of the autonomy granted through management control in sourcing
  - RQ2a: How is autonomy perceived by employees in sourcing?
  - RQ2b: How satisfied are the employees in sourcing with the autonomy granted through management control?

By answering these questions, this dissertation seeks to provide a deeper understanding of the essence of profitability management and how it enables business performance through employee autonomy. Initially, a theoretical concept is created regarding how organisational goals are transmitted to employees and how employees perceive this effort of profitability management and act based on it to deliver business results. In this model, external conditions such as profitability management influence an individual’s decision making. Within RT1, the unit of analysis is the studied business organisations; RQ1a and RQ1b are set to understand the appearance of profitability management in these organisations. With regard to management control, the primary focus is on formal measures and the related monitoring, which are typically planned as a part of budgets, and their performance is compared to the set standard. Moreover, the model considers autonomy as an internal condition in individuals’ decision-making processes. To study the perception of autonomy, the unit of analysis in RT2 comprises the individual employees. The shift to the individual level is necessary and important as autonomy is a factor that primarily impacts individuals, affecting organisations only through them. In this manner, employees’ perception of autonomy is studied in RQ2a. Finally, whether the individuals are satisfied with the level of autonomy they are granted through management control is examined. This is carried out to better understand if the current state examined is positive or negative from the employee perspective. This allows RQ2b to act as a control measure to evaluate the results.

### 1.3 Scope and limitations

In general, the term *business organisation* refers to a wide variety of companies that can operate in different industries and have different juridical forms. This research focuses on for-profit organisations, which are “established, maintained, or conducted for the purpose of making a profit” (“For-profit” n.d.). To better frame the research, this group has been further limited by targeting only organisations operating in the manufacturing industry. The selected organisations operated in
Finland, and most were Finnish owned. The sample can be said to represent Western culture in terms of management. Regarding the production types and sizes of companies, there were large original equipment manufacturers (OEMs) as well as smaller subcontractors in the sample, making it a cross-section of the manufacturing industry.

Management control in these companies extends to a variety of stakeholders, and to ensure a clear scope, this research focuses on individuals working in the sourcing of selected companies. This function has been chosen because it typically manages the largest part of the revenue in manufacturing companies, namely external spending (Kulmala et al. 2002); thus, sourcing is also expected to have a major role in generating profitability.

Limitations with regard to management control are also necessary. As a target for control, the individual’s motivation has been selected due to its dual nature as both a driver of actions (Vroom 1964) and a factor governing performance (Appelbaum et al. 2000). Further tapering towards autonomy as a source of motivation has been chosen, as modern motivation theories have recognised it as one of the key components of employee motivation and, with it, performance. Perceived satisfaction, as it pertains to the autonomy granted through management control, has been selected as a control variable to evaluate the need for change in the current situation. From the management control perspective, this research focuses on goals and objectives as well as measures and monitoring. This limitation has been chosen because these two pairs are fairly visible and well-recognised parts of MCS and can be expected to be present in most organisations.

1.4 Structure of the thesis

This research provides a cross-section of how profitability is generated in a corporation, ranging from the top-level outcome of profitability to the very core of operations, where individuals take isolated actions and collectively shape the success of a business. The study also involves the subject of human behaviour from the perspective of management. To achieve its ambitious goal, the research explores the essential features of the related themes and connects the fundamentals in a piece-wise manner. An overview of this process is presented in Figure 2.
The chapter on the theoretical background starts by defining purchasing and understanding the characteristic features of sourcing. Following this, the key position of sourcing as a driver of company profitability is explored, in addition to how the function interconnects with the theme of autonomy. Afterwards, the concept of MCS is defined, and an understanding of the essence of its building blocks – management, control, and systems – is developed. This builds a strong theoretical foundation for the research, which is necessary for a holistic understanding of the subject. Furthermore, different types of controls in an organisation are presented, along with a link between management’s enforcement and subordinates’ perceptions of these controls. In the next subsection, a framework presenting MCS as a total package and its contingent nature are discussed along with examples of different kinds of controls. This is extended by a study of the relationship between formal and informal controls and their coexistence with management control. At the end of the section, autonomy as an overarching theme of the research is also studied from the perspective of organisations and management control. Following this, an attempt is made to link management control with individual actions and to understand the human side of control by studying the psychology of control and motivation. In this manner, the theories behind motivation and self-determination are explored. This is
performed from the most fundamental level onwards as the research enters a novel territory with scant previous work. The link between autonomy and employee motivation is also studied to better understand autonomy as an enabler of business performance. To conclude the section, a synthesis of how MCS are used to create organisational outcomes by motivating individuals to perform actions is presented based on a systemic view of earlier research. The final section of the second chapter presents a framework to reflect the empirical research and serve as a platform for discussing the findings of the study.

The third chapter introduces the research design and methodology used in the dissertation. It also justifies the choices behind the philosophical and methodological approaches selected for the research. Furthermore, the data and methods utilised, as well as the research process, are outlined.

The fourth chapter presents the empirical results of the study. The results are divided into four sections based on the different data sets gathered during the research. First, the theme of profitability management is studied in the context of a subsidiary of a large multinational corporation (MNC). Second, four more cases are added to further understand how profitability management appears in organisations. These cases involve small and medium-sized enterprises (SMEs) and, thus, examine the theme from a different perspective. Third, data from a survey on management control and autonomy are analysed, and finally, the data from the post-survey interviews (PSI) are examined.

The fifth and sixth chapters contain the discussion and conclusions of this dissertation, respectively. The discussion presents the answers to the RQs. The conclusions contain a summary of the research, its contribution to an academic and a managerial understanding of the topic, and the possible limitations of the study, in addition to suggestions for future research.
2 THEORETICAL BACKGROUND

The theoretical foundations of this dissertation are presented in this chapter. The themes of this research, namely profitability management, sourcing, and autonomy have been selected and explored because of their interesting connection with each other and because the existing academic research does not sufficiently connect these together. As presented in the introduction, sourcing serves as a lucrative context for studying profitability management, owing to the function’s high potential impact on it, as well as autonomy, owing to the complexity and contingent nature of buyer–supplier relationships. To connect the themes and further explore the academic and managerial potential, this chapter is organised as follows.

First, purchasing and sourcing are defined, and the related features are explored to better connect the relevant theories with the research context. Second, MCS are discussed, starting with the definition, covering different types of controls, and finally presenting MCS as a total package. Afterwards, a more human side is explored as the psychology of control and motivation is discussed. The role of individuals in the context of business organisations is outlined, in addition to exploring how and why they are motivated to generate organisational outcomes. The theme of autonomy is addressed in all the aforementioned sections separately to understand it from different perspectives. This chapter concludes by introducing a theoretical model that summarises prior research and introduces a framework for the underlying empirical studies.

2.1 Purchasing function and sourcing

This section centres on developing an understanding of sourcing as a part of purchasing in an organisational setting. First, purchasing in general is defined; following this, the characteristic features of sourcing are presented. Next, the connection between purchasing and profitability is explored, and finally, autonomy is discussed in the context of purchasing.
2.1.1 Definition of purchasing

Modern businesses no longer compete with each other as individual units; rather, they are increasingly connected as networked systems called supply chains. A supply chain can be defined as “a set of three or more entities (organizations or individuals) directly involved in the upstream and downstream flows of products, services, finances, and/or information from a source to a customer” (Mentzer et al. 2001, p. 4). While only one organisation is typically observed at a time, the success of the focal firm is highly related to how well the entire supply chain is integrated and managed. The discipline of supply chain management involves managing through a variety of relationships, both upstream (raw material, component, and service suppliers) and downstream (distributors, wholesalers, and customers) from the focal firm (Lambert & Cooper 2000).

In a typical business organisation, the department accountable for handling the upstream operations of the supply chain is called purchasing. According to van Weele (2009, p. 8), purchasing can be defined as follows:

“The management of the company’s external resources in such a way that the supply of all goods, services, capabilities and knowledge which are necessary for running, maintaining and managing the company’s primary and support activities is secured at the most favourable conditions.”

Several terms, such as sourcing, procurement, and buying, are related to purchasing and may be used interchangeably when referring to it. The relationships between these are clarified in Figure 3.

![Figure 3. Purchasing process model (adapted from van Weele 2009)](image-url)
Figure 3 illustrates a purchasing process model and the related terms. In general, the purchasing function operates in an interface between internal customers and external suppliers; it includes the following activities: determining the specifications; selecting the supplier; contracting; ordering; expediting and evaluating; and following-up and evaluating. These activities are typically governed, but not necessarily executed, by the purchasing department. The first three steps of this process represent a tactical or initial part, whereas the latter three parts are referred to as operational or ordering functions. A split can also occur between sourcing and supply. This linear model portrays purchasing as operational or tactical problem solving, which begins with a request from an internal customer and ends when a solution is acquired and delivered. This depiction omits the strategic layer of purchasing, which is typically included in sourcing. Sourcing is an activity that involves locating, choosing, and contracting suppliers, but it also includes managing them for performance. It is strategic in the sense that a plan and its execution are needed regarding the number of suppliers to buy from, the choice between local and global ones, the kind of relationships to pursue with them, and the types of contracts to use. Furthermore, the strategic side of sourcing considers how to develop and manage supplier relationships, how to best leverage a supply base, and how to best integrate suppliers into a new product introduction process. Typically, these strategies are developed for each category or commodity, both of which refer to a group of similar products to be purchased. To complement sourcing, the supply side handles any of the organisation’s daily needs by placing call-off orders and ensuring that the goods arrive as planned. In broader terms, buying differs from purchasing in that it does not consider the determination of specifications. Thus, the typical components used by industrial companies do not fall into this category. Procurement, in comparison, is a broader term and encompasses the entire process of obtaining goods from a supplier and delivering these to the final destination (van Weele 2009).

The importance of purchasing activities can be illustrated well by viewing a business’ purchases as a percentage of sales or as product costs. These measures can reach up to 60–80% in industries such as machinery (Anderson & Katz 1998). This position makes purchasing a highly interesting function when analysing business profitability. Savings generated in purchasing are directly transferred to the company’s margin, which makes spending management a relevant topic. Overall, the role of being accountable for third-party spending and fostering relationships with suppliers makes purchasing an interesting function to observe in modern organisations. In these organisations, the focus is often placed on specific core competence, while the
rest of their vital activities are outsourced and, thus, managed by the purchasing department.

2.1.2 Features of sourcing

Purchasing, including the activity of sourcing, is a relatively new function of interest from both the managerial and academic perspectives, and its potential has grown alongside the rise of the importance of supply chain management over the past few decades, as organisations have been focusing on their core capabilities (Ellram et al. 2002; Chen et al. 2004; Quintens et al. 2006). Sourcing has become central in modern organisations and can create value by building relationships with suppliers, fostering open communication with supply chain partners and creating long-term strategic partnerships (Chen et al. 2004). In addition to being a link between an organisation and its external suppliers, employees working in sourcing are also advocates of cross-functional and intraorganisational relationships (Ellram & Carr 1994). Thus, sourcing has the ability to exert a major impact on the success of a business organisation, including its financial performance (Ellram et al. 2002; Chen et al. 2004; Quintens et al. 2006). Conversely, the wealth of shareholders can be negatively impacted by issues within supply chains (Hendricks & Singhal 2003).

Owing to its potential to impact business performance, purchasing and sourcing have been recognised as a function of strategic importance (Ellram et al. 2002; Chen et al. 2004). The level of importance can change over time within an organisation, as the level of sourcing evolves into different stages based on its dimensions of strategic focus, strategic involvement, and visibility in an organisation (Paulraj et al. 2006). Despite its strategic relevance, sourcing and purchasing are subordinate to corporate strategy, and their impact depends on how well business and purchasing strategies are integrated (Pohl & Förstl 2011). Integration can be accomplished, for example, by linking sourcing goals with the overall business planning process through performance measurement systems (Carter & Narasimhan 1996). Consequently, the performance measurement of sourcing can be assumed to be of interest within a business when considering the function’s potential to have a high impact on business results.

Performance measurement systems for sourcing can be expected to indicate the priorities of the purchasing function and its most important features in an organisation. In their synthesis of the existing literature, Caniato et al. (2014)
presented the following six key performance indicator (KPI) categories used in purchasing performance measurement systems: cost, time, quality, flexibility, innovation, and sustainability. These categories include measures that target internal processes as well as suppliers, which together comprise the total performance of the function. Detailed KPIs vary from company to company and between industries. Nevertheless, the most commonly measured KPIs in terms of supplier performance are cost (purchasing price), time (on-time delivery), and quality (conformance) (Caniato et al. 2014).

Owing to these features, sourcing is an interesting entity to observe. On the one hand, the value of sourcing is created through the continuous process of building relationships, fostering open communication, and forming long-term partnerships; on the other hand, the key measures in use are relatively short term, with a focus on reducing prices, obtaining goods, and avoiding mistakes. This function is strategic and can be considered central, especially in the manufacturing industry, where the majority of revenue comes from third-party spending managed by sourcing. However, this function is at the edge of an organisation and borders the upstream supply chain, and especially in the manufacturing industry, this function supports the business core, which is the manufacturing function.

This dualistic nature of sourcing defines its features and, consequently, the way the function is considered in this research. Specifically and often, short-term objectives (such as cost, delivery, and quality) can be expected to play a major role in controlling sourcing, and the need to achieve these objectives is likely to guide the everyday actions of the people working in this function. At the same time, management’s focus is likely additionally extended towards long-term goals, such as partnership building, as these are likely to strengthen the strategic position of the function by creating value for the organisation. Overall, balancing priorities and, thus, navigating between short-term and long-term foci are particularly characteristic in sourcing.

2.1.3 Purchasing and profitability

Purchasing has the ability to impact profitability directly by reducing operational costs, for example, by improving the cost and quality performance of suppliers (Hartmann et al. 2012). This is particularly true in industries such as manufacturing, where purchased raw materials and services comprise a significant part of the total revenue (O’Brien 2019, p. 23), and the balance sheet contains a larger number of
fixed assets. In these industries, purchasing can grow into a powerhouse of profitability management. However, the short-term focus on the set objectives – especially price savings, which are typically measured on month-to-month and year-over-year bases – poses a danger. An excessive focus on price reductions may lead to a situation in which opportunistic management targets quick savings instead of supporting value-driven purchasing that is collaboratively carried out with long-term partner suppliers (O’Brien 2019, p. 19). In essence, the stumbling block for managing profitability through purchasing is the fact that this function creates value through long-term strategic actions (Chen et al. 2004) but is most often measured with short-term operative KPIs (Caniato et al. 2014). This does not necessarily mean that the short-term view is automatically adopted. There are both individual- and organisational-level factors impacting whether or not short-termism is practiced (Marginson & McAulay 2008). However, the described situation could increase the probability of short-termism by favouring short-term actions at the expense of long-term profitability.

As previously mentioned, the most frequently used measures in purchasing are price, on-time delivery, and quality conformance (Caniato et al. 2014). With these measures, the function represents a two-fold connection between purchasing and profitability – first through the income statement and second through the balance sheet (Johnson et al. 2021, p. 8). The income statement connection is considerably strong and evident, as purchasing controls where the company’s money is spent (O’Brien 2019, p. 23). Spend management also branches towards balance sheets and assets, as purchasing can, for example, reduce the cost of investments through successful negotiations, reduce working capital and accounts receivable, and improve the cash flow from suppliers (Johnson et al. 2021, p. 138). In practice, impacts on the balance sheet can be achieved by improving the purchasing measures of quality and on-time delivery as these have an effect on inventories, which are listed under current assets in a balance sheet. By having goods delivered on time and in good quality, a company can plan better, have more confidence in the planning, and keep less inventory on hand. Less inventory means less money tied up in current assets, which will allow the company to use this money in a more profitable manner. The same logic can be applied to payment terms, which are agreed upon between the purchasing and supplying partners. The longer the terms, the longer the company has its money to generate profits. Overall, purchasing can influence profitability directly by spending less and indirectly by spending more efficiently.
This research seeks to understand how business performance in terms of economic success measured by profitability is enabled through autonomy in sourcing. A better understanding of profitability is required to provide a more detailed analysis of the avenues through which purchasing, and sourcing as a part of it, can influence profitability. Several indicators are available to measure profitability, such as return on invested capital, return on assets, return on capital employed, and return on equity (Paranko 2012). These are measures aimed at directly determining the profitability of a selected unit of analysis. Furthermore, when managing profitability, the factors impacting it – such as costs, assets, or revenues – are typically controlled to influence these subcomponents of profitability and, through this process, indirectly optimise the actual profitability measures. Profitability may also be indirectly influenced through, for example, a frugal spending culture or tight asset management processes. To avoid misunderstandings, in this research, the indicators measuring profitability directly are referred to as profitability measures. These indicators, which are presented above, have a slightly different approach to measuring profitability; however, in this research, ROA has been selected based on the following rationale:

- Earnings are expected to be generated with all available assets.
- ROA evaluates how effectively a company uses its assets.
- This is simple, as nothing needs to be removed from the measure.
- It also takes debt into consideration.

ROA is calculated by dividing net income (i.e. profit after tax) by the total assets (Equation 1). More accuracy can be gained through using the average assets of an accounting period. Typically, this is the average between the opening and closing assets of a balance sheet during the accounting period being analysed (Needles et al. 2013, p. 184). The equation depicts profitability as the measure of how much profit a company is able to generate through each euro invested as assets. For example, an ROA of 10% would mean that the company is able to generate 10 cents of net income for each euro of its assets. With this measure, the management or an investor can evaluate, for example, if the company is performing as expected, if its assets are in good use, or if investing in the company is an attractive choice. The ROA equation can be further simplified by replacing net income with earnings before interest and taxes, in which case it is called operating ROA (or pre-tax ROA) (Pringle & Harris 1987, p. 214; Damodaran 2010, p. 692). In most cases, this is a more robust measure and provides enough information to perform the necessary evaluation. In some cases, such as when evaluating companies to be acquired and the candidates have
differing tax rates, operating ROA can offer even greater accuracy. In this research, ROA is calculated in its basic form to better illustrate the full effect that the operating environment has on business profitability.

\[ \text{ROA} = \frac{\text{Net Income}}{\text{Total Asset}} \]  

(1)

An alternative method for calculating ROA is to use the profit margin and asset turnover ratio (Equation 2) (Needles et al. 2013, p. 184). The complexity is slightly higher in this method; however, it provides a more thorough insight into a company. Compared to Equation 1, Equation 2 places the total revenue as a denominator for net income and as a numerator for the total assets; consequently, it multiplies the profit margin and asset turnover ratio to generate ROA. This offers a deeper analysis when observing the factors of ROA. The profit margin shows how much profit a company is able to generate from each euro of revenue. Conversely, it measures how well a company is able to control its costs by showing what is left in the bottom line after each euro of revenue. The asset turnover ratio shows the company assets’ effectiveness as generators of revenue. The ratio displays how much revenue is generated with each euro invested as assets. A company with a high asset turnover ratio is, therefore, using its assets more productively to generate sales. To sum up Equation 2, ROA is calculated by multiplying the company’s income-generation power (profit margin) and revenue-generation effectiveness (asset turnover ratio). By increasing either or both of these measures, a company’s management can improve profitability.

\[ \text{ROA} = \frac{\text{Net Income}}{\text{Total Revenue}} \times \frac{\text{Total Revenue}}{\text{Total Assets}} = \text{Profit Margin} \times \text{Asset Turnover Ratio} \]  

(2)

Purchasing is in a strong position to impact the ROA of a business. This can be illustrated by seeing how ROA is further built up and which of its components are targeted by purchasing measures. Figure 4 contains a breakdown of ROA (Equation 2), with example figures taken from the Finnish manufacturing industry. The figures are from Wärtsilä’s 2019 annual review (Wärtsilä Corporation’s Annual Report 2019) and represent the actual corporate results. The red numbers in the figure illustrate the impact of raw material cost reduction on ROA, which is the most direct way in which purchasing can influence this measure.
ROA is shown at the top of Figure 4, and its factors, as presented in Equation 2, are shown under it. The figures placed in each of the boxes are directly from Wärtsilä’s annual report (Wärtsilä Corporation’s Annual Report 2019). The only exception is that an assumption has been made that work in progress and manufacturing for internal use were valued on a cost basis and were removed directly from the total costs of the values listed in the annual review. The corporation’s total revenue was 5.17 billion euros, of which raw materials and services constituted a total of 58%. This category typically falls under purchasing’s responsibility and is thus of interest to this research. The red figures show how a potential reduction of 3%, or 90 million euros, would impact the company’s ROA. An estimated 30% tax rate was used, and thus, the savings would result in an increase of 62 million in net income or 1.2 percentage points in the profit margin ratio. With the company’s 0.81 asset turnover rate, the

\[
\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}} \times \text{Asset Turnover} + \frac{\text{Net Income}}{\text{Total Revenue}} \times \text{Profit Margin Ratio}
\]

* SGA = Selling, general, and administrative
** WIP = Work-in-progress

Figure 4. ROA example, with figures from Wärtsilä (Wärtsilä Corporation’s Annual Report 2019)
savings would engender a 1.0 percentage point increase in ROA from 3.4% to 4.4%. In this case, the purchasing function’s influence on ROA can be considered significant, as achieving 3% savings in third-party spending would result in a relative increase of 30% in terms of ROA. Moreover, the different cost factors can be interconnected in practice; for example, costs can impact revenues if sale prices are adjusted based on a new cost level. Essentially, the ROA calculation is related to a specific point of time and a specific business context, which determine the figures available for calculating the metric.

The asset turnover side of ROA also comes under the purview of purchasing. This function can influence the amount of assets a company holds, not only through inventory control and quality costs but also by negotiating the price of fixed assets at the time of purchasing. Furthermore, an efficient supply chain requires less warehouse space, transportation equipment, and other related assets. This further increases purchasing’s influence on ROA. Interestingly, there is a strong trend of intangible assets gaining relative space from tangible assets in manufacturing companies’ balance sheets (Paranko 2012). It can be argued that this limits purchasing’s influence on profitability, as purchasing has a limited influence, for example, on goodwill. Other intangible assets are expected to include software, data, intellectual property, research and development (R&D), and other non-physical holdings owned by a company. Additional lines of impact can be drawn between, for example, purchasing and negotiating software costs; however, further analysis of individual balance sheets would be required to provide definitive answers on exactly how the trend of intangible assets has changed purchasing’s influence. Nevertheless, it is reasonable to claim that purchasing has more potential to influence profitability through a balance sheet than presented above, as a balance sheet can be expected to contain additional items valued at the prices negotiated by purchasing. This assumption excludes balance sheets heavy on, for example, company brands or data that are not directly valued at purchase price.

In general, when analysing a company’s ROA, a few points should be considered. One is that a good way to observe the ROA of a single company is to take measures over 5–10 years and analyse the development during this period. Another way is to compare the ROA measures of direct competitors within a single industry sector. However, a limitation of ROA is that it should not be used to compare businesses across industries, as different industries may have very different asset requirements, which will distort any comparisons.
Overall, the position that the purchasing function holds in terms of profitability makes it a highly interesting function to use as a lens to observe the themes of this research. This study will help clarify how profitability is managed in a function that has a high impact on it. Moreover, it will be interesting to discover how employee autonomy in purchasing is connected to business profitability.

2.1.4 Autonomy in sourcing

In addition to purchasing’s close connection with profitability, sourcing provides a fruitful ground for studying autonomy. This function’s defining features, as outlined earlier in this chapter, present a clear interface between autonomy and sourcing. First, as sourcing creates value by building relationships and long-term partnerships (Chen et al. 2004), it requires autonomy to foster these connections since these are built between people, and step-by-step directions that suit all types of one-on-one interactions cannot be given. Given the high amount of uncertainty in purchasing and supply (Gadde & Wynstra 2018), management can only give outlines of where to take supplier relationships and which types of partnerships to target; using this information, sourcing should autonomously pursue building such connections with methods it deems suitable. This will ensure that contingencies that exist in specific supplier–customer relationships and the changing nature of these relationships (Masella & Rangone 2000) can be taken into account and potentially leveraged for success.

Second, autonomy is needed in sourcing to fulfil its objectives. The objectives related to time, cost, and quality (Caniato et al. 2014) are dependent on the type of goods considered and from whom they are procured. For example, the quality requirements for raw castings and high-tech components cannot be measured with the same yardstick. Furthermore, sourcing has a prime vantage point for observing suppliers’ manufacturing capabilities and processes; thus, it is in a position to evaluate the type of development activities that should be considered (Modi & Mabert 2007) when aiming to increase the measured performance. Hence, sourcing needs to be given autonomy to facilitate the right activities with the correct suppliers, as opposed to trying to fit all suppliers into the same development template.

Overall, sourcing is in an excellent position to understand the potential of third-party suppliers, all of which operate within their own contingencies and provide varied goods or services to the manufacturer. To produce the end products, a modern large-
scale manufacturing company focusing on its core competencies has to rely heavily on its supplier base (Dyer & Hatch 2004; Szczejczewski et al. 2005), which may consist of hundreds or even thousands of individual suppliers. This places sourcing in a position where it is more efficient to operate autonomously than to try to quantify the details for external management and/or control the processes. This situation is recognised in the literature as it states that buyer–supplier relationships are important (Saccani & Perona 2007); however, academics struggle to define when and in which types of situations partnerships should be pursued (Goffin et al. 2006). This is mainly due to the contingent nature of buyer–supplier relationships (Saccani & Perona 2007); hence, sourcing should be managed such that the autonomy to make specific supplier-related decisions is granted and maintained within the function. For example, control systems should not force either resourcing or negotiation to be targeted at a specific supplier for the sake of savings; rather, sourcing should have the autonomy to decide how to deliver the cost-reduction objectives within the supply base as it is guaranteed to be most well versed in supplier-specific contingencies.

This research will further explore both sourcing’s specific need for autonomy and the function’s role as a powerhouse of profitability. The theoretical background indicates that autonomy is required in sourcing for it to perform optimally; taking this into account, the research aims to understand how the autonomy granted through management control is perceived by employees in sourcing (RT2). In the following sections, the existing literature on MCS and the psychology behind control and motivation are discussed and examined through the lens of sourcing.

2.2 Management control systems and autonomy in business organisations

To successfully manage a business, a thorough understanding of its conditions is required. Hence, in the following section, MCS are first studied comprehensively; afterwards, the perspective of individuals is incorporated. This is intended to ensure that this study is clearly defined and has a sturdy foundation on which its novel approach can be built and further developed.
2.2.1 Definition of management control systems

To define MCS, first, an understanding of the following terms is needed: management, control, and systems. In the following subsection, these three terms are addressed individually, as well as in relation to one another, after which they are considered in the context of MCS. Here, the objective is to gain a holistic understanding of the subject matter and to better explain the basis of the later discourse on MCS.

Defining management

Management is not a precise science per se; furthermore, it is practised in varying ways and in a variety of environments. It can be considered a feature of nearly all human circumstances, including domestic, social, political, and business spheres (Boddy 2008, p. 10). However, in this research, management is considered in the context of formally established for-profit businesses, and this perspective is assumed, if not otherwise mentioned, in the text.

Management is defined mainly on the basis of its functions in the following ways:

- “To manage is to forecast and plan, to organize, to command, to co-ordinate and to control” (Fayol 1949, p. 6).
- “To manage [...] means: deciding/planning, allocating, motivating, co-ordinating and controlling” (Hales 2001b, p. 2).
- “The four functions of management are planning, organizing, leading and controlling” (Robbins & Coulter 2005, p. 9).
- Management is “the process of using organizational resources to achieve organizational objectives through planning, organizing and staffing, leading and controlling” (DuBrin 2011, p. 2).

Most of the definitions refer to planning, organising, and controlling. The biggest differences lie in commanding, leading, coordinating, and motivating. Leading and motivating seem to be softer methods than commanding. In particular, the motivating function implies that people are encouraged to contribute in meaningful ways. Based on the aforementioned definitions, the managerial process can be distilled into four critical steps that represent the management process. These functions are presented in Table 1.
Table 1. Four functions of management (adapted from Robbins & Coulter 2005, p. 9)

<table>
<thead>
<tr>
<th>Planning (1)</th>
<th>Organising (2)</th>
<th>Leading (3)</th>
<th>Controlling (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Setting goals, establishing</td>
<td>Determining what needs to be done to execute the</td>
<td>Motivating, leading, and any other</td>
<td>Monitoring activities to ensure that they</td>
</tr>
<tr>
<td>strategies, and developing plans</td>
<td>plan, how it will be done, and who must do it</td>
<td>actions involved in dealing with people</td>
<td>are accomplished as planned</td>
</tr>
<tr>
<td>to coordinate activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creating an understanding of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>future opportunities and threats</td>
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</tbody>
</table>

This process begins with formulating a plan for what needs to happen and setting the goals accordingly. Following this, the necessary resources are gathered and organised. It is implied in all the definitions above that the next phase occurs through people. A manager leads, commands, and/or motivates the involved people in such a way that the set goals are reached and the plan is executed. This notion of accomplishing tasks through people is essential to the definition, as it rules out topics such as self-management, solo entrepreneurship, and operating and maintaining machines from being included in the scope of management. The final phase, controlling, is where the actual performance is systematically compared to the set standards and corrective actions are taken to achieve the objectives (Mockler 1970, p. 14). Management does not stop at the controlling phase, as it is an iterative process. Managers are expected to be attentive, analyse feedback received from the control loop, and make all the necessary changes to the set plans to ensure they adhere to how the organisation has been set up or is being led. Thus, management means constant evaluation of not only the current state of the business but also its future opportunities and threats.

A few authors (e.g. Zaleznik 1977; Kotter 2001) made an effort to separate leadership from management. Leadership responsibilities can be described as including motivating, inspiring, directing, aligning, and communicating with people (Kotter, 2001). However, in practice, it is highly difficult to imagine a manager doing their job without performing these actions or a leader not performing any of the other managerial functions (planning, organising, and controlling). This view is also supported by Mintzberg (2009, pp. 8–9), who stated that leadership is embedded in management and that, in practice, the two cannot be separated, even if, on a conceptual level, a person can only focus on one of the two at a time.
The definitions of management also reflect the embeddedness of leadership in management, as the third function (see Table 1) is typically described with words such as coordinate, lead, command, or motivate. Interestingly, this is also the function with the most variability among the definitions of management, as the majority of the definitions are homogenous in their inclusion of planning, organising, and controlling. Anecdotally, it also seems that, in media and news outlets, managers are often assessed based on their ability to handle leadership responsibilities rather than on the results of the entire managerial process. Interacting with other people is typically the most visible part of a manager’s job, from the perspective of subordinates or outsiders. The prominent role of leadership in contemporary discussion may be the reason there have been efforts to separate it from the concept of management. Despite all the publicity that leadership has received, ultimately, it is management that is being practised in organisations, and it has not undergone any notable changes (Hales 2001a). To further emphasise this point, it can be said that a manager is a manager even if they are not performing well in terms of “people skills” but are delivering the needed results with, or at least through, the people they manage. Overall, when taking into consideration the significance of the leading function in the definitions, it is reasonable to say that the actions involved in dealing with people are an essential part of management and should not be separated from it.

The approach that involves splitting managerial work into a set of functions, as depicted in Table 1, has also been criticised in the literature. Most notably, Mintzberg (1973) critiqued Fayol’s (1949) work for not portraying the daily actions of business managers. According to Mintzberg (1973), managerial work is fragmented into varied tasks that are performed at a relentless pace and is better described with 10 different roles that managers assume while fulfilling these tasks than as a process that is being followed. These 10 roles are outlined and categorised in Table 2.
The manager’s role varies with the tasks to be performed. For example, a figurehead role would be suitable for a situation involving ceremonial or social responsibilities, where the manager is expected to inspire others. In contrast, a negotiator role is needed when participating in an important negotiation with business stakeholders. Different managers can emphasise different roles and be more competent in certain roles than in others.

The role approach clarifies managers’ day-to-day activities but lacks the overview and structure presented by the process approach (Table 1). According to Carroll and Gillen (1987), the problem with the role approach is that, even if a manager can be observed performing a certain action (e.g. giving a speech or negotiating) and assuming a certain role in the process, this does not necessarily mean that the manager is doing this without the managerial functions in mind. While attempting to find a common ground between these two approaches, Lamond (2004) indicated that Fayol’s functional approach presents an ideal or preferred state of management, whereas Mintzberg’s (1973) observations represent management as it is enacted. Both approaches have a degree of veracity, and while the functions of management outline a structure that allows management to be observed as a phenomenon, Mintzberg’s approach provides the tools for understanding the daily actions and different roles adopted by managers while performing managerial functions.

Based on the aforementioned considerations, the following definition of management is proposed and used in this research: Management is a continuous and iterative process that takes into consideration the present conditions as well as future opportunities and threats, and it can be divided into the following phases: (a) planning, (b) organising, (c) leading, and (d) controlling. The manager’s job is to get

<table>
<thead>
<tr>
<th>Category</th>
<th>Managerial roles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship building</td>
<td>Represents the organisation</td>
</tr>
<tr>
<td></td>
<td>Acts as a leader</td>
</tr>
<tr>
<td></td>
<td>Develops external connections</td>
</tr>
<tr>
<td>Information sharing</td>
<td>Gathers information</td>
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<tr>
<td></td>
<td>Shares information</td>
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<tr>
<td></td>
<td>Acts as a spokesperson</td>
</tr>
<tr>
<td>Decision making</td>
<td>Acts as an entrepreneur</td>
</tr>
<tr>
<td></td>
<td>Resolves conflicts</td>
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<tr>
<td></td>
<td>Allocates resources</td>
</tr>
<tr>
<td></td>
<td>Negotiates and makes decisions</td>
</tr>
</tbody>
</table>

Table 2. Different managerial roles (adapted from Mintzberg 1973)
other people to perform the tasks they are managing by engaging in daily activities and assuming roles that are the most suitable for each situation at hand. The result of successful management is the achievement of the organisation’s desired outcomes.

Autonomy is not present in this definition, as it is more process oriented. Autonomy can be seen as a result of this process or even as a style for its implementation, depending on the perspective. Hence, a more detailed look at how autonomy and management are related is presented later in this chapter. Prior to that, MCS are analysed further.

Profitability management is also a central concept in this research and, hence, has been addressed. There is limited academic discussion concerning the definition of profitability management; thus, the definitive work in this research involves leaning on the literature related to defining management (e.g. DuBrin 2011, p. 2; Fayol 1949, p. 6; Hales 2001b, p. 2; Robbins & Coulter 2005, p. 9). Regarding the definition of profitability management, a question worth asking is whether it is logical to view the management of profitability as an activity that is independent from other management functions, especially when considering how profitability is at the core of doing business and how for-profit organisations provide their justification of existence through it. Thus, instead of seeing profitability management as a function separate from other management functions, it should be seen as the central element in management – a function that provides support, guidance, and a destination for management. Hence, profitability management should be ingrained in management. Moreover, as a certain level of profitability can be said to be a prerequisite for business continuity in the long run, it can be argued that profitability is a concern for everyone. Therefore, profitability management is not only the concern of the accounting department or the chief financial officer but every manager. Nor does profitability management only concern, for example, treasury management; rather, it involves managing the entire organisation to ensure profitability and steering decision making towards this goal. Thus, profitability management takes very different shapes depending on the power, responsibilities, and preferences of the manager in charge. As profitability management can be seen as a natural and inseparable part of management, it can be simply defined as follows: Profitability management is a management process in which profitability is the focus. It is also important to understand the essence of profitability management and its potential to provide a shared goal and a common way forward for a business organisation.
Control from the management perspective

After defining the terms management and profitability management, it is important to understand the distinction and relationships between these and the term control. From the definition of management, it can be concluded that management is a broader concept than control, as management includes the control function. The control function lacks goal setting, organisation of resource, and leadership. It is also a narrower concept in the sense that control is being managed as well; for example, management may have to exclude some of the methods used for control from the acceptable means. If not otherwise mentioned, this research explicitly focuses on management control, and to gain an understanding of what this involves, a few definitions from the literature are first provided.

Fayol’s (1949, p. 107) definition of control in the context of management is one of the first that was created on the subject:

“In an undertaking, control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established. It has for object to point out weaknesses and errors in order to rectify them and prevent recurrence.”

Mockler (1970, p. 14) defined management control as follows:

“Management control can be defined as a systematic effort by business management to compare performance to predetermined standards, plans, or objectives in order to determine whether performance is in line with these standards and presumably in order to take any remedial action required to see that human and other corporate resources are being used in the most effective and efficient way possible in achieving corporate objectives.”

More recently, Koontz and Weihrich (1990, p. 376) proposed an iterative definition of management control:

“The managerial function of controlling is the measurement and correction of performance in order to make sure that enterprise objectives and the plans devised to attain them are being accomplished.”
According to Koontz and Weihrich (1990), the process of control can be split into the following phases:

1. Setting up the standards or criteria of performance that best signal how the plan is being executed
2. Measuring performance against the set standards
3. Identifying the causes of deviations from the set standards and plans and minimising or eliminating these via corrective actions

The control function provides essential feedback regarding how operations are being carried out, and without this, the set goals would be difficult to meet. Without control, the organisation would lack a clear direction. Evidently, control is closely linked to the planning function. If there is no plan, there cannot be set criteria based on which performance can be evaluated; hence, control would be impossible to implement. Therefore, having a plan is a prerequisite for control. Nevertheless, control’s dependency on a plan does not make it less important than planning. It is notable that, timewise, control considers past performance, whereas corrective actions are future oriented and are made to achieve organisational plans and to attain the related performance standards and objectives in the future.

The aforementioned definitions imply that control is not a one-time process but a continuous effort conducted for as long as necessary to reach the goal. Thus, while control is a part of the management process, it is embedded within the other parts of the process as well. For example, if the set goals were not met, the corrective actions of the control process may be directed towards the plan, the manner of organising, or the efforts of leading. In this sense, control could be said to reach all levels of the organisation, including management.

As defined earlier, a manager’s job is not to manipulate people but to motivate and encourage them to deliver good performance. Thus, management control should not be interpreted as manipulative or as an attempt to control emotions, personalities, or other personal factors. Rather, the manager should ensure that their subordinates’ work-related activities are aligned with the organisation’s plans and performance targets. In essence, control in management is not synonymous with authority but refers to the actions performed by managers to ensure that the organisation's performance is in line with its plans.
Overall, management control can be defined as subordinate but closely linked to planning and is conducted continuously for as long as necessary to reach the set goals. Process-wise management control includes setting up performance standards, which signal the current execution of the plan being controlled; measuring the actual performance of the organisation and comparing the results to the set standards; and analysing the deviations to identify the impacting factors and taking corrective actions to minimise or eliminate these. Management control is essential in providing feedback to ensure that the organisation stays on the right track while also using its resources in an efficient manner. In general, control directs the activities of people towards the achievement of the organisation’s goals. A classic example of control in purchasing is a recurring meeting where cost, time, and quality measures are reviewed against the set standards (typically the budget or a forecast). Based on the current performance, tasks are then assigned to compensate for any deviations from the set plans; alternatively, the plans can be reviewed if the performance is higher than expected. Finally, an implicit but rather important aspect related to the definition of management control is that it is, by definition, a control effort carried out by management.

General control systems

According to a dictionary definition, a system is “a regularly interacting or interdependent group of items forming a unified whole” (“System”, n.d.). System as a concept is too broad a subject to be addressed in this review and, thus, requires the contextual framing of control. The general definition alone indicates that a system always has multiple interacting units that do not operate in a vacuum, instead creating a unified whole. Nevertheless, the following paragraphs will offer a brief overview of systems in the context of control, with the aim of facilitating the discussion related to MCS.

A control system can be defined as any system that regulates the actions of other individual items or systems. Control is conducted through control loops, which can be open or closed. In open-loop systems, control is enforced independently of what is happening in the system that is being controlled. In contrast, a closed-loop – or feedback – system takes into consideration the current and desired states of the system being controlled (Gopal 2002, p. 3). For example, a simple water valve that can be opened to fill a tank is a control system, as the water level of the tank can be regulated with the valve. If the valve is simply opened and closed for a specified time
regardless of the water level inside the tank, this is an open-loop system. However, the control system performs a closed loop if it is receiving feedback about the water level, and the valve is opened and closed accordingly.

The basic elements associated with a closed-loop control system, as defined by Goyal and Bakshi (2008, p. 2), are listed below:

- **Process**: the portion of a system being controlled
- **Controller**: the unit exerting control on the process
- **Input**: an external signal or stimulus applied to the control system with the purpose of generating a specific output
- **Output**: the response obtained from a control system when the input is applied to it
- **Disturbance**: an internal or external signal adversely affecting the output of the system
- **Feedback element**: the element deciding which part of the output is used to generate a feedback signal for the controller
- **Error signal**: the signal generated by combining the external input and current feedback signal from the system

![Diagram of a closed-loop control system](image)

Figure 5. Illustration of a closed-loop control system (adapted from Gopal 2002)

Figure 5 illustrates a closed-loop control system, in which the process output or parts of it are fed back to the control system. Conversely, an open-loop system has no feedback element, and therefore, the system output or any changes in it have no effect on the control itself. A closed-loop control system can also be based on feedforward logic. In this case, the amount of disturbance is measured, its effect on
the output is estimated, and control is adjusted accordingly (Gopal 2002, p. 22). The benefit of feedforward logic is that control can be adjusted before there is an unwanted change in the process output. Furthermore, complex systems can have multiple inputs and multiple outputs within one system. Nevertheless, the logic of control remains the same in these cases.

In sum, control systems are used to regulate a process to obtain a desired output. A control system and the process it controls are interconnected and influence each other while forming a unified whole. This general way of describing control systems aids in understanding the logic of these systems and also establishes a base on which the analysis of MCS can be built.

**Management control systems**

The aforementioned definitions of management, control, and systems provide a good basis to initiate a discussion of MCS. However, defining the concept of MCS is not easy, as even terms such as management accounting (MA), management accounting systems (MAS), and organisational control are sometimes used interchangeably with MCS in the literature (Chenhall 2006). The challenges of clearly defining this concept hamper the discussion and may engender inaccurate conclusions and interpretations. Hence, a definition, as it pertains to this research, is necessary to put the empirical results presented later into perspective.

To provide further clarity, Chenhall (2006) defined the aforementioned terms as follows:

- **MA** is the collection of financial practices and information used in an organisation (e.g. budgeting, cost analysis, and forecasting).
- **MAS** cover the systematic use of MA to achieve an organisation’s set goals and desired outcomes.
- **Organisational controls** consist of all the control actions built into the activities and processes of a business.
- **MCS**, an umbrella term, cover not only MAS but also other types of controls that are designed to assist managers in decision making.

Simons (1995, p. 5) defined MCS as “the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities”. Simons used this definition as a basis to analyse how a business’ strategy is
implemented and, thus, the whole organisation is controlled. However, Simons’
definition only concerns formal information-based systems. Thus, informal methods
of control, such as culture or group norms, are left out. The definition also states the
need for information to be conveyed, though the author excludes, for example, internal accounting controls from MCS, as these typically contain little information of importance to the managers (Simons, 1994).

In addition to Chenhall’s (2006) definition, other inclusive definitions of MCS are also available. For example, Merchant and Otley (2006, p. 785) described them as being “designed to help an organization adapt to the environment in which it is set and to deliver the key results desired by stakeholder groups, most frequently concentrating upon shareholders in commercial enterprises”; they also noted that, in the literature, control is either seen as a separate function of the management process, focusing mostly on the strategy implementation, or understood to include “almost everything managers do to acquire, deploy, and manage resources in pursuit of the organization’s objectives”. Their own view adheres to the latter, as it encompasses the organisation’s need to adapt to its changing environment.

Malmi and Brown (2008) summarised the literature in the form of the following
definition: “management controls include all the devices and systems managers use
to ensure that the behaviours and decisions of their employees are consistent with
the organisation’s objectives and strategies but exclude decision-support systems
(DSS)” Its difference from the all-inclusive definitions of MCS is the exclusion of
DSS, which managers or employees use to make “the right decision” but management does not use to control their subordinates. This definition also posits the following distinction: control is conducted by somebody and is directed towards another entity. Furthermore, this definition only includes MAS that enforce control as a part of MCS. This differs from Chenhall’s (2006) definition, which includes all MAS under the MCS umbrella regardless of the control aspect. An example of this type of MA-based DSS could be a simple measure of inventory level, which is used by an employee to either place an additional order or use the goods on hand to serve the production line. The employee uses this system for decision making, but no control is enforced on the employee, as they are only being informed about the inventory level. However, control would most likely be enforced in another way. This could be, for example, through an objective to keep the production line running at all times, which could be balanced with an objective to remain below a specific monetary inventory level to avoid excess capital being tied up. The performance
against the set standards would then be measured and corrective actions would be taken, as in the control process defined earlier in this chapter. Nevertheless, the DSS containing information about the inventory level would not be included in MCS.

Regarding the scope of MCS definitions, the literature contains all-inclusive definitions as well as more limited ones. The greatest difference seems to concern whether all systems or only those that enforce control are included. Moreover, as shown by Simons’ (1995) definition, there are cases where certain types of controls are left out of the MCS boundaries. Thus, the scope of MCS definitions can be divided into three categories: (a) all the systems that management has in place, (b) all the systems that management has in place to enforce control (other types of boundaries can also be set), or (c) all the systems that management has in place to enforce control, excluding certain types of control.

Contemporary research calls for a holistic view of MCS, which includes both formal and informal controls (Ferreira & Otley 2009). This opposes excluding any control types from the scope of MCS, and this viewpoint is adopted in this research. Furthermore, this research follows the call for a more inclusive definition of MCS, namely through the inclusion of DSS in the definition of MCS. This is because DSS can be considered an important part of aligning actions by providing information to guide employee behaviour and decision making. For example, providing quality-related information to purchasing can guide the function towards more quality-oriented decisions. DSS can be seen as especially important when autonomy is present, and individuals or teams are expected to find the means to fulfil their objectives independently. It can be argued that DSS providing necessary information is a crucial part of success in such settings.

After setting the scope, the definitions typically establish the purpose of MCS. The aforementioned definitions describe this in the following ways:

- “… to maintain or alter patterns in organizational activities” (Simons 1995, p. 5);
- “… to help an organization adapt to the environment” (Merchant & Otley 2006, p. 785); and
- “… to ensure that the behaviours and decisions of their employees are consistent with the organization’s objectives and strategies” (Malmi & Brown 2008, p. 290).
These are implicitly in line with the generic idea of control systems, in which a control system is used to regulate a process to achieve the desired output. In this sense, all the above definitions are quite similar, as they all target actions within an organisation. If the general idea of control systems is explicitly incorporated into the definition of an MCS, then that MCS is used to regulate all actions influencing the organisational outcomes required to meet the set business goals (i.e. to maintain long-term profitability to deliver and increase shareholder value).

In this research, MCS refer to all the systems that managers have in place to enforce control and promote certain behaviours in an organisation, with the aim of regulating employee actions to meet the goals of the organisation. This definition includes DSS, as these can be seen as guiding and promoting certain actions; it also encompasses both formal and informal types of controls in an organisation and is not limited to MAS. These systems are expected to be present at all levels of the organisation and, similarly, at all process steps of management, as outlined earlier in this review.

### 2.2.2 Types of controls in management control systems

Control is present in various forms within an organisation, and MCS extend to nearly every area of an MNC. As control manifests in several different ways, its types and forms should be categorised. Simons’ (1995) book, *Levers of Control*, contains one of the most well-known efforts to cluster different types of controls. His framework is presented in Figure 6.
At the core of the model is the business strategy, while the second level presents the key constructs that affect the implementation of the strategy. These constructs are controlled by four levers that represent opposing forces, either by creating motivation and positive energy (belief systems and interactive control systems) or by creating constraints and enforcing rules (boundary systems and diagnostic control systems) (Simons 1995). The meaning and usage of these levers are described below:

- **Beliefs systems**: These control systems are used by top management to outline and communicate the organisation’s purpose, direction, or any similar shared beliefs. Examples of these types of controls are formal statements about the company’s vision, mission, or core values, with the purpose of providing guidance and discouraging opportunistic behaviours.

- **Boundary systems**: These control systems are used by top management to set certain rules and regulations that must be followed by the business.
Examples of these types of controls are capital budgeting, codes of conduct, and operating directives. These are typically used to set minimum values or operating limits. The aim of these systems is to allow and support creativity within clearly set boundaries.

- **Diagnostic control systems**: These formal feedback elements are used to measure organisational performance and to detect and ultimately correct deviations from the set standards. Examples of these types of control systems are performance targets, business plans, and project tracking based on which variances are tracked and exceptions are managed. The purpose of these systems is to ensure that the set goals and objectives are met and to motivate, inform, and allocate resources.

- **Interactive control systems**: These systems allow management to be included personally in the decision making of their subordinates and to direct attention to certain matters. Examples of these types of controls are holding regular face-to-face meetings, challenging the presented data or actions, and implementing recurring agendas. By focusing the organisation’s attention, these control methods diminish strategic uncertainties and settle on new initiatives.

Simons (1994) provided a broad perspective of MCS and proposed the aforementioned four clusters to categorise different controls based on their connection to business strategy and how top management employs them. In a thorough analysis of Simons’ levers of control (LOC), Tessier and Otley (2012) extensively addressed the strengths (broad perspective and different types of controls) and weaknesses (vague and ambiguous definitions) of the LOC framework. They also presented a successful conceptual development of the framework based on prior literature (see Figure 7).
The framework presented in Figure 7 divides the types of controls into two categories: social and technical controls. Social controls include norms, values, symbols, and beliefs and consist of the manageable parts of organisational culture. Technical controls are based on standards, procedures, and rules and define how to perform tasks or organise groups and individuals. Controls are further split into four systems on the basis of their objectives. This categorisation organises controls based on their emphasis on the strategic or operational level of the organisation and also distinguishes between boundary (compliance) and performance focus. For example, in the purchasing function, the controls of operational performance may prioritise...
monetary savings, whereas strategic performance values cooperation and partnerships. Strategic boundaries could be, for example, the types of components or subassemblies that are outsourced to purchasing, and operational boundaries could be used to control the delegation of approvals when awarding certain amounts of business to suppliers.

The next level of the framework illustrates management’s intention to use these controls either diagnostically or interactively, extend rewards or punishments to the organisation, and enable or constrain certain activities. The separation of actual control from the intention to use it is an important aspect, as different managers may have different intentions when using the same controls or use different controls with similar intentions. Furthermore, the presentation of controls matters, as it is not the intention of managers that is perceived by the employee but the message that is conveyed. This is a critical phase in management control, as employees’ actions are ultimately based on their perception of the presentation of controls, and MCS are designed to influence these actions. Thus, to generate a desired outcome, the entire process – from the objectives of controls to the manager’s intentions – and the way controls are presented and ultimately perceived by an employee must be considered. Surprisingly little research has focused on employees’ perceptions of controls, despite this being highly critical from the employee perspective.

An important aspect in the individual perception of a particular control is whether it is regarded as enabling or coercive. With regard to the enabling and coercive spectrum, Adler and Borys (1996) conceptualised a distinction of formalisation, or bureaucracy, which can be readily extended to management control. According to the authors, the enabling method is a flexible and dynamic approach that fosters learning and empowers individuals. Coercive controls, however, limit behaviour and mandate compliance. Thus, enabling is usually perceived as positive, whereas coercion has a negative connotation. This does not always reflect reality, as coercive formalisation can also, at least in some cases, provide the required guidance and clarify responsibilities, thereby offering feelings of safety and easing stress (Adler & Borys 1996). This indicates that neither bureaucracy nor control holds intrinsic value; in essence, they are not good or bad per se, even though they are sometimes portrayed in such a manner (see, e.g., Hamel & Zanini 2018). To encourage the enabling design of MCS and, thus, a positive perception of controls, Adler and Borys’ (1996) research can be used to formulate the following four principles:
1. Emphasise the users (employees) and usability (managers) of MCS, as opposed to only the results (flexibility).
2. Engage employees at all levels of the organisation in the design, implementation, and evaluation of MCS (internal transparency).
3. Create an integrated MCS that does not conflict with other procedures or processes (global transparency).
4. Introduce MCS through an iterative process and embrace a continuous improvement mindset going forward (repair).

The use of an inclusive and transparent approach to engage employees from all levels of the organisation in the design and implementation of MCS will increase the perception of autonomy. An enabling design becomes a shared resource rather than a top-down initiative; this also unleashes the true potential of MCS (Ahrens & Chapman 2007) and helps in achieving the organisation’s targeted outcomes. For example, in environments requiring autonomy, such as sourcing, it is important to engage employees in the control process. This also helps when considering any contingencies in the supplier–customer interfaces that otherwise would not be available when designing and implementing MCS.

2.2.3 Management control systems as a package and a product of their environment

In recent works, authors have refined the categorisations of controls; among these, one of the most cited publications is that of Malmi and Brown (2008). This categorisation of the MCS package is based on 40 years of literature and strives to integrate separate streams of research into a comprehensive framework to support empirical studies on the subject. The MCS package framework, as described by Malmi and Brown (2008), is presented in Figure 8.

<table>
<thead>
<tr>
<th>Cultural Controls</th>
<th>Planning Controls</th>
<th>Cybernetic Controls</th>
<th>Reward and Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clan Controls</td>
<td>Long-Range Planning</td>
<td>Budgets</td>
<td>Hybrid Measurement Systems</td>
</tr>
<tr>
<td>Administrative Controls</td>
<td>Governance Structure</td>
<td>Organization Design and Structure</td>
<td>Policies and Procedures</td>
</tr>
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*Figure 8. MCS package framework (adapted from Malmi & Brown 2008)*
This framework consists of five main categories of control, which aim to represent all types of controls that managers enforce to regulate employee behaviour and align it with business goals and objectives. This framework provides a good overview of the general types of controls included in MCS. However, all of these categories contain several individual controls, which vary between organisations. Furthermore, the same controls may be used in different ways in different environments. Hence, MCS are contingent by nature (Chenhall 2006). One of the most impactful contingencies influencing MCS are the internal and external uncertainties. For example, an environment defined by external uncertainty is more likely to host MCS with more interpersonal controls and flexible controls, as well as an emphasis on budgetary controls (Chenhall 2003). In turn, internal uncertainties such as task complexity often requires extensive use of performance related information and overall interactive use of MCS (Chenhall 2003).

Malmi and Brown (2008) described the control categories and subcategories in the following ways:

- **Cultural controls** are the shared beliefs, social norms and values in an organisation that influence the actions and ideas of its employees. *Value-based controls* are typically conveyed through vehicles such as vision or mission statements, which are formally communicated to spread the values and the direction that management wants the organisation to embrace. *Symbol-based controls* are any visible expressions designed to alter or maintain behaviour. Examples of these could be a dress code to promote a casual and friendly culture or an open office plan to create a culture of sharing information and enhancing collaboration. *Clan controls* are controls that present themselves inside individual groups or clans within the organisation. Clan boundaries in an organisation may be found, for example, between teams, functions, or subsidiaries, which have their separate subcultures.

- **Planning** consists of *long-range* (over 12 months) strategic planning and *action planning* (under 12 months) with a shorter-term tactical focus. Similar to the first step in the process of management, planning is used to set goals and the related standards to measure how well a goal is accomplished. With these, an organisation knows what is expected and where to direct its efforts; thus, planning involves controlling the actions taken in the organisation.

- **Cybernetic controls** are “classic controls” that quantify the underlying phenomenon, have set standards and goals, carry out performance
measurements and comparisons, and include a feedback loop to ensure corrective actions are taken. These controls are divided into four subcategories, in which financial and non-financial measures are separated, hybrid systems (e.g. a balanced scorecard; see Kaplan & Norton 1992) contain both measures, and budgets are defined as a separate group. With regard to controlling financial results, one of the core elements in an organisation comprises financial responsibility centres that signal employees about expectations regarding which items in the financial statement they should focus on (Merchant & van der Stede 2007). Four basic examples of financial responsibility centres are (a) revenue centres where managers are responsible for generating revenue, (b) cost centres where accountability considers a certain cost element, (c) profit centres where managers are held accountable for profits, and (d) investment centres where managers are held responsible for accounting returns that are measured, for example, with ROA (Merchant & van der Stede 2007).

- The objective of reward and compensation systems is to control the areas at which employees direct their efforts, the duration of these directed efforts, and the intensity of these efforts by compensating individuals or groups when a certain goal or objective is achieved. By linking the control of employee efforts to a specific task, the organisation is able to achieve better results than if the rewards were absent.

- Administrative controls are divided into three categories based on how control is enforced. The first category, governance structure, starts from the composition of the organisation’s board of directors and management teams and then continues in the form of the formal lines of reporting and cross-functional project teams, all of which shape and direct the behaviour of the people working in the organisation. The next category, organisation design and structure, can enforce control by encouraging or limiting certain types of relationships and interactions. An example of such a control is an MNC in which subsidiaries report their performance through a regional headquarters instead of being in direct contact with the parent company’s headquarters. Finally, policies and procedures as a control system include creating standard operating processes, enforcing company rules, and specifying certain behaviours within an organisation.

These typologies provide a general idea of how controls can be categorised and which kinds of controls are included in MCS. Therefore, a typology must be broad
enough to encompass all the controls; however, clear limits and classifications must also be established to avoid misunderstandings and ensure ease of use. Furthermore, an interesting system-level question is the interrelation of the different control systems and how control is prioritised among overlapping systems (Abernethy & Brownell 1997).

This question is particularly interesting, as MCS are usually studied as an existing package. However, it should be noted that it is unlikely for an MCS to be designed as a complete package; rather, it would have evolved to its current state over time and through interactions with the organisation itself. This “invisible hand explanation” underlies several social patterns, which seem to be formed as a consequence of human actions and without specific intentional design (Ullmann-Margalit, 1978). In the case of MCS, a fully rational design could be expected to remove any overlapping controls and contain clear prioritisation among different controls. However, as these deficiencies exist in MCS, it is likely that “an invisible hand” is also involved in the formation of MCS.

To be useful to the organisation, an MCS needs to suit its operational context. This environmental relatedness is known as contingency theory; this theory posits that there is no single solution that fits all circumstances. According to the contingency mindset, a variety of theories – including those concerning economics, psychology, and organisation – can be used to explain and predict the prevalence and suitability of a particular MCS in a certain environment (Chenhall 2006). The contingency factors of different MCS make the comparison between systems difficult; nevertheless, these do not erase the fact that all organisations have control systems in place to influence employee behaviour.

The effect of contingency factors adds a level of difficulty to the harmonisation of the research on MCS (Chenhall 2003). The literature is further fragmented by the lack of a consistent conceptualisation of MCS and by organisations’ ever-changing control needs, as work environments change over time and new ways of working are introduced (Strauß & Zecher 2013). Nevertheless, the contemporary literature on MCS is built upon earlier publications, and there is a clear temporal evolution from a cybernetic and formal control-oriented focus to more holistic and inclusive MCS concepts. This seems like the right direction, as informal encounters, face-to-face discussions, and enforced meeting agendas can be expected to have a seemingly large effect on employee motivation and performance. This is also a point of discussion
when evaluating Malmi and Brown’s (2008) framework, presented in Figure 8, in which budgets and other cybernetic controls are listed in the middle as the heart of MCS. However, this is understandable, as these controls are easy to quantify and can be expected to be present in most organisations in similar forms.

In conclusion, MCS are a product of the environment in which they are used. Considering this, perfectly categorising every control can be deemed a futile endeavour, as the controls and the way they are used vary from one environment to another. Hence, further critique of these typologies is not provided in this research, nor is the most suitable categorisation chosen. This does not mean such typologies are unnecessary. On the contrary, the contingent nature and varying details of individual controls among different MCS in the frameworks, such as the one presented in Figure 8, provide the means to study and categorise the controls in an organisation. This provides practical guidance for managers to check whether their control systems consider all the necessary categories, in addition to establishing a baseline for academic discussions and studies. In this research, the typologies are used to gain a holistic understanding of the variety of controls present in MCS.

2.2.4 Coexistence of formal and informal controls

Cybernetic controls in the form of performance measurement and goal setting are often the most visible and easily recognisable part of MCS. However, according to Wouters and Roijmans (2011), these formal performance measurement systems are largely supported by informal systems, which are not necessarily part of the larger centralised systems from which the formal ones originate. The authors state that these informal controls are often built by individual managers to support their efforts in meeting the formal requirements. In essence, informal controls play an important role when considering how formal controls are put into practice in different parts of an organisation.

The terms rules and routines, as coined by Burns and Scapens (2000) in their conceptualisation of institutional theory, are useful for comprehending the relationship between formal and informal management controls. According to these authors, rules are formally recognised and represent “how things should be done”, whereas routines represent “how things are actually done”. For example, a specific task could be linked with a clearly defined rule, but the same task can be performed through several different routines in different locations within the organisation.
Regarding management control, this suggests that managers could adapt general control rules that best suit them and their teams, and in this process, they become routines, often designed to fit a specific situation. These informal controls are not a product of a centralised design but are created by individuals in different parts of the organisation; furthermore, they are often not even visible to senior management (Kilfoyle et al. 2013). As an example, consider a formal rule to control profitability through ROA in an organisation with several subsidiaries; each of these subsidiaries may have informal routines regarding which accounts and instalments are included in the measure and are thus controlled.

Lukka’s (2007) findings suggest that the relation between formal rules and informal routines can be loose, and such a relation can be essential for MA to function well. Essentially, for optimal performance, a formal control system with strict one-size-fits-all rules needs an informal side that allows some leeway for contingencies in different areas of an organisation. This may be particularly true in autonomy-demanding environments, such as purchasing, where different routines may be necessary depending on specific contingencies related to the supplier–customer relationship. Without taking these into consideration, the organisation faces the risk of having controls designed for everyone but suitable for none. However, this has a disadvantage as well. According to Lukka (2007), informal routines can protect formal rules and hide their underlying issues, which could hinder the further development of these controls.

Overall, there is a symbiotic coexistence of the formal and informal sides of MCS within any organisation. Control routines are formed in several parts of the organisation to support the implementation of formal controls. Subsidiaries, functions, teams, and project groups are examples of areas where such routines could exist. These routines are logical and partly explain how a large organisation with heterogeneous employees can be controlled with a single MCS. Managers at different levels of an organisation use informal routines to help the individualisation of formal rules and, thus, make management control more effective throughout the organisation. Moreover, for example, in purchasing, different buyers can have varying routines to manage their supplier base, and this type of autonomy is needed for optimal performance.
2.2.5 Nature of autonomy in an organisational setting

Autonomy is not as straightforward a variable as it may seem at first glance. Being subjective to individual perception, a question to ask when observing autonomy is this: *Whose autonomy are we analysing?* Furthermore, questions such as the following need to be addressed: *What kind of autonomy* and *how much autonomy* are we analysing. In addition, autonomy is a term that is analysed in various fields of research, such as philosophy, medicine, religion, politics, and psychology, which makes it even more complex to characterise universally. Fortunately, this research is limited to business organisations, which significantly narrows the perspective. Nevertheless, even in an organisational setting, autonomy can be considered from various perspectives, including that of an individual employee, a manager, a team, a function, or a subsidiary. Depending on the chosen subject, the results may vary. For example, the manager of a team may have very limited autonomy from the top levels of the organisation, whereas the manager could manage the team members in such a way that they perceive a great degree of autonomy when choosing their actions.

Regardless of the subject of autonomy, more knowledge of its nature is required to better understand what autonomy actually is. The etymology of the term provides a good starting point. This term was first applied to Greek city states, which made their own laws and thus had *autonomia*—a Greek term derived from two words, *autos* (self) and *nomos* (rule or law) (Dworkin 1988, p. 12). Later in history, the idea of autonomy was extended to persons being autonomous. The foundations of the Western ideology of the autonomous man were influenced by thinkers in various fields, such as Martin Luther (1483–1546) in religion and Immanuel Kant (1724–1804) in moral philosophy (Schneewind 1998). While autonomy is a valued quality in several fields, the characteristics of the term vary from field to field, making a clear definition somewhat elusive. Nevertheless, to describe autonomy, Wolff (1970, p. 14) followed in Kant’s footsteps by arguing that “autonomy is a combination of freedom and responsibility. […] The autonomous man… may do what another tells him, but not because he has been told to do it”. This captures the essence of autonomy, which is the ability to independently take action and, ultimately, the ownership of these actions. Furthermore, this quote can be interpreted such that the presence of control does not automatically eliminate autonomy, as autonomy is the ability to make a choice and take action regardless of control.
To further illustrate the relationships among autonomy, DSS, and control, an analogy of a delivery truck and a global positional system (GPS) navigator can be used. The delivery truck driver’s performance is being measured against a given schedule, which can be considered a control. The driver has the freedom to choose whether or not to drive the truck, and they also feel responsible for completing the deliveries. The driver also has the autonomy to drive the truck along whichever route they choose. As a DSS, the driver uses a GPS navigator. When switched on, it provides the driver with information about alternative routes from which they can choose any. It also measures time and provides feedback on whether the journey will be completed on time. With this information, the driver can make better decisions within the limits of the schedule (control) if they choose to take action based on the information. Thus, the navigator’s measures have the ability to influence the driver’s choice, but ultimately, they have the autonomy to choose which actions to take. Thus, the amount of autonomy the driver has does not vary depending on whether the navigator is switched on or off. Furthermore, the control in the form of the schedule does allow autonomous decision making, and nothing is preventing the driver from choosing a route not recommended by the DSS or even taking a long break and choosing to be late. Hence, the driver has autonomy, despite the DSS or the control measure.

Regarding the nature of autonomy, it is important to note that autonomy is not binary but a continuum (Banker et al. 1996) and that the type and amount of autonomy are important (Janz et al. 1997), especially in social sciences, such as management research. Autonomy can be roughly divided into two types: structural (the autonomy of means) and strategic (the autonomy of goals) (Lumpkin et al. 2009). The autonomy of means refers to the amount of influence one has over the selected ways to solve the problems that occur, whereas the autonomy of goals refers to the amount of influence over the ends (i.e. the selection of goals and objectives) (Lumpkin et al. 2009). If prioritised, the autonomy of goals would be the antecedent and the autonomy of means would be subsequent in the line of order, as choosing “where to go” can be seen as preceding the question of “how to get there”. Despite this, the autonomy of means and goals are separate line segments, as illustrated in Figure 9.
As business organisations are founded with specific goals in mind, the autonomy of goals cannot be fully met in these settings from an individual employee perspective. Nevertheless, the autonomy of both means and goals can be increased to a certain extent despite this limitation. Increasing autonomy does not necessarily hold any intrinsic value; however, in an organisational setting, having autonomy over one’s work is linked to several positive qualities in individuals (Deci & Ryan 1987). Autonomy at different hierarchical levels also influences the qualities not directly linked to these levels; for example, work group-level autonomy can lead to individual-level job satisfaction (Wall et al. 1986). The groups observed by Wall et al. (1986) possessed a high level of group-level autonomy related to their day-to-day work and performed well without direct supervision while experiencing job satisfaction. Such groups often form clan controls to ensure that their individual behaviour is in line with the group’s objectives. The concept of clan controls was developed by Ouchi (1979); it depicts individuals as a part of a group and, thus, subject to socialisation in order to cultivate certain skills and/or respect certain values. This type of indoctrination ensures control over the individuals belonging to a certain group, unit, or team through shared norms, values, and beliefs. Clan

Figure 9. Illustration of continuums for autonomy types
controls can be considered important in teams in which individuals possess high levels of autonomy.

An increasing number of companies are setting up teams to be responsible for certain areas of the organisation’s performance (Stewart & Manz 1995). Taking this into account, it is important to acknowledge that autonomy can reside concurrently at both the team and individual levels. For example, a team could be fairly autonomous, whereas its members could have very limited choices regarding their actions. Langfred (2000) conceptualised a two-dimensional model to categorise teams based on team- and individual-level autonomy, as depicted in Figure 10.

**Figure 10. Autonomy-based team categorisation (adapted from Langfred 2000)**

In Figure 10, the higher the group’s position on the y-axis, the more the group-level autonomy possessed by the team, and the further the group’s position on the x-axis, the more the autonomy experienced by individuals within their teams. This model depicts only the level of autonomy and does not take into consideration different types of autonomy. Different team types are suitable for different environments. For example, the Type 0 work group with low individual- and group-level autonomy can
be seen as suitable for environments of very specific processes. In contrast, Type 3 would be well suited to contexts that require creativity or problem solving, such as design or research work.

Autonomy is also discussed in systems research, especially in the field of military systems. This field has little in common with business organisations, and employees cannot be considered systems; nevertheless, certain aspects of autonomy can be learned from that side as well. In the field of military systems, an autonomous system is defined as a system that

“… is capable of understanding higher-level intent and direction. From this understanding and its perception of its environment, such a system can take appropriate action to bring about a desired state. It is capable of deciding a course of action, from a number of alternatives, without depending on human oversight and control, although these may still be present. Although the overall activity of an autonomous [system] will be predictable, individual actions may not be.” (Williams 2015, p. 33)

This definition lacks the autonomy of ends, which is somewhat understandable considering the applications of autonomous military systems. The closest equivalent to these systems in an organisational setting is MCS, and based on the aforementioned definition, they can be seen as possessing no autonomy as they are dependent on the actions of others and have no understanding of their intent or direction. Nevertheless, by translating the definition into a business context and interpreting an individual employee or a team as an autonomous system, the following statements can be generated regarding the autonomy of means:

- An autonomous employee or a team is capable of choosing appropriate actions for the organisation’s benefit.
- However, to take the appropriate actions autonomously, an individual employee or team must be given the information necessary to understand the organisation’s goal and direction.
- Autonomous employees or teams can be expected to deliver certain results but not necessarily to take a certain route while doing so.

In general, autonomy is necessary, especially when the degree of contingency is high and there are several alternative ways to proceed. In such an environment, it is very difficult to give instructions or prepare for all possible situations. Sourcing is a good
example of this type of environment, as individual suppliers have unique relationships with the focal firm, and even within these relationships, every negotiation can be different. Hence, a buyer needs to navigate these contingent and often fast-paced negotiations by taking autonomous actions while striving to deliver organisational goals. As stated above, in such an environment, the goals must be communicated clearly, and the necessary DSS must be provided to guide the decision making. Moreover, the purchasing function can be expected to have limited functional-level autonomy, as organisations typically define what needs to be purchased, and the purchasing strategy is subordinate to the organisational strategy.

To summarise, as it pertains to this research, *autonomy in an organisational setting is defined as limited rights of self-governance, under which an individual possesses the ability to choose independently which actions to take, even with the presence of measures or controls.* DSS can be used to guide these autonomous actions and can even be recommended to enable a better-informed decision-making process. Autonomy can be split into two different types: the autonomy of means and the autonomy of goals. These can be observed on several levels, including the individual, team, and functional levels.

Based on the understanding generated through the literature review, autonomy can be characterised through the list below. This list can be used to evaluate whether autonomy is present, which type it is, and the relative extent of it. This can be useful, as autonomy is an elusive variable to measure otherwise.

From the individual perspective, autonomy is present (higher than zero percent) in an organisational setting when the following factors are present:

- Possibility to influence and/or choose personal objectives
- Possibility to influence and/or choose the means to achieve personal objectives
- Freedom of choice over actions and level of contribution
- Genuine options available to act upon
- Responsibility for the chosen actions
- Responsibility for personal development
- Opportunity to align actions with long-term plans, intentions, and values

When autonomy is present in an environment, an individual can operate better if they possess all or some of the following traits:
• Ability to function independently without direct supervision
• Ability to select suitable actions for each situation
• Ability to engage in self-determination
• Ability to self-govern
• Ability to think for oneself and understand the surrounding collective efforts and goals

Ultimately, actions can be deemed autonomous based on the internal decision-making process and the perception of an individual agent. In essence, to be autonomous, an individual must have a perception that they are acting autonomously and must have had a choice when choosing their actions. Hence, in an organisational setting, there must be an autonomy grantor as well as an autonomy-receiver. Being an autonomy taker is also an option, as an individual can choose to act autonomously, at least temporarily, in a situation in which autonomy is not officially granted to them. It has been found that employees act in a more entrepreneurial manner when granted a certain level of autonomy through the delegation of authority (i.e. power to take decisions) while pairing this with results-driven control and compensation (Merchant & van der Stede 2007).

However, it is easier to evaluate autonomy when observing it from a distance, for example, by examining whether individuals have genuine options from which to choose their actions and how many options they have. Overall, autonomy is a positive trait that includes several commendable attributes in an organisational setting. However, every individual may have a different level of need for autonomy, and too much or too little of it can cause dissatisfaction. Furthermore, autonomy does not exist in a vacuum. Rather, it coexists with collective commitments, responsibilities, norms, and values that also need to be catered to and balanced with those of individuals. Hence, organisations must align their goals and set necessary guardrails for autonomous entities to work in concert. Now that a better understanding of autonomy and its characteristics has been acquired, the focus can shift to how to manage it. This is discussed in more detail in the next subsection of this research.

2.2.6 Relationship of autonomy and management control

In terms of management control, autonomy can be observed from several perspectives (e.g. system, control, or subject of the control). These perspectives
influence how autonomy is seen and what it has to offer. The level of MCS is a natural starting point for analysing the relationship between autonomy and management control. For example, corporate management can use varying parenting styles (i.e. design appropriate systems of planning and follow-up to create value) that differ in the emphasis of controls as well as how much autonomy in decision making is given to business units (Nilsson 2000). Examples of such parenting styles include the financial control style, in which the parent’s emphasis is on monitoring the financial measures of its subsidiary, and the strategic planning style, in which the parent company formulates strategies together with a subsidiary (Goold et al. 1993). In terms of autonomy, this means that a corporate management may grant a business unit or a subsidiary more or less autonomy to tailor their MCS based on the chosen parenting style. Within MCS, autonomy enables managers to use controls in flexible ways and, thus, better handle unanticipated events (O’Grady 2019). This can be assumed to be important, especially in functions such as purchasing, in which complex lateral relationships with multiple different suppliers create various contingencies that would be nearly impossible to cover with one-size-fits-all formal procedures. To control and manage these interfirn lateral relationships, van der Meer-Kooistra and Scapens (2008) proposed the use of a minimal structure, which gives individuals the freedom to react to changing circumstances by not limiting the possibilities within an agreed frame. From the MCS perspective, such a minimal structure can be achieved by providing the highest degree of autonomy while meeting the desirable performance levels and system stability (Keating & Katina 2019). In such a situation, an MCS acts more as a guardrail, which limits the area of decision making but allows independent action within the limits of this frame. For example, purchasing can be given an initiative with the objective of reducing the supplier count combined with a timeline to do so while also being given the autonomy to choose the most suitable way to carry this out as well as the partners to do business with. In this type of situation, DSS have been proven to be of importance, as these are expected to provide information regarding the suppliers’ performance, spending, and risk profile to guide and justify the decision-making process.

In terms of MCS, autonomy can be considered a manager’s ability to choose proper control(s) from MCS to best suit the situation at hand. Regarding the selected control(s), autonomy will also enable the manager to choose how to best use these controls. The selected control is then expressed as an intended control towards an employee, who perceives it. The selected controls and the manner in which they are
used define the operational guardrails, and these influence the type and level of autonomy in the organisation. These are expressed through the manager’s intended control and its perception by the employees. From an employee’s perspective, autonomy enables a choice of actions, which are limited by the organisational guardrails created through controls. These guardrails set the operating environment for the aforementioned type and level of autonomy. If there is a conflict between the defined autonomy and how it is perceived, the employee may limit their actions unnecessarily or exceed their authorisation. Figure 11 synthesises the effect of autonomy in the different stages of control.

There are several ways to enforce control, and the implementation style for each can also vary. For example, a long-term plan can be highly detailed, with a detailed list of steps, and may only require somebody to execute it as intended; alternatively, it can be more open, with a broad end goal and milestones that leave room to choose the ways to deliver the results. In both cases, the same management control method is used, but the latter provides more autonomy for those within the organisation. The transparency of the planning process can also be expected to influence the perception of autonomy. Hence, it should be considered whether only the measures and controls or the entire process of setting these is visible. For example, in
purchasing, the inclusion of employees in the control design process, thereby increasing transparency and autonomy, could help in better understanding the big picture. At the same time, the motivation to deliver business goals will be strengthened. In this sense, autonomy and the freedom it provides will guide employees to think more about the business; this may, in turn, help the organisation perform better.

In terms of management control, autonomy is an interesting quality, as it may be pursued in some situations and avoided in others. For example, restricting autonomy and making choices from a limited number of alternatives can provide a feeling of safety in the middle of uncertainty; during times of crisis, people may even want to be told what to do or at least have limited choices. In essence, the guardrails limiting one’s autonomy can also act as a secure zone within which one can operate. As these guardrails are set through management control in the organisational context, it is critical to understand the dual role of controls (enabling/coercive, i.e. carrot/stick) and the quality of controls (good/bad, i.e. effective, efficient, and economic) (Tessier & Otley 2012), as well as how these influence the perception of autonomy. It is noteworthy that the autonomy gained through enabling controls is presented as a means to boost organisational performance by promoting choice instead of restriction, pressure, or hierarchical power (O’Grady 2019). In addition to this, it is important to consider how control is enforced and how this impacts the perception of autonomy. One variable characterising this is the tightness (or looseness) of control, which can be defined as a high degree of assurance that the desired behaviour is taking place in an organisation (Merchant & van der Stede 2007). For example, a tight budget control could mean monthly or even weekly reviews, during which discrepancies between the planned and the actual performance must be explained. Notably, a high frequency alone is not enough to determine whether control is tight; rather, the required explanations and actions must also be evaluated. In terms of autonomy, the tightness of control can either promote or diminish the perception of autonomy, depending on the type of control being targeted.

Overall, an organisation aims to generate behaviour that is optimised to meet its goals though management control but in such a way that employees feel that they have a choice (autonomy) when behaving in the intended manner. Minimal use of controls that facilitate the required actions is advised, with a special focus on the duality and quality of controls. Autonomy is particularly important for ensuring performance in contingent operating environments, such as sourcing, where
employees may encounter unexpected circumstances. By definition, autonomy and management control are not on opposite ends of the same spectrum. In a sense, control regulates employee autonomy through the choices taken by managers regarding the control methods used and the way they are implemented. These will affect an individual’s perception of autonomy and, consequently, influence their motivation and ultimately impact the organisation’s performance. In general, enabling employee autonomy forces them to develop greater consideration of business matters and, if utilised correctly, may yield positive impacts. This is especially important in environments such as sourcing, where employees are expected to work independently and make decisions that impact business. This evidently requires goals and objectives to be defined, prioritised, and communicated. Furthermore, a DSS is required to provide information regarding target progression in order to achieve optimal decisions. In addition, autonomy requires a proper setup and structure to be beneficial. An MCS typically provides this structure and also acts as the common denominator between autonomy and profitability management. Hence, it is important to first understand the appearance of profitability management in business organisations (RT1). This is needed to draw conclusions on how sourcing is working towards delivering the set goals and objectives and how autonomy is granted through MCS to allow sourcing to succeed.

2.3 Behavioural aspects of control and motivation

To deliver the objectives of this research, the literature needs to be further connected with the human side of the phenomenon. This is essential to facilitate the reorientation of the theoretical perspective. This is carried out through the exploration of individual actions as a source of organisational outcomes, in addition to examining individual heterogeneity and employee motivation as influencers of these actions. Furthermore, self-determination is introduced, and autonomy is further explored in this context. This section complements the theoretical background for the research by connecting the themes of this research in terms of how an individual employee would perceive management control as well as autonomy and take action to ultimately deliver organisational outcomes.
2.3.1 Linking management control and individual actions

Individual actions lead companies to their financial results, among other collective phenomena (Felin & Foss 2005; Gavetti 2005); thus, it can be assumed that companies strive to control these behaviours in the pursuit of such results. However, linking MCS and individual actions is not a simple task for two reasons. First, as outlined earlier, MCS are contingent on the specific environment where they are used, adding a level of complexity to the equation. Second, human behaviour is a complex entity to model. Being contingent by nature, MCS can be expected to reflect not only the collective organisational (macro) level but also the heterogeneity of the individual (micro) level of the company. Hence, when studying MCS and their effects on organisational outcomes, the individual level of control and the basic psychology behind it cannot be omitted. According to Felin and Hesterly (2007), it is the individual level that provides the understanding of where value is created in a company and where the explanation of success or failure often lies; thus, the individual level should be studied when aiming to link MCS with certain organisational outcomes.

Very little research has mentioned individual heterogeneity with different motivations and the choice of behaviour in the context of MCS. Hence, an overview of motivation and why people act in a certain way is outlined and connected with MCS in this research. As a general starting point, Coleman’s (1990) model (see Figure 12) provides a theoretical foundation for connecting organisational outcomes with the behaviour of individuals.
Figure 12 recognises two interconnected levels: the macro level and the micro level. These are linked to each other in a four-way form, where the top-right corner phenomenon is explained as the result of the macro-level antecedents, the micro-level actions, and the circumstances of these actions. However, in certain research, only the macro-level correlation (Arrow 4) is observed and considered, while the micro-level links (Arrows 1–3) are either poorly described or non-existent (Foss 2007).

Adapting Coleman’s model for the domain of MCS (Figure 13) illustrates management control as an organisational-level antecedent influencing the conditions of individual actions. This is carried out by focusing on, for example, reward systems, common values, reporting lines, organisational structure, and operating policies, with the final goal of maintaining or increasing company performance. In this sense, MCS influence the conditions of individual actions to generate certain behaviours and, ultimately, create outcomes that suit organisational requirements and goals.
Individual actions are under the potential influence of all conditions related to a person at the time when a particular action occurs. These individual conditions can be affected by different constructs, of which management control is only one. Essentially, MCS must have an influence over other constructs, or these need to support MCS, to have the desired effect and create the preferred behaviour. Furthermore, the desired behaviour may occur despite MCS, or even without these. In sum, it can be said that MCS are used to increase the likelihood of certain individual actions by influencing the underlying individual conditions, among other factors. For example, in purchasing, there may exist a reward system that awards the buyer with a certain bonus for achieving a set amount of savings. The existence of the reward can influence the conditions of the individual's action but does not necessarily lead to actions that generate the set amount of savings, as the influence may be insignificant to the individual.

The size and structure of the organisation affects significantly, how the organisational level can be interpreted. In SMEs, organisational structures tend to be relatively simple, and business strategies are then formulated to fit the context of the businesses. However, in the multinational corporations, there can be several units with different business strategies which need to fit the overall corporate strategy and also be competitive in their own terms (Goold et al., 1998). In traditional academic literature and theories on organisations, strategies and their outcomes, a top-down macro approach (Arrow 4) is typically taken in traditional academic literature and
theories. For example, Goold et al., (1993, 1998) argue that the corporate structure significantly affects corporate strategy as well as decision-making, and thus realised benefits and losses in corporations. In other words, a good strategic fit between a parent company and its businesses can add value to a business. Goold et al. (1998) also argued that choosing a strategy and structure that best fits organisational context results in the best outcomes, and thus that the parenting styles need to be in line with the requirements of the subsidiaries and the overall business environment. Later literature related to parenting styles (e.g. Nilsson 2000) observes the organisational level and the impacts of a chosen management style to a business unit. In addition, strategy is further linked to design and use of MCS (Kald et al. 2000) and similarly MCS related studies can be typically seen to observe intended controls on an organisational macro level which is analogous to the unit of analysis in the RT1 of this research.

Recently an increased relevance has been pointed out to examine organisational strategies and controls as perceived those under control (e.g. Wouters & Roijmans 2011). Such studies provide evidence on perceived control and the influence of profitability management at the individual level (Laine et al. 2016; Wouters & Roijmans 2011). Notably, this research also works its way to this micro level and utilises individual as the unit of analysis in the RT2. As the individual level approach is more uncommon in the literature, this research leans in many cases to studies with an organisational level approach. In doing so, this study is able bring out related organisational level points of view from the existing literature while utilising an individual level perspective to explore a more novel ground.

2.3.2 Individual heterogeneity and control

Social psychology as a science concerns all factors affecting the conditions of individual actions; however, in this research, to set clear limits and maintain the focus, only the effect of management control on human actions is considered. However, it is important to understand the specific conditions that control and all other factors influence to generate a specific individual action.

The psychology of individual behaviour is a complex field; the conditions affecting an individual’s actions include external and internal factors, such as a task and its context (Bettenhausen 1991); motivation, opportunity, and attitude (Fazio 1990); the knowledge, skills, and abilities related to the action (Stevens & Campion 1994); and
the self-regulation and well-being of the individual (Ryan & Deci 2000). There are further levels in these conditions. For example, motivation can be divided into autonomous and controlled motivation, where autonomous motivation stems from either intrinsic or extrinsic reasons within an individual, while controlled motivation is instilled by external factors, such as rewards or punishments (Deci & Ryan 2000). The aforementioned conditions provide a good overview of the targets of controls that are included in MCS. For example, managers control which tasks should be performed and in which settings; create motivation and the opportunities to use it; are responsible for developing the knowledge, skills, and abilities of their teams; and are, at some level, also interested in the overall well-being of their employees. With good control, a link between control and the condition(s) being influenced can be expected to exist. However, individual heterogeneity adds a degree of complexity to the equation, as the individual perception of control, or the locus of control, has an influence on how control is interpreted. Thus, the resulting behaviour will eventually depend on the individual perception of control as well (Rotter 1966).

As management control is only one of the external factors influencing individual conditions, and as there are also internal factors affecting the same conditions, opposing and supporting forces of MCS can be expected to exist. These forces and how they are perceived will vary from one person to another, resulting in inconsistencies among the actions taken by different people, even if they are under the influence of the same initial control (Mischel & Peake 1982). Overall, the heterogeneity of individuals would suggest that, to be successful, an MCS should include heterogeneous controls or at least a flexible way to enforce control among individuals (i.e. managers having autonomy in choosing how to use controls). A very formal one-size-fits-all control solution is unlikely to yield the best outcome for all individuals. Thus, a successful MCS should ideally include several informal encounters between management and employees, and the extensive coordination of employees, which would be easy to adjust based on the situation at hand.

To conclude, an organisation needs to create the right individual conditions to facilitate the actions needed to create the desired organisational outcomes. These conditions vary from one person to another, and the perception of any collective efforts to influence them may also differ. The two important notions here are the varying perceptions of controls and the coexistence of the limiting or supporting factors (internal/external) in relation to control. Both of these must be considered
when seeking a holistic understanding of how MCS are connected to any organisational outcomes. The key to managerial success is to grant managers a certain level of autonomy that would allow them to consider individual differences while utilising the control measures.

2.3.3 Connecting employee motivation and management control

As described earlier in this chapter, various factors affect individuals’ actions, and the complexity increases if the performance of an individual (i.e. the quality of actions) is considered. One of these factors is motivation, which plays a role in an individual’s choice of actions (Vroom 1964) and the performance level of these actions, as originally presented by Appelbaum et al. (2000) and later distilled into a simple equation by Boselie et al. (2005, p. 72): Employee Performance = Motivation x Ability x Opportunity. When combining this with the purpose of MCS, which is to regulate employees’ actions to meet an organisation’s goals, it becomes evident that MCS are interconnected with why and how individuals are motivated to take certain actions. Consequently, to have clear limits regarding what is being controlled, this research is only concerned with individuals’ motivations and how these apply in the context of MCS.

Why and how is an individual motivated to act in the interest of an organisation rather than solely in their own interest? An initial answer has already been proposed in the introduction of this research, where logical reasoning makes a case for the intertwined interests of the business and its stakeholders, at least out of the necessity of ensuring the business’ continuing existence. To tip the scales in favour of the business, MCS are designed and used to enhance an individual’s motivation to perform actions geared towards the business goals by, for example, attaching rewards or penalties to certain actions or measures. In essence, incentives are used to further align the interests of an individual with the business objectives by motivating individuals to strive towards certain results or by encouraging them to take or avoid certain actions.

It would be an oversimplification to claim that an individual is entirely indifferent to the organisation’s interest if not otherwise motivated to act by the organisation itself. This view would omit any normative influences from culture, society, institutions, or any other groups affecting an individual’s behaviour. Social norms could, for example, guide an individual to refrain from stealing from their employer or to work
hard to keep the job for social status. However, social and cultural norms are also a means by which a company can enforce control (Malmi & Brown 2008) or alter the original beliefs of an individual, for example, by creating a culture where employees identify strongly with the business and are thus more concerned with its performance (Wilkins & Ouchi 1983). Overall, external social and normative influence affecting individuals’ behaviours can be expected to be present in all environments and to set the starting balance to either favour or oppose the company interests. For example, purchasing in countries where giving and taking bribes while making business deals could yield suboptimal results for the organisation if these bribes start to play a major role in the decision-making process. However, in an environment where such behaviour is not normative and is more socially disapproved, the business’ interests are expected to be better represented over individuals’ interests in the decision making.

2.3.4 What motivates human behaviour in organisations?

Content theories regarding motivation focus on determining what motivates human behaviour. Maslow’s (1943) hierarchy of needs, as illustrated in Figure 14, is one of the basic content theories regarding human motivation. Maslow described different groups of needs that all motivate human actions to a certain extent until the said need is satisfied, after which it no longer acts as a motivator. Additionally, the higher needs do not have a motivational impact until the lower categories are satisfied. Later, Maslow et al. (1987) clarified that a lower-level need does not have to be completely satisfied before the next need emerges; thus, there are overlapping categories that motivate an individual with varying intensities at a certain point in time. This framework provides a basic understanding of the range of human needs and states that nothing will function as a motivation forever and that there is an optimum point of motivation, which depends on the needs that have already been identified by an individual but have yet to be satisfied.
One of the fundamental theories regarding motivation in a work environment is the two-factor theory proposed by Herzberg et al. (1959). According to this theory, there are two separate sets of factors in a workplace: One causes job satisfaction (motivators), while the other causes dissatisfaction. Dissatisfaction (or hygiene) factors are typically extrinsic to the work itself, and improving these will help make the job more tolerable. However, these do not increase motivation or lead to job satisfaction. Examples of such hygiene factors include company policies and administration, work supervision, salary, co-worker relations, and working conditions. However, preventing employees from becoming dissatisfied and, thus, reducing work-related complaints are not sufficient to motivate employees to yield higher performance. For this, an employer needs to focus on motivating factors, such as recognition, challenging work, responsibility, sense of importance, opportunity to perform meaningful tasks, and involvement in decision making. These factors will increase job satisfaction by targeting higher needs for esteem and self-fulfilment that arise internally from the individual level (Hackman & Oldham, 1976). In sum, the two-factor theory provides a broad framework concerning how to reduce dissatisfaction and increase job satisfaction, and these factors are independent of one another. It also indicates that an individual can be motivated by
the work itself but still complain or that one may not complain at all but still view the job mainly as a source of income without any real motivating factors.

Further development of the basic theories around motivation was undertaken by McClelland (1961), whose theory of learned needs presents three primary drivers for motivation: a need for affiliation, a need for power, and a need for achievement. According to this theory, a strong need to have social relationships; be in control; or take responsibility and meet the set targets with high performance has the potential to motivate an individual. The theory also posits the important notion that motivation is shaped by the culture and life experiences influencing an individual. Thus, these three factors vary in their presence and potency to motivate at the individual level.

These three theories provide only a superficial look at human motivation. However, they all contain a number of useful elements regarding the workplace environment. These theories bring up specific directions that can be leveraged while designing an MCS to increase performance through motivation. For example, a manager should start by identifying individuals’ needs to discover the sources of motivation. Furthermore, the theories suggest that these sources are related to all aspects of life, implying that supporting employees’ lives outside of work is a potential avenue to explore. In addition, to avoid dissatisfaction, paying attention to team and co-worker relationships is important. Finally, as all employees are different, one-size-fits-all packages will not yield optimal results. These examples also highlight the weakness of the aforementioned theories, as they are vague and only provide a preliminary direction to explore, without aiding in planning the steps or tools to evaluate the effectiveness of the actions taken.

2.3.5 How to motivate an individual in an organisation?

In the field of motivation research, process theories focus on the question of how human behaviour is motivated. Compared to content theories, process theories differ in that they do not focus on specific factors but tend to explore the ways in which motivation can be influenced and how it manifests in an individual.

Vroom’s (1964) expectancy theory is one of the early process theories. According to this theory, motivation is a process that controls the choice of alternative actions taken voluntarily by an individual. In essence, an individual chooses certain actions
over others based on their estimates of these actions, resulting in the desired outcomes. The motivation to choose a certain action is determined by three variables: expectancy, instrumentality, and valence. These variables are further detailed below:

- **Expectancy**: Effort leads to performance  
  - The belief that an individual’s effort will lead to the desired performance. Effort will be determined by the individual’s belief in their abilities, the difficulty of the goal, and the perception of control over the outcome.

- **Instrumentality**: Performance leads to outcome  
  - The belief that a reward will be available if the set performance expectation is met. Enhancing factors include trust towards the party giving the reward, control over the outcomes, and an understanding of the link between one’s performance and the outcome linked to the reward.

- **Valence**: The value of expected of an outcome  
  - This refers to the extent to which an individual values the reward associated with the outcome. This is based on the individual’s own values. It can motivate a person to work towards an outcome or avoid it, or it can result in indifference regarding the outcome.

According to Vroom’s theory, motivational force is the result of the multiplication of the above variables: **Motivation** = **Expectancy** x **Instrumentality** x **Valence**. Consequently, the absence of even one variable will nullify the end result. Thus, to be motivated to take an action, a person needs to see the connection between the effort and the performance, understand the link between the performance and the reward, and value the reward connected to the anticipated outcome. The model provides three variables to concentrate on when aiming to increase motivation and also highlights the differences between individuals’ motivations.

Adams’ (1963) equity theory provides an important perspective on the importance of balance between the efforts and benefits related to an individual when assessing motivation. According to this theory, people are motivated if there is equity between the inputs (time, effort, commitment, flexibility, etc.) they contribute towards work and the outcomes or rewards (wage, stimuli, job security, responsibility, social recognition, etc.) they receive from it. When an individual perceives that their input–
outcome ratio is inequitable compared to that of referent others, they will be motivated to reduce the inequity by adjusting their inputs or outcomes, either cognitively or through direct actions. This is particularly notable in group environments, such as in a business setting, where social comparisons happen with other people performing the same or similar duties with varying inputs and rewards. Thus, to keep the dissatisfaction caused by inequity low, managers must focus on employees’ perceived equity and understand its relation to their work efforts (Carrell & Dittrich 1978).

Locke and Latham’s (1990) goal-setting theory links performance to goal setting and advocates goals as the key determinants of motivation. According to this theory, goals can energise and direct human behaviour, and by reaching the set goals and objectives, improved performance is achieved. This is important in the field of management, as the employer is typically in charge of goal setting in an organisation and can thus use the goals as tools to direct employee efforts and enforce control. This theory also provides guidelines for effective goal setting.

- **Clarity**: Goals should be specific and measurable with no room for misunderstandings.
- **Challenge**: Goals should not be too difficult or too easy to achieve in order to have a positive influence on motivation.
- **Commitment**: Motivation is increased if goals are well understood and if people are involved in setting them. Furthermore, a positive effect on motivation can be achieved by aligning the goal with one’s internal aspirations.
- **Feedback**: Feedback-based evaluation and, if necessary, adjustment of the set goal or the approach to achieve it are necessary for validation if the selected direction and means are correct. Feedback also helps sustain motivation towards goal commitment.
- **Task complexity**: Timescales should be realistic, and excess complexity should be avoided by breaking down the goal into smaller subtargets to ensure motivation.

The three theories presented above provide an overall idea of how to affect an individual’s motivation. First, motivation controls the actions taken by an individual, and to take these actions, one needs to understand the path from effort to performance and to outcomes and must also value the realised outcomes over other
possible outcomes (Vroom 1964). Second, an individual needs to perceive a balance between their efforts and the related benefits to justify these and be motivated to take action (Adams 1963). Finally, goal setting can be utilised to affect motivation by creating a situation in which it is more desirable to take certain actions (Locke & Latham 1990). In essence, one needs to understand the process, value the results, internally justify the efforts, and have a positive frame around the action to be motivated. These steps can be seen as targets for MCS when aiming to increase performance through employee motivation. However, it is important to note that the effects are not general but contingent on the individual level.

2.3.6 Basics of the self-determination theory

The self-determination theory (SDT) is a macro theory of human motivation and a rather recent addition to the academic field. In general, self-determination allows individuals to perceive themselves as being in control of their lives by managing their environment through the act of choosing their actions (Deci & Ryan 2000). In essence, individuals are more motivated to take action if they feel that their efforts will have an impact on a possible outcome.

According to the SDT, fulfilling the three basic psychological needs – competence, autonomy, and relatedness – will lead to the growth of intrinsic motivation, well-being, and effective performance (Ryan & Deci 2000). The need for competence is satisfied by gaining mastery over challenges and, in the process, a control over the outcomes related to a certain behaviour. Autonomy is the need to be in charge of one’s own actions and goals and to behave in accordance with one’s own values, beliefs, and personality. Relatedness is “a deep design feature of social organisms” that generates a desire to be part of a social group with meaningful interactions, connections, and caring (Deci & Ryan 2000, p. 253). These psychological needs overlap significantly with the top part of Maslow’s hierarchy of needs (Figure 14); however, the SDT is easier to adapt to the business environment because of its direct link to motivation and management.

The SDT promotes benefits for various stakeholders in a business environment, as the high-quality performance gained by satisfying the basic needs of individuals will exert a positive effect on the profitability of a business. In addition, employee well-being and motivation will contribute to long-term organisational success (Deci et al. 2017). The problem in a business environment is that intrinsic motivation can be
undermined by the use of external rewards that induce controlled motivation (Gagné & Deci 2005). However, external rewards (or punishments) can also be used without affecting intrinsic motivation; they can even strengthen intrinsic motivation (Frey & Jegen 2001). For managers, the key is finding a balance between overusing extrinsic rewards (thus undercutting intrinsic motivation) and avoiding them entirely and risking employees feeling unappreciated (thus leading to demotivation).

The SDT is emphasised in the recent literature on management and employee motivation; moreover, it is visible in practical and non-scientific discussions. Regarding management controls, the SDT broadens the understanding of which control methods can be chosen to best cater to individuals’ psychological needs while addressing their motivation and well-being. Furthermore, as a single theory typically cannot cover all the relevant aspects of a phenomenon, it is important to consider other motivation theories. For example, the SDT focuses on the three basic psychological needs and does not consider other needs, such as the physical needs identified in the earlier literature. Further research on the SDT is still needed to discover the right means for combining extrinsic rewards and intrinsic motivation, especially in the business environment, where getting paid drives many actions and most people would not work without clear monetary benefits.

2.3.7 Managing autonomy as a source of employee motivation

According to the SDT, autonomy is an innate psychological need. Autonomy, as perceived by an individual, is a social–contextual quality that, in a work organisation, is linked with managers’ interpersonal orientation towards their subordinates (i.e. whether or not they support autonomy) (Deci et al. 1989). This vertical autonomy support from management includes managers’ skills and abilities related to recognising their subordinates’ perspectives, providing justifications for their decisions and requests, and offering a choice of action and possibilities for self-initiation (Deci et al. 1994). In essence, autonomy support is not concerned with whether or not to manage one’s employees; rather, it concerns the style of performing the managerial functions (Table 1) and the consideration of how this style is perceived by one’s subordinates.

Deci and Ryan’s (1987) comparison of the manager’s tendency to support autonomy (i.e. “to promote choice”) or their tendency to regulate behaviour (i.e. “to pressure
employees towards specific outcomes”) reveals that the former is related to the following:

- more intrinsic motivation
- greater interest
- less pressure and tension
- more creativity
- more cognitive flexibility
- better conceptual learning
- more specific emotional tone
- higher self-esteem
- more trust
- greater persistence of behaviour change
- better physical and psychological health

Based on these perspectives, a context that fosters support for autonomy can be said to have the potential to provide positive outcomes for employees. Most importantly, from the perspective of this research, a manager’s support for autonomy has been linked to employee motivation (Stone et al. 2009) and has ultimately led to better performance (Baard et al. 2004). Thus, an organisation can also benefit from an autonomy-supporting environment. In terms of MCS, this indicates that the underlying motivational mechanisms of autonomy should not be overlooked when designing and implementing controls.

2.3.8 Summary and conclusions on control and motivation

By separately analysing the themes of management, control, and systems, a holistic view of the core building blocks of MCS has been obtained. In short, successful management can facilitate an organisation’s desired outcomes through actions taken by individuals. Management control is used to measure, evaluate, and correct the direction and quality of the actions taken by various people in pursuit of an enterprise’s objectives. MCS includes all the systems that are in place to influence individuals’ actions through control.

As no clearly accepted and unambiguous definition of MCS could be found by analysing the related literature, a new definition has been proposed. Expanding the analysis to the typologies and frameworks of MCS has provided a good overview of
the different types and varying objectives of controls included in MCS. More importantly, two key concepts have been revealed. First, MCS are contingent by nature and should reflect the organisation, its goals, and the people in it. The second highlight comprises the separation between control and the intention to use it and, furthermore, the importance of how control is perceived by the individual experiencing it. This connects managers’ skills, personalities, and values to the control equation, as well as the different experiences and opinions of their subordinates. This extension departs from a machine-like process theory and reveals the human side of management control, grounding MCS in reality by adding a new layer of complexity – the human perspective.

The complexity of humans needs to be addressed when setting the scope for this research, as an individual’s behaviour has various antecedents that are under the influence of several different internal and external factors. All of these aspects cannot be addressed in a single study; therefore, this research is tailored to focus only on the most important ones. Thus, the current focus is on management control as the influencer and motivation as the condition that is being influenced, with even further specificity ensured by considering autonomy as a source of motivation. To understand the connections between the presented theories regarding management control, psychology, and motivation, a framework for an integrative model is presented in Figure 15, which also contains a synthesis of the literature presented thus far in this thesis.
Figure 15. A model of management control systems driving profitability through individual actions
The model presented in Figure 15 starts with MCS, which are depicted in a similar manner as in Figure 7. Management uses MCS to present its intended control towards an individual in the organisation. This intended control is enforced with a target to influence the individual’s actions or behaviour to meet the organisational goal – in this case, profitability. The intended control, when perceived by an individual, becomes the perceived control. Only after this does the control acquire the potential to affect the conditions of the individual’s actions and make the individual act in a certain manner. Notably, the individual’s perception of the intended control may vary from the manager’s intentions. Furthermore, the perceived control is not the only external factor influencing the conditions of the individual’s actions, as they are also under the influence of other external factors as well as the individual’s internal factors. One of these factors is the individual’s perception of autonomy, which, for example, is directly influenced by the perceived control as well as the management’s vertical autonomy support (Deci et al. 1994). In the straightforward sense of control systems, the external influence and the internal influence, as well as individual perceptions, can be considered a disturbance of the intended control and the actions (or processes) they control. Ultimately, based on the prevalent conditions of the individual action, one then takes actions, and these, together with the actions taken by others, lead to organisational outcomes, such as profitability. Organisational outcomes are also influenced by external factors, such as markets, regulations, and politics; some of these can be controlled, while others are beyond an organisation’s control. Only after all of these factors are considered can the final result be determined and feedback on it be used to adjust the initial controls. As the real-world implication of this process is not systemic, feedback is available throughout the whole process, and behaviours can be adjusted accordingly.

Figure 15 presents a general model of how MCS drive profitability; however, to further understand the link between MCS and motivation as a condition for individuals’ actions, a deeper look at how an individual can be motivated is essential. The process theories of motivation presented earlier in this study consider how to motivate in general, but they can be further distilled into a model to illustrate the ways in which MCS affect one’s motivation. While these are general ways that can be replicated from one person to another, the specific factors (e.g. status, money, social relations, etc.) that motivate an individual will nevertheless vary from person to person. This framework is presented in Figure 16.
The framework in Figure 16 is built around the three-step process presented in Vroom’s (1964) expectancy theory, according to which individuals take actions that create certain outcomes and lead to certain benefits (or disadvantages). An organisation wants individuals to choose certain actions over others, and MCS are used to regulate this process. One way to affect this selection process is through the individual’s motivation, and the touchpoints that allow MCS to do this are generated based on the motivation theories discussed earlier in this study. These touchpoints are visualised based on the three-step process of the framework presented in Figure 16.

The first (1) way in which managers can motivate employees is by creating and clarifying the connection between the three steps in the efforts–benefits process (Actions → Outcomes → Benefits). From the MCS perspective, this can be accomplished, for example, by implementing cultural controls and planning to help...
individuals better understand the big picture and see the connections between the steps from their perspective. The second (2) way to motivate employees is to use concrete, well-understood, and challenging goals and measures to frame the desired actions and outcomes. This is typically carried out using cybernetic controls. The third (3) way to influence motivation is to use control methods in a manner that ensures feelings of autonomy and competence in the employees. This can be accomplished by choosing controls that enforce boundaries but do not limit creativity and do provide opportunities to use one’s capabilities to accomplish tasks. The fourth (4) touchpoint regarding motivation is the balance between the efforts and benefits from an individual’s perspective. MCS can be used to influence an individual’s reference point for this balance and, thus, help justify certain levels of effort. This can be accomplished, for example, using administrative controls. The fifth (5) way to affect an individual’s motivation is to offer and promote benefits linked to organisational outcomes. To have a motivational effect, the benefits must have value for the individual choosing to take the actions. Thus, understanding subordinates’ needs and values is important from the management control perspective. The sixth (6) and final touchpoint is related to the social aspect of work life. MCS can be used to provide a platform that encourages feelings of connectedness and community among individuals. This could be accomplished, for example, through policies, procedures, and cultural controls that support and promote connectedness between employees.

In this chapter, MCS and motivation as well as how they interact have been examined. In essence, a business has motives (e.g. being profitable), and to realise these, certain organisational outcomes need to be generated. These outcomes are the direct results of the actions taken by individuals, whose own motivations affect the actions they choose to undertake and the level of performance of these actions. There are several other conditions influencing individuals’ actions and their performance level, and this is especially true when organisational outcomes are considered. Nevertheless, to influence individuals’ actions in favour of a business’ motives, MCS are used to control those factors that can be controlled and, thus, guide the efforts and drive the actions of individuals. This logic is outlined in Figure 15 to provide a process view on the subject. Furthermore, Figure 16 presents the touchpoints of how MCS can influence individuals’ motivations and how MCS can be used to affect these touchpoints.
At the system level, the key question regarding the use of MCS is not how to constrain people or overcome their resistance but how to incite them to action (Ahrens & Chapman 2007) as well as how to do this in a positive and enabling manner (Adler & Borys 1996). In this situation, the managerial challenge is the fact that different people perceive control in different ways and need different amounts and qualities of guidance and support to take action. Neither flatter or higher types of organisation nor less or more management control can offer an answer to this, as these also have both strengths and weaknesses. The suggested answer is assuming an inclusive approach to the design, implementation, evaluation, and continuous improvement of MCS by engaging employees from every level of the organisation in the process (Wouters & Roijmans 2011). This, however, does not make management redundant. On the contrary, management remains a crucial component in leading the process and enforcing controls. However, to obtain better results, all of this should be carried out in an enabling and motivating manner (Adler & Borys 1996) by understanding and engaging people as individuals. In essence, how things are done matters almost as much as what is done. For example, formal cybernetic controls are typically impersonal, but coupled with informal routines fostered by management, they may feel more tailored to smaller groups or individuals. For instance, goal setting and the use of objectives can be a crucial part of MCS, and these may even be necessary while still not being sufficient for success. Nobody becomes a millionaire simply by setting a goal, but when this goal is used properly as a part of a complete system, it will fuel the right actions. The same applies to MCS, as they are complete systems in which individual controls may succeed or fail in ensuring tasks are accomplished, but overall, the performance is measured at the level of the system(s) rather than in relation to a single control. Hence, it is important to see an MCS as a complete system with both formal and informal sides, as opposed to just a collection of individual controls.

2.4 Theoretical framework for the research

While building the theoretical foundation for this thesis, it quickly became evident that the majority of the existing research on MCS is highly system focused and that individuals play a relatively minor role. This is quite surprising, as contingency factors are well presented in the MCS literature and as one of the biggest variables to control is humans. Furthermore, as individual perceptions play a key role in how management control is interpreted, it is logical to examine the phenomenon from a
different perspective. Hence, an individual-centred framework has been created to establish a different perspective for the technically oriented concepts as well as to illustrate the connection between profitability management and individual employees. This framework serves as a foundation for the empirical research in this dissertation. Furthermore, it is intended to serve as a platform against which the results can be reflected and to clarify the perspective that has been assumed in this research, while also bringing out the included theoretical assumptions. Furthermore, the theoretical background studied while building the framework has proven that not only are the set RQs important and interesting in terms of understanding the research topic but they also shed light on the different steps in the process of managing business profitability through employee autonomy in sourcing. The framework itself is presented in Figure 17.
The theoretical framework in Figure 17 starts with an organisational goal (e.g. profitability) and has an individual employee with a zone of perception at its core. The organisational goal is the particular piece of business performance that is being set as an objective for the management to deliver. In this research, business performance refers to the economic results, which can be measured, for example, in terms of ROA. At the bottom are the organisational outcomes, which are the actualised results of the initially targeted areas of business performance. This path from goal to outcome is what is being managed in the organisation. Regarding management control, the link from top to bottom is in accordance with Chenhall’s (2006) idea of MCS’ primary function, which is “to measure progress towards achieving desired organizational ends”. In relation to this research, profitability is
examined. Upon moving down, the organisational goal (profitability) is implemented through the efforts of profitability management. This intended management is then conveyed towards the centre, through MCS for example, and the areas of interest in terms of this research are goals and objectives, as well as measures and monitoring. An example of goals and objectives in terms of profitability for business could be “to increase ROA to 12%” (a goal) and “to do it by reducing costs in sourcing” (a functional objective). In essence, a desired organisational outcome is stated as a goal while the specified steps to reach it can be seen as functional objectives. The terms, goals, and objectives can be ambiguous to a certain extent and are defined separately in this research to separate top-level organisational goals from their subgoals, which are typically laid out as functional objectives. It can be argued that these objectives are the actual means to reach the set goal; however, to use a specific set of means can be a goal in itself. This distinction between goals and objectives is important, especially when the discussion is connected to autonomy with different types of goals and means. In addition, measures describe a variable selected for measurement, while monitoring concerns the actual value or state of the selected variable. In general, management utilises measures and monitoring to prioritise and communicate the organisational goal to the employees (Kaplan & Norton 1996). The top side of the framework focuses on how management control is intended to be conducted regarding the individual residing in the centre.

Individual employees perceive the surrounding reality and, thus, have a zone of perception depicted around them. In the top half of the framework, they perceive the goals and objectives, as well as the measures and monitoring, from the “intended profitability management”. These are chosen for the framework because they are points of interest in this research. In general, the perceived external conditions are outside the forces targeted at the individual that have a certain intended influence and are interpreted by the individual in a certain way. Rather than the intended conditions, the perceived conditions have the ability to influence how the individual ultimately behaves. It is noteworthy that individuals’ perceptions can be either conscious or unconscious, and they do not necessarily have to be aware of the cognition process for it to exert an influence on them.

In the lower half of the model, the perceived internal conditions are mentioned. These include, for example, the emotions and thoughts that the individual has created through cognitive processes. These are affected by the perceived conditions; however, these also play a role in how the individual interprets the profitability
management targeted at them. Essentially, profitability management is a continuous and iterative phenomena that build on earlier encounters between management and the individual with their underlying conception of the situation. For example, perceived autonomy and satisfaction regarding it are conditions that result from long-term interactions rather than a single encounter. Hence, the conclusions derived by evaluating these conditions, their origins, or the results they generate should be traced to a continuum of management rather than to a single impression given by them. In this study, the main internal condition of interest is the autonomy granted through management control and how it is perceived by employees. The satisfaction regarding it is observed to evaluate whether the current state of autonomy is perceived as positive or negative.

Based on the perceived conditions, the individual behaves in a certain manner; this, along with other influencing factors, generate organisational outcomes. These business outcomes either are or are not as intended by management, and one of the key factors predicting this is how well management control was tailored to suit the targeted individuals. Later, management efforts can be adjusted based on the perceptions of the individuals, as long as time and effort are taken to analyse how these were perceived and to understand the situation from both sides. The intended conditions can be adjusted otherwise as well, for example, based on the feedback obtained from the performed actions or their results. However, individuals’ feedback is essential, in the sense that they are the primary drivers of the actions and, thus, the results as well.

The proposed framework is a simplification of the total situation, with a multitude of conditions influencing the individual. Individuals also form a heterogeneous group with varying perceptions. Nevertheless, the intention is not to portray the total complexity of the situation but rather to clarify the connectedness and interaction of the focus areas of this research. In systemic terms, external disturbance has been excluded from the framework, and the complete feedback loop has been excluded from the results and actions. Furthermore, the individual’s nervous system and the related behavioural science have been simplified by excluding certain factors, such as most emotions and thoughts, which influence not only the perception but also the behaviour of an individual. In essence, the internal disturbance has also been omitted. These limitations have been chosen to keep the scope of the study focused and within reasonable limits.
This chapter presents the chosen research design and describes the methodology used in the study. First, the background of the philosophical choices for the research is explained, and the selected methodology is introduced. The subsequent section offers an overview of the research design and describes the selected approach. Following this, the data and methods used are presented. The chapter closes with an illustration of the research timeline.

3.1 Research philosophy and methodology

Research on organisational theories and social sciences always holds certain views and assumptions, which influence how the research subject is studied and how the results are interpreted. Some of these assumptions are philosophical, such as the ontological (What is the nature of reality?), epistemological (What can be known?), and axiological (What is valued?) assumptions in the research (Saunders et al. 2009, p. 119). Ontological assumptions consider how objective or subjective the reality is; essentially, they examine whether the reality being observed is external to an individual’s consciousness or the product of an individual’s mind (Burrell & Morgan 1979, p. 1). Epistemological assumptions follow in the footsteps of ontology but consider the essence of knowledge and how it can be communicated to others. These assumptions involve, for example, questions of what can be considered “true” or “false”: Must knowledge always be hard (tangible and universal), or can softer and more subjective knowledge based on personal experience be considered legitimate? Furthermore, can insight also be considered? (Burrell & Morgan 1979, pp. 1–2). Axiological assumptions take into account whether the research is independent from the researcher’s values and whether the researcher is separate from the data and findings or, conversely, if the researcher cannot be separated from the research, thus making the results value bound (Saunders et al. 2009, p. 119). The selected research philosophical assumptions are closely connected to the selected research design and the type of phenomena under study in this research.
This research stands on a more subjectivist side of the aforementioned assumptions. An expression of this is the fact that it recognises that the results it generates are a product of the research setting rather than universal truths. Regardless of the subjectivist approach, fact-based reality is also acknowledged as a part of this research in terms of measurable objects, such as accounting formulas. However, these facts should be—and in this research, they are—considered human creations rather than natural laws (Nørreklit et al. 2010).

A collection of fundamental research philosophical assumptions and beliefs is referred to as a paradigm (Guba & Lincoln 1994). Typical paradigms in social studies are positivism and interpretivism (Gummesson 2000). These two differ in their perspectives. Positivism aims to form social laws, similar to natural laws, that are based on systematic observation and are objective and independent of social actors. In contrast, interpretivism acknowledges the subjective and social nature of knowledge and recognises that different observers may hold varying perceptions of reality (Roth & Mehta 2002). As the current research leans towards subjective interpretations and perceptions of reality, the paradigm naturally falls on the side of interpretivism.

The discussion on paradigms takes a turn towards the practical world when the methodology is considered. Methodology takes into account the ways in which the social world is investigated and knowledge regarding it is obtained (Burrell & Morgan 1979, p. 3). Scientific methods are typically categorised as qualitative or quantitative based on the quality (i.e. numbers or words) of the collected data and the method of data collection (Guba & Lincoln 1994). Although a particular study is guided towards certain methodological choices based on its philosophical assumptions, both qualitative and quantitative methods can further either positivistic or interpretivist goals (Roth & Mehta 2002). This study’s methodology contains both qualitative and quantitative data. This is to ensure that the underlying social constructs as well as their frequency of occurrence can be studied.

The research methods can also be mixed, and the paradigm of pragmatism relies on this approach, thus recognising the usefulness and importance of both qualitative and quantitative methods (Johnson & Onwuegbuzie 2004). The question of which methods to choose in pragmatism primarily concerns selecting the most suitable
Ones to address a particular RQ (Yardley & Bishop, 2008). The benefits of this approach include (a) triangulation of the data and findings, (b) complementarity (i.e. expansion, enrichment, or clarification of the findings between methods), (c) initiation (i.e. finding contradictions between methods), (d) development (i.e. using the results of the initial method to refine further studies conducted with another method), and (e) expansion (i.e. the ability to cover wider RQs using several methods) (Johnson & Onwuegbuzie 2004).

In this research, the RQs have been set through a process following the lines of problematisation – that is, the utilisation of critical thinking stemming from a familiar position and using this to challenge the existing assumptions in the literature (Alvesson & Sandberg 2011). The familiar positions in this case are sourcing- and profitability management-related themes, and the assumptions are challenged from the perspective of autonomy. From this baseline, pragmatism has been chosen as the paradigm for the study based on the set RQs as well as its practical benefits; the flexible methods offered by the paradigm have also influenced this choice. The aim of the paradigm is to explain the themes of this research and enhance the knowledge regarding them while also justifying and defending these themes (Nørreklit et al. 2010). With regard to axiology, this research cannot be labelled as pure pragmatism, as the researcher’s aim is to avoid a value-laden interpretation of the results and to maintain an objective stance.

Overall, this research has a rather subjective perspective on reality and knowledge, as it aims to study how autonomy is perceived by individuals and, thus, depends on social actors and subjective meanings. This study aims to explore the practices in an organisational setting and synthesise research data into a framework that can then be used to guide further research and managerial actions.

### 3.2 Research design

In general, a case study is a research strategy best suitable for studies aiming to understand the dynamics and complexity of the real world (Gummesson 2017, p. 6), and this study has explored man-made, as opposed to naturally occurring,
phenomena (i.e. autonomy, profitability, and management control in an organisational setting). Furthermore, a case study

“1) copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result, 2) relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result, 3) benefits from the prior development of theoretical propositions to guide data collection and analysis. (Yin 2009, p. 18)

Similar features can be found in the current research. An embedded case study is research in which multiple perspectives are utilised to generate knowledge integration (Scholz & Tietje 2002, p. 4). This research has adopted profitability management and autonomy as the perspectives of analysis and aimed to integrate the knowledge regarding these themes. Thus, a multiple embedded case study research design was selected. However, not all the case contexts contained both perspectives to the same extent. The multiple-case study design was utilised in this research because it allowed the RQs to be studied in different contexts. This type of design is considered quite robust, and it gives more inclusive insights regarding the studied phenomena compared to a single-case setting (Herriott & Firestone 1983). The strength of the selected design lay in the integration of different data types (quantitative and qualitative) gathered from multiple sources using different methods. If a non-embedded case study design had been selected, there would have been the limitation of finding suitable case companies to study both RTs simultaneously. Moreover, as this research was iterative in nature, the selected design supported combining data from individual cases, which included different parts of the studied themes.

The different companies studied in this research provided multiple data points for the study. The case companies were selected to provide a strong base for the findings. Multiple companies were chosen to ensure a breadth of data, while depth was achieved by aligning certain factors when sampling the companies. In general, the case sampling was carried out purposefully, as recommended by Patton (2002), which allowed for selecting information-rich cases to yield a thorough understanding of the RQs. The sampling was performed on companies operating in the manufacturing industry. All selected case companies operated in Finland, and most were Finnish owned. The case companies varied in size, as measured by turnover.
and employee head count. To gain a thorough understanding of these companies, data were collected from various functions and departments of the businesses, and through this, the operating environment was more holistically understood. Nevertheless, the focus of this study was the purchasing function, and the selected cases practised global sourcing for major manufacturing companies.

In case studies, interview is the most common data-collection method, but studies benefit from quantitative methods as well (Gummesson 2000). Thus, case studies can include both qualitative and quantitative data. In this research, both interviews and surveys were used to obtain wide and deep data from the case companies regarding the RQs. This hybrid data-collection method yielded a great amount of data that answered several questions, including those set for this study. The data and methods are further clarified in the next section.

The RQs were constructed to understand the phenomena under study from a new perspective, and the subjective paradigm complemented them by leaving room for interpretations to guide the conclusions. Essentially, this study did not aim to fulfil a specific gap in the existing literature; rather, it has used the empirical data as a guide to see what type of understanding can be acquired regarding the subject through critical thinking and analysis, while simultaneously seeking managerial applications. This type of track-bound research “follows procedures and uses other work and empirical observations as positive signposts and building blocks to stand on when formulating the research questions” (Sandberg & Alvesson 2011, p. 39). This approach aims to combine previous research from different fields and use this groundwork in combination with empirical data to extend the understanding of the research subject in a new direction. Furthermore, such research can outline a new logic by spotting an application opportunity of the existing literature and extending it to a specific area of research. In the current study, this involved applying the theme of profitability management from the perspective of autonomy in the context of sourcing.

This study has attempted to describe the phenomenon of profitability management by addressing it in multiple contexts. To facilitate this, the research idea was devised, and the initial planning was carried out. The need and idea for the research was identified in late 2016; afterwards, the research was designed through joint discussions between the author and both dissertation supervisors. Next, the theoretical background was studied, data sets were acquired and processed, the
research material was analysed and interpreted, and the results were written in the form of a monograph dissertation. The author is independently liable for all the contributions in these steps, with one exception: The acquisition of the data was carried out by a senior researcher with the help of a research assistant from the research group. Both of them conducted this work as associates of the Cost Management Center at Tampere University, which is the same institution that the author is associated with. After conducting the interviews and the survey related to this research, the available data were reviewed and discussed with the author to ensure full transparency and understanding from both sides. Next, the data sets were handed over to the author to be further processed, analysed, and interpreted. Furthermore, all phases of the research occurred in an iterative manner; thus, the literature findings continuously directed the empirical work, and the initial empirical findings, in particular, further directed the analyses regarding the literature.

3.3 Data and methods

The data in this study consisted of two interview packages, one survey, and the PSI. The constructs of these data sets are outlined in Table 3. Such a hybrid method was chosen to gain rich and in-depth data with a significant amount of data points to support the existing theories while simultaneously facilitating the exploration of less-known areas in an unrestricted manner from several perspectives. This rich and in-depth data set provided a particularly strong foundation for the study as well as a solid base for its findings.
The data sets outlined in Table 3 have been used to answer the set research questions. The connections between these data sets and the RQs are illustrated in Figure 18.

The main theme of interest in Interview Package 1 (IP1) was profitability management. The interviews sought data on how the employees perceived the profitability of the company as well as how it appeared as a goal. The theme of profitability management was further studied as a part of Interview Package 2 (IP2), which focused on how profitability was managed in SMEs. Further understanding was sought regarding the use of profitability-related measures as well as the extent of the visibility and importance of profitability as a goal in the companies. The main purpose of Survey 1 (S1) was to provide quantitative data with regard to autonomy in sourcing – for example, whether autonomy was perceived as important in the first place and whether the employees had options while making decisions. Finally, the post-survey interviews were used to gain insights into precisely why autonomy was perceived as important and how it was connected to employee satisfaction.
First, with IP1, an initial understanding of profitability management was sought. Other themes were also studied as a part of the interviews, even though they were not directly related to this particular dissertation. In-depth semi-structured interviews were employed to gather these qualitative data. They also facilitated a more explorative way to gather data, as the interviewers could focus more on the areas in which the interviewees had the most expertise. This was found to be suitable for forming an initial understanding of the phenomenon. Instead of following a strict interview plan for every interview, the researchers were able to allow the themes of the interviews to reoccur while weighting them differently from one interview to another. An overview of the interview structure used is presented in Appendix 1. The data from IP1 were used to answer RQ1a as these contained employees’ perceptions regarding how profitability was utilised as an objective as well as how it was measured and monitored in a subsidiary of an MNC. Both were part of the external conditions of the theoretical framework, as shown in Figure 17.

The second qualitative data set was also gathered from semi-structured interviews. IP2 was used to seek further validation of IP1’s findings and to determine whether the phenomena occurred in a similar manner in SMEs. As the data collected in IP1 had provided insights into profitability management, the points of interest in IP2 focused more on how external conditions, such as goals and measures, were perceived by the respondents. An overview of the interview structure used is
presented in Appendix 1. In the interviews (and later in S1), measures and monitoring were studied as a part of the questions related to KPIs, as this term was deemed more familiar in the business setting. Notably, the term was also explained during the interviews to ensure the meaning was understood properly. Ultimately, the data from IP2 were used to answer RQ1a and RQ1b. The interviews were conducted on a one-on-one basis, as in IP1. The data could have been collected using focus groups to save time and spark discussions between the interviewees; however, it was determined that one-on-one sessions would provide more authentic data, as the presence of one’s colleagues in the sessions might have been perceived as inhibiting (Gummesson 1993).

The third data set of this research was quantitative in nature and was collected through a survey. This survey, S1, targeted employees working in sourcing within the purchasing departments of four separate business units of three large manufacturing corporations operating in Finland. In general, S1 was a broad package comprising over 100 questions, with an approximate response time of 40 min. The data gathered with the survey were intended to be used in other publications (e.g. Mulari 2021) as well; thus, not all of the questions were relevant to this particular research. The survey questions relevant to this research are listed in Appendix 2. For this study, S1 mapped two important themes in sourcing: (a) the importance and level of autonomy and goal setting within sourcing and (b) the state of measures and monitoring within the companies. The answers yielded insights into how the respondents evaluated the need for autonomy and objectives as well as their preference for the control procedures. Regarding the RQs of the study, S1 was used to answer RQ1b, RQ2a, and RQ2b. Regarding the theoretical framework (Figure 17), internal conditions related to individual perception were mapped with the autonomy-related themes, whereas management control-related topics concerned the perception of external conditions.

The fourth data set, namely the PSI, was collected from the same companies surveyed in S1. The goal of the PSI was to gather further information on certain themes and responses that stood out in the survey data. The interviews were used to discover the reasons behind the differing responses and to delve deeper into certain interesting findings. In principle, S1 was designed to provide numerical values on autonomy, while the PSI were utilised to provide an understanding of why these values were given by the respondents. To facilitate this, the S1 responses were first analysed, and based on the clustering of the data, the researchers proposed suitable
candidates to be interviewed. The data from the PSI were used to answer RQ2a and RQ2b.

It is evident that the multiple methods used in this study generated a considerable amount of interesting data, offering a wide variety of possibilities for further analysis. Based on the data, the research could have focused on a number of topics, and several themes could have been further studied. Nevertheless, the triangulation provided by the multiple methods can be considered one of the biggest strengths of the obtained data sets, as the different methods, with varying but similar samples, offered validation for the themes and the findings of the research. This was all made possible by having access to and establishing contacts with several companies operating in the Finnish manufacturing industry. These contacts also ensured that the interviews and the survey were relatively easy to arrange and that the attendance and response rates were consistently high.

However, the data-collection methods used also had a few noticeable weaknesses. For example, interviews are prone to bias due to the interviewer’s existing perceptions of the subject and because the interviewer’s interviewing skills could be questionable; furthermore, interviews can be time consuming, and the results may be difficult to generalise (Boyce & Neale 2006). These issues were mitigated by having a senior researcher with over 30 years of experience in the field present in all interviews. In addition, feedback was actively sought during the interviews, and the interview results were presented to the participants for verification prior to use.

The limitations of a survey as a data-collection method involve its reliability. Typically, errors and biases are found in the sampling and responses (number and rate of response) of the surveys. Therefore, for the survey data to be reliable, the sampling has to adequately represent the members of the studied population, the number of respondents needs to be significant (high) enough, and a sufficiently high response rate is required. To obtain reliable data, the current survey was thoroughly tested to ensure that all questions were correctly understood and that the scales used were fit for purpose. Data were sought from several similar organisations, and the sampling covered all suitable employees of these business units. Similar results being obtained from these organisations testified to the validity of the research in terms of the generalisability of its results within the studied industry.

The case selection for this research was initiated with IP1 and the interviews conducted in Case Company A. This particular company was selected as it possessed
Lucrative features to better understand the themes of subsidiary management and the usefulness of business models in developing customer–supplier relationships. The interviews were built around these themes, and the employees’ perception of profitability management was observed while evaluating the goals, objectives, and employed measures as a part of the business model. The foundations of this dissertation were essentially built with these interviews as originally planned; however, the orientation of the rest of the building blocks was changed due to the interesting and unexpected results obtained with regard to profitability management.

Upon analysing the results of IP1, it was evident that more data would be needed regarding the theme of profitability management. For this, a current state analysis (with an opportunity to participate in further development) of the selected themes was offered to seven manufacturing SMEs involved in a research project. All of the companies were located in the same (local) geographical area in Finland. Out of these, four companies were interested, and these companies became Case Companies B, C, D, and E of IP2.

The next phase involved S1, which was directed towards the sourcing departments of large manufacturing companies operating in Finland. The studied companies were selected from a list of large manufacturing companies operating in Finland and approached through existing contacts to ensure timely and reliable responses. A number of themes, including those not relevant to this research, were studied in the survey as well. One of these was project-type work in sourcing. Nevertheless, the survey was also tailored to collect data relevant to this study, mainly concerning the theme of autonomy.

The established access to the organisations in the survey was further utilised in the PSI, which were conducted to understand why the respondents gave certain specific answers in the survey. This enabled further inquiry regarding the theme of autonomy, which proved to be highly useful due to the novel nature of the topic. The participants of the PSI were selected after clustering and analysing the S1 responses. The process is further discussed later in this chapter.

One possible issue with the complete data set is its cohesion, as the data collection was conducted over a relatively long period, from multiple sources, and with various methods. Finding a common thread and ensuring that all items are defined similarly across the data set can be difficult in such a setting. The strategy for mitigating this issue was to include experts from the field of purchasing as well as academia in the
research team to ensure that the data were collected and interpreted correctly. The members of this research team could also examine the findings from different perspectives and discuss and compare their findings and interpretations – that is, whether or not their thoughts aligned when looking at these from differing angles.

Overall, this study was conducted not only to elaborate the existing constructs on the subject but also to develop new insights and concepts by looking at the phenomena with “fresh eyes”. The latter was carried out by focusing on the experiences of the organisational members at the crossroads of scientific theories and individual perceptions (Gioia et al. 2013). This approach acknowledges organisations as social constructs and the people working there as the foremost experts of the actions, intentions, and goals present in their environment. These subjective pieces of knowledge were then used to reflect the existing theories, without neglecting the possibility of new concepts developing during the process.

The different data sets are presented in more detail in the next sections of this chapter. Regardless of the division into qualitative and quantitative sections, all the data were collected to explore the common themes of the research and integrated to allow meaningful conclusions to be derived. Different data-collection methods were used to triangulate, enrich, expand, and clarify the findings; to obtain useful and applicable results; and to cover the RQs as thoroughly as possible. Thus, all the data acquired were aimed at the same pragmatic goals: to explore and explain the phenomena underlying the observed behaviour as well as their practical consequences in industrial organisations.

### 3.3.1 Qualitative data

The qualitative data of this research were mainly collected using IP1 and IP2. Both packages explored the theme of profitability management, albeit in slightly different environments. The goal was to better understand how profitability management appeared in the organisations involved in the study. The interviewees were selected starting from the top of the organisations to start drawing a complete picture of the themes of interest. This also allowed any significant changes in perceptions that might have occurred when moving down the organisation to be spotted. An overview of IP1 and IP2 is presented in Table 4.
A semi-structured interview methodology was used in all interviews to obtain reliable and comparable qualitative data. Semi-structured interviews provide interviewees with the freedom to express their views in their own terms. In principle, all the interviewees were asked the same questions, but these were emphasised differently depending on the interviewee’s job description. Additionally, in IP2, a 6-point Likert-type scale was used. The Likert-scale questions were used to measure two elements: (a) how important a certain factor is with regard to profitability, or what the present state of a certain issue was, in the interviewee’s opinion and (b) how satisfied they were with the current status of the above factor in the company. Subsequently, the interviewees were asked to explain their reasons for giving a certain rating for the importance of and satisfaction with the factor.

Relevant financial information regarding the case companies is presented in Table 5. The profitability of the companies was evaluated in terms of ROA, with the following categories: very bad (< 0%), bad (0–5%), good (5–10%), and very good (> 10%). All the companies were in a mature state, as even the newest one had been
established over 40 years ago. The main owner and their role are also presented in the table below as these were discussed during the interviews. The owner’s role was categorised either as active or passive based on their involvement, visibility and perceived interest towards the studied businesses.

<table>
<thead>
<tr>
<th>Data set</th>
<th>Case</th>
<th>Net sales (M€) 2018</th>
<th>Personnel</th>
<th>Profitability</th>
<th>Main owner and owner’s role</th>
</tr>
</thead>
<tbody>
<tr>
<td>IP 1</td>
<td>Company A</td>
<td>312</td>
<td>745</td>
<td>Good</td>
<td>Corporate (publicly traded)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>[Active]</td>
</tr>
<tr>
<td>IP 2</td>
<td>Company B</td>
<td>8</td>
<td>36</td>
<td>Good</td>
<td>CEO [Active]</td>
</tr>
<tr>
<td></td>
<td>Company C</td>
<td>7</td>
<td>47</td>
<td>Very bad</td>
<td>Family (2nd generation)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>[Passive]</td>
</tr>
<tr>
<td></td>
<td>Company D</td>
<td>17</td>
<td>66</td>
<td>Very good</td>
<td>CEO [Active]</td>
</tr>
<tr>
<td></td>
<td>Company E</td>
<td>16</td>
<td>85</td>
<td>Very good</td>
<td>Investment company</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>[Passive]</td>
</tr>
</tbody>
</table>

Table 5. Financial and ownership information of the case companies

IP1 was conducted at Case Company A. In this package, 24 individual semi-structured interviews were conducted with a focus on the members of the executive team and their first-tier managerial teams. To obtain the most comprehensive picture possible, the directors and managers of all the company’s functions (i.e. chief executive officers [CEO] as well as directors and managers from finance, human resources, logistics, production, purchasing, quality, R&D, and sales) were interviewed. The interviewees were highly experienced professionals who, on average, had worked for 13.4 years in the company. The average duration of the interviews was approximately 90 min. All interviews were conducted by a senior researcher who was accompanied by a research assistant.

IP2 involved four independent companies (Companies B, C, D, and E) operating in Finland and consisted of 12 interviews in total. All the interviewed persons were members of the executive teams, and each person was interviewed individually. The average duration of the interviews was approximately 2 hours. With CEOs, the
interviews took 4 hours on average. It is worth noting that only one of the companies operated under a salary manager without any ownership of the company. Two of the CEOs were, in practice, the sole owners of their businesses (Company B and Company D). The third CEO (Company C) was a hired manager without any ownership of the business. The fourth CEO (Company E) was only a minority shareholder in the company, whose main shareholder was an international investment company. All the interviews were conducted by a senior researcher.

The majority of the data collected during both interview processes were qualitative, which was suitable as the main purpose was to gain insight and understanding. The narrative focus was not limited to the manner in which an event happened. Thus, questions such as “Why was something happening?” were asked to determine the reasons behind events. Thus, a description of the operational environment was included in the interview templates for IP1, and further explanations were asked after the Likert-scale questions in IP2.

The data were analysed using the following set of methods:

1. Data gathering
2. Transcribing the source material
3. Reading through and “assigning codes” to the material
4. Manually sorting the coded text to analyse possible patterns

The codes were not concretely given to the material. Rather, this was achieved through a list of themes that the interviews supported or opposed. Essentially, the amount of support that various issues received was counted.

The following measures were taken to maintain the reliability of the research:

- All the interviews were recorded (IP1).
- Feedback was actively sought, the main findings were presented and discussed with the management team in a feedback session, and the transcripts were sent for inspection to every interviewee (IP1).
- The same senior researcher was present at every interview. When two researchers were present, they discussed the key findings after every interview.
Overall, each interview package provided a reliable data set, and their perspectives were complementary. The data sets provided a good baseline for studying RT1. The results from both interview packages also supported the creation of S1.

### 3.3.2 Quantitative data

The quantitative data of this study were collected through S1, which was initially developed in Q4/2019 and further refined and piloted during Q1/2020. The piloting was conducted separately with five respondents who had, on average, 12 years of experience with sourcing. Iterations to the survey were made after each round of answers to make the survey more intuitive and to ensure that all the questions were understood correctly. Furthermore, the English version of the survey was tested during piloting to ensure proper translation and comparable answers. Following this, the first samples were collected via the survey in Q2/2020. These were analysed, and the final survey was fine-tuned accordingly in Q2–Q3/2020. During the fine-tuning, some questions were removed, and the survey was made more adaptable to ensure that the answering time was kept reasonable. The rest of the answers were collected between Q4/2020 and Q1/2021; following this, the final analysis was conducted.

The survey was explorative in nature and designed to further investigate the phenomena of interest. Such an approach was selected to gain more insights into the different aspects of the underlying themes and to compensate for the fact that the formulation of the research problem was still in the preliminary stage. The goal behind employing this approach was to gain a deeper understanding of the issue. This approach was not intended to provide conclusive results but to generalise the understanding regarding profitability controls, extend the knowledge regarding autonomy, and focus the context more directly on sourcing. The total sample size of S1 was 40 respondents. As the survey was sent to a total of 45 possible respondents, the response rate was 89%. This rate is relatively high for a survey, and this can be explained by the method used for conducting the sampling: The sample was selected based on the research group’s existing contacts in the Finnish manufacturing industry. The purchasing directors and managers were contacted through these contacts, and the sample was further extended to the purchasing functions of the respective organisations. This ensured a high response rate, which compensated for the relatively small sample size. The respondent count, their organisations, and answering schedules are listed in Table 6; the table also shows whether or not category management was used as a way to organise sourcing in the companies and
whether the defined categories were technology based (e.g. hydraulics, plastics, mechanical components, or electronics). Furthermore, the respondents were grouped based on a category split between custom-designed (sourcing according to customer drawing) and commercial components (sourcing according to supplier drawing or the industry standard). Employees working in management positions as well as those whose category was not available were grouped together as one category.

<table>
<thead>
<tr>
<th>Organisation / Respondent Group</th>
<th>Company 1–Unit A</th>
<th>Company 1–Unit B</th>
<th>Company 2</th>
<th>Company 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of respondents</td>
<td>10 + 2 (pilots)</td>
<td>11</td>
<td>8 + 2 (pilots)</td>
<td>6 + 1 (pilot)</td>
</tr>
<tr>
<td>Category management used in sourcing</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Technology-based categories</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Category split (*)</td>
<td>7 / 2 / 3</td>
<td>5 / 3 / 3</td>
<td>6 / 2 / 2</td>
<td>3 / 2 / 2</td>
</tr>
<tr>
<td>Average years of sourcing experience</td>
<td>14.1</td>
<td>13.2</td>
<td>14.2</td>
<td>9.1</td>
</tr>
</tbody>
</table>

(*) Custom designed components / Commercial components / management + n/a

Table 6. Details of Survey 1 respondents, organisations, and schedule

The questions relevant to this research were asked at the beginning of the survey (after the initial questions on background information); at this stage, respondents are generally expected to experience less fatigue and, consequently, provide more reliable answers. These questions were divided into two sections. The first section included the aspects that the respondents found important in their current work, while the second section addressed the current state of measures and controls in the organisation. The scale used for the questions in the first section was a 6-point Likert scale ranging from 1 (fully disagree) to 6 (fully agree), with an additional seventh option.
(I don’t know). The scale was selected to prompt the respondents to either agree or disagree with the questions, without the possibility of a neutral option. The additional seventh option was offered separately from the scale for those who were unable to answer otherwise, with the aim of avoiding inaccurate answers.

The second section used the same scale, but in addition, every other question had a 5-point Likert scale. This was because every other question mapped the respondent’s stance on the previous question regarding whether they felt that the current state would require a change. For example, if the initial question asked whether there were processes in place, the secondary question would ask if the respondent wanted to have fewer (Scale Options 1–2), the same number of (Scale Option 3), or more (Scale Options 4–5) processes compared to the current state they described in the initial question. The neutral option (3) was offered to accommodate those respondents who were satisfied with the current situation. Thus, the answers in the second section reflected both the current state and whether the respondents were satisfied with it. The answers to the questions regarding the change (every other question) from Company 1–Unit A were not taken into account in the results, as the initial survey had a 6-point scale for these questions as well, and thus, the data were not comparable. The scale was changed to better reflect not only the satisfaction about the current state but also the direction and strength of the change that the respondents wanted to see. The survey also contained a few miscellaneous questions of interest in its later parts; these were also paired questions with scales similar to the second section.

The scales were visualised differently to ensure that the respondents knew which type of question was at hand. In general, the scales used in the survey can be used not only to evaluate the absolute answers to each question but also to compare answers between different questions by utilising the distance data from the numeric values of each answer. To perform such an analysis, the distance between each option in the Likert scales used can be assumed to be equal.

To rank the responses to each question in the survey, the mean values calculated for separate questions were compared and divided into four quarters based on their mutual order, as indicated by the numeric values of the means. The ranking was performed to better understand which of the means could be considered relatively high or low and which responses were more significant than the others. The
categories were low, mid-low, mid-high, and high. This was carried out separately for the questions in the 6- and 5-point scales.

To further analyse the data, correlation coefficients were separately calculated between the respondents’ experience in sourcing and the answers of all other questions. This was performed using the CORREL function in Microsoft Excel, which determines the strength and direction of a linear relationship between two properties. A correlation coefficient measures whether or not two variables move in tandem either in the same direction or in different directions. Notably, correlation does not indicate a cause-and-effect relationship between the properties. In this study, the correlations were considered weak (+/- 0.1–0.3), moderate (+/- 0.3–0.5), or strong (+/- 0.5–1.0) depending on the value of the correlation coefficient.

The PSI were conducted to further enrich the findings by providing an understanding of why the respondents had given particular answers in the primary survey. Through the PSI, the topics of interest were further clarified, and a deeper understanding of the themes was obtained. They also allowed the research team to seek explanations for some of the differing and otherwise interesting responses obtained in the survey. The interviewees were chosen by clustering the survey responses and identifying the groups representing both average answers and more outliers. From these clusters, the people to be interviewed were proposed to the company contact persons, and the interviews were agreed upon and organised through them. The basic questions were the same in every interview, but they were complemented with specific questions on themes of interest to each interviewee. As in the survey, the interviewees worked in sourcing and represented buyer, manager, and director levels in the function. The details regarding the numbers and points of time of the PSI are shown in Table 7.

<table>
<thead>
<tr>
<th>Organisation / Respondent group</th>
<th>Number of post-survey interviews</th>
<th>Time frame of interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company 1–Unit A</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Company 1–Unit B</td>
<td>7</td>
<td>Q1/2021</td>
</tr>
<tr>
<td>Company 2</td>
<td>5</td>
<td>Q1/2021</td>
</tr>
<tr>
<td>Company 3</td>
<td>4</td>
<td>Q4/2020</td>
</tr>
</tbody>
</table>

*Table 7. Details of post-survey interview respondents, organisations, and schedule*
The following measures were taken to maintain the reliability of the research:

- The survey was thoroughly piloted to ensure that the questions and terms were understood properly.
- The questions relevant to the research were placed at the beginning of the survey to enhance the quality of the answers.
- The PSI were conducted to further discuss interesting and/or differing responses.
- The respondents were guaranteed anonymity to encourage truthful responses.
- The conclusions were discussed among the researchers to ensure common interpretations and to avoid the biases of individual researchers.
- All relevant responses were included in the sample.

Overall, the survey succeeded in extending the knowledge of the research subjects. This was accomplished in a sufficiently reliable manner and with an adequate sample size to draw conclusions for this study. In addition, the PSI provided an opportunity to further deepen the relevant understanding and enrich the findings.

### 3.4 Timeline of the research

This research started at the beginning of 2017 (timeline shown in Figure 19) with a preliminary literature study. The empirical process, in turn, officially started when the initial interviews involving Case Company A were conducted. These interviews were also the starting point for the final research phase, as they led to the readjustment of the direction and focus of the work and to the formulation of the final RQs.
With the new focus on individual perceptions of profitability management, additional literature research was required to fully cover the background. The literature review was conducted mainly during 2018 and further refined in 2019. After gaining more insights into the subject, further empirical findings were collected from four more companies, with interviews conducted during Q2–Q3/2019. Following this, the procurement survey was planned and conducted between Q2/2020 and Q1/2021. The related PSI were conducted during Q4/2020 and Q1/2021. The final analysis of the data was completed in Q2/2022. The process of writing the final dissertation began in Q2/2020 and concluded in Q4/2022.
4 EMPIRICAL RESULTS

This chapter presents this study’s empirical results. It is divided into four sections presenting the data collected at the different stages of the empirical research process (i.e. IP1, IP2, S1, and PSI). Furthermore, within each of these four sections, the results are presented separately based on the different perspectives relevant to this study. An illustration of the connections between the data sets and the RQs can be found in Figure 18. Initial analyses of selected results are also presented to facilitate a more thorough discussion of the results in Chapter 5.

4.1 Interview Package 1 – Case Company A

Case Company A operated in the manufacturing industry. The plant was located in Finland, and the company was a subsidiary of an MNC. Its customers were mainly OEMs within the same corporation, but a small portion of its products were also sold to third-party customers. The company had a strong and strategic position in its internal network, and the dominating internal sales provided an interesting setting for analysing the company’s profitability due to the transfer pricing within the corporation.

4.1.1 Subsidary performance and control

When discussing subsidiary performance, it is important to distinguish between market performance and organisational performance. In this case, the operational environment of Case Company A and the way it was described by the interviewees clearly pointed towards organisational performance. The interviewees perceived the established position of the company as a module supplier in an MNC’s internal network as a strength, which was emphasised repeatedly during the interviews. In general, the interviewees also emphasised that this position was hard to earn and should not be taken for granted. Furthermore, the company was viewed more as a cost centre rather than a profit centre, as its activities focused more on the internal than the external network.
The company is a cost centre [rather than a profit centre]. [...] This is a unit formed around costs and controlling them. (Finance-1)

In addition to the internal focus, the interviews showed a clear consensus that Case Company A had fared well when assessed based on the performance targets given by the MNC. The cohesion was surprising to a certain extent, as nearly all of the interviewees reported the company had performed well based on the objectives. The interviewees depicted these objectives as focusing on the continuous improvement of the efficiency (productivity, quality, and cost) of the company’s current activities. Corporate approvals for large investments were also brought up, and they were seen as a sign of good performance in the subsidiary. In general, active measures of performance were very well known in the subsidiary, and they were clearly a strong control variable from the MNC. During the interview sessions, it became evident that the company was acting as intended by the corporate MCS and had been rewarded for its good performance.

According to the used [operational] performance targets, the progress has been really good on all fronts. (Logistics-1)

When you [a subsidiary] are able to present a well-justified business case with a good payback time, it will get support [from corporate]. (Purchasing-1)

The interviewees perceived the internal control of the MNC to be prominent in the subsidiary. They did not report any negative effects of the MNC control on employee motivation when questioned on it during the interviews. In contrast, objectives and measures were seen as challenging to improve and a way to highlight the good performance of the subsidiary. Multiple interviewees mentioned that, as the performance measures were also compared to the other subsidiaries in the MNC, they provided a transparent way to benchmark the operations within the internal network. This embeddedness in the internal network was found to be present in all functions, and it was a noticeable feature of Case Company A.

We are compared [with other subsidiaries in the internal network] in terms of competitiveness which includes costs, quality and other measures. (Quality-1)

The focus on the MNC’s operations was seen as both benefit and a burden by the interviewees. It was brought up that, on the one hand, operating within an internal network provided safe and easy cooperation as well as good possibilities for growth by increasing sales to the other corporate subsidiaries, but on the other hand,
focusing excessively on the internal competition was seen as causing a possible distortion in the understanding of the actual market performance, thus leading to a lack of competitiveness in the long run. While these downsides were brought up in the interviews, no measures or controls directed towards market performance were clearly presented, and embeddedness in the external network was significantly lower than embeddedness in the internal network.

\[\text{It [limited focus on external markets] curtails market understanding, agility and focus on customer centricity. (Manufacturing-2)}\]

In sum, it can be said that the company was well integrated within the internal network and understood its position in it. The performance of the case company was compared with other subsidiaries as a part of the corporate control process. However, focus on external market performance seemed to be lacking.

4.1.2 Profitability in the eyes of a subsidiary

Several interviewees mentioned the following problematic issue: The real competitiveness and profitability of the subsidiary were not known. This was assumed to be mainly due to the transfer pricing used within the corporation and for only a small number of third-party customers. Consequently, the understanding of the subsidiary’s real margin and income from the operations was seen to be diminishing in Case Company A. The interviewees also brought up the fact that the subsidiary’s market performance was not part of the corporate MCS, nor was it seen as a priority within the company. This was interesting, as profitability management was still expected to play a more prominent role. However, the sample of this study was not representative enough to determine whether this was an exceptional case or a common situation in the subsidiaries of the MNC. It is worth noting that not being a distinct part of the formal controls did not mean that profitability was not controlled or managed at all in the company. On the contrary, it simply indicated that profitability was most likely managed in other, more informal ways.

Compared to the answers regarding the subsidiary’s profitability and market performance, the profitability of the MNC was said to be visible to the subsidiary in terms of operating income and earnings per share. The interviewees did not mention any direct measures, instead referring to numbers that were also visible to the subsidiary when the group financial results were communicated within the MNC. It
can be said that corporate profitability was known but that control was not enforced through active measurement or monitoring.

Based on the interviews, the most direct form of control related to profitability was the approval flows of the business cases presented by Case Company A to the MNC that were aimed at obtaining approvals for either capital or operational expenditures. Several interviewees presented these as a cross-functional process, in which input was given by different functions and the final business case was then evaluated by the parent company in financial terms, such as internal rate of return, net present value, and payback time. A business case needed to be financially feasible to obtain approval; hence, the profitability of new initiatives was always considered, as the numbers needed to be favourable for the case to be approved. The interviewees perceived this process as fair but time consuming on occasion.

Our controlling function calculates a business case to which inputs are given cross-functionally by a project team [and it is evaluated on a corporate level]. (Purchasing-2)

In general, the interviews showed that, with regard to working in a subsidiary of an MNC, the overall situation is slightly different compared to an independent business unit. In this type of environment, making higher profits with lower costs does not automatically lead to a situation in which the subsidiary is able to invest more or recruit employees to, for example, expand its business or broaden its product portfolio. Instead, the profits go to the MNC, which then evaluates the most suitable use of the capital. From the MNC perspective, this is reasonable, as the headquarters is responsible for several subsidiaries, and the profits could be spent in a more profitable manner somewhere else than in the subsidiary in which they were initially earned.

An example of this emerged when one of the interviewees from Case Company A mentioned that even bigger leaps of progress would be possible if the MNC allowed an opportunity for the same. The limiting factor was stated to be the business case approval and, with it, the available fund allocation from the corporate treasury to the subsidiary. The reason these business cases were not approved was unknown; however, this confirmed that the subsidiary was not able to proceed with all the initiatives it viewed as beneficial from its own perspective. In this case, the MNC likely had a more profitable destination for the funds.
All in all, the data set collected during IP1 revealed several interesting findings regarding how business was conducted in the subsidiary and how profitability management was perceived in this environment. The following list summarises these findings:

- Profitability did not play a prominent role in the MCS, and it mainly appeared as a top-level corporate goal.
- Profitability measures were used to evaluate business cases to justify fund allocation from the MNC to the subsidiary.
- The interviewees understood the subsidiary’s role in corporate profitability quite well.
- Performance measures were used as a strong control variable by the MNC on the subsidiary.

Overall, the complex environment of an MNC makes it more difficult for individuals working in a subsidiary (in this study, Case Company A) to perceive and optimise the profitability of the company. Furthermore, the findings indicated that profitability was not a visible theme and did not appear in daily management routines; this likely contributed to the aforementioned issue. This is interesting as profitability management was expected to be highlighted in at least some form in the studied company.

### 4.2 Interview Package 2 – Four small and medium-sized subcontractors

To obtain a perspective different from that of the subsidiary of a large MNC examined in IP1, a set of interviews was conducted at four SMEs operating in Finland. The goal of these interviews was to deepen the understanding of how individuals perceive profitability management while working in less complex and more compact organisations.

The companies studied in IP2 could be categorised as SMEs or subcontractors supplying products mainly to OEMs operating in the manufacturing industry. Two of the companies were suppliers of conventional mechanical components, while the other two operated in niche markets with only a few competitors. None of the companies had their own products. The net sales of the biggest of these companies
amounted to approximately 18 million euros, whereas the corresponding number for the smallest company was 7 million euros. One of the companies was owned by an investment group, while the other companies were all family owned.

4.2.1 Roles of different stakeholders in profitability management

During the interviews (IP2), the respondents were asked how important they considered the role of different stakeholders in managing profitability. They were also asked about their satisfaction with the roles taken by the various stakeholders. The following stakeholders were evaluated: the owners, board of directors, executive team, CEO, auditor, and accounting department. The results are presented in Table 8.

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Importance</th>
<th>Satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>5.83</td>
<td>4.50</td>
</tr>
<tr>
<td>Accounting department</td>
<td>5.50</td>
<td>4.50</td>
</tr>
<tr>
<td>Executive team</td>
<td>4.86</td>
<td>3.43</td>
</tr>
<tr>
<td>Owners</td>
<td>3.75</td>
<td>4.00</td>
</tr>
<tr>
<td>Auditor</td>
<td>3.20</td>
<td>5.00</td>
</tr>
<tr>
<td>Board of directors</td>
<td>2.20</td>
<td>5.00</td>
</tr>
</tbody>
</table>

*Table 8. Average results for the roles of different stakeholders in profitability management*

The roles of the CEO and accounting department in managing profitability were considered the most important. Satisfaction with the activities of these bodies was at a fairly high level, but it was indicated that some improvements would be needed. The third most important stakeholder was the executive team, but dissatisfaction with it was high. The potential of the team was understood, but it had not been sufficiently realised. As the CEO’s role was seen as central in all of the companies analysed, it is notable that, in two of the companies, the CEO was also the owner of the business. The remaining two companies had separate owner entities. In these two companies, the owners had been given a minor or moderate role in managing profitability. The role of the board of directors was also seen as low, and the same was the case for auditors. The respondents were pleased with the passive role of these stakeholders. To facilitate a better understanding of the variances between the studied companies, case-level results are presented in Table 9.
The case-level results exhibited little variance between the companies regarding the top three stakeholders (CEO, accounting department, and executive team). Notably, two of the companies had outsourced the accounting function, which made the category irrelevant in their cases. Answers regarding the roles of the owner and board of directors could not be obtained for Case Company B as the CEO was also the owner and sole member of the board. As CEO was his most visible role, only this was evaluated during the interviews. Notably, in Case Company D, the CEO was also the main owner of the business. However, the respondents were able distinct between the two roles as the CEO was speaking out also from the owner’s perspective. There were variances between cases in terms of the importance of the roles of owners, auditors, and boards of directors in profitability management. For example, in Case Company C, all of these three stakeholders were seen as unimportant, whereas in Case Company D, their roles were perceived as important. In Case Company E, the role of the owners was seen as moderately important, but the roles of the auditors and board of directors were unimportant.

Regarding the roles of the owners and board of directors, the results for Case Company D were somewhat divergent compared to those of the others. For these, the interviews verified that the company had invested resources to promote an approach in which the role and presence of the owners and board of directors were made more visible within the operations of the firm. This also explained why the stakeholders were perceived as important; however, this required an active interest from the owners and board of directors.

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Case B</th>
<th>Case C</th>
<th>Case D</th>
<th>Case E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Importance</td>
<td>Satisfaction</td>
<td>Importance</td>
<td>Satisfaction</td>
</tr>
<tr>
<td>CEO</td>
<td>6.0</td>
<td>2.0</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Accounting department</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Executive team</td>
<td>5.0</td>
<td>2.0</td>
<td>4.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Owners</td>
<td>n/a</td>
<td>n/a</td>
<td>1.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Auditor</td>
<td>6.0</td>
<td>5.0</td>
<td>2.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Board of directors</td>
<td>n/a</td>
<td>n/a</td>
<td>1.0</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Table 9. Case-level results for roles of different stakeholders in profitability management
Considering the expectations regarding profitability management, the minor role of the boards of directors (Company C) and the passive role of the owners came as a surprise in Case Companies C and E. Notably, in the Case Company E, owner’s role in profitability management was perceived as moderately important. Yet, the owner's acted in a passive manner towards the business. The owner of a company can be assumed to be the one who is most concerned about profitability and promotes this goal to the company through the board of directors and the management team. It is uncertain why the owners took passive roles in these two companies, but an explanation could be found by investigating the owners’ ability, opportunity, and motivation to guide the companies towards financial success. First, they may not possess the necessary skillset needed to be an active owner of a business and, thus, may not involve themselves in it. This is beneficial if the inept owner is likely to cause more harm by participating in the operations. Second, the owners may lack time or have some other restrictions that keep them from actively involving themselves. For example, they may own several businesses and need to direct their efforts towards another venture. Third, the owners may simply lack the motivation to be an active part of the business. Regardless of the reason, the question of why the owners of Case Companies C and E did not sell their shares remains. Several possible reasons can be proposed: a lack of better financial prospects, being unable to find a suitable buyer, ignorance regarding this option, or this not being an option. In any case, it can be argued that an active and skilful owner could benefit these companies in the long term.

The interviewees were asked to describe what kind of theme profitability had within their company; as this was an open-ended question, the answers varied according to their various perspectives. However, the following descriptions received multiple mentions: (a) there was lively and regular discussion about profitability within the company, but there was little discussion about it with outsiders and (b) profitability was monitored more closely than before (tighter control). The former received four mentions, while the latter received three mentions. Other features were also put forth, but these received only one mention each. The features with only one mention are listed below:

- Profitability was the number one goal in the company.
- Profitability was mainly related to monthly target reviews.
- Profitability had fairly clear objectives in the company.
- Profitability was a theme that many in the company were aware of.
When asked about influencing profitability, the most common means were informal discussions and regular meetings. The responses were divided into three groups: informal discussions (48%), regular meetings (35%), and other means of influencing profitability (17%). These other means were said to be used mainly by CEOs. This was quite surprising, as the study’s assumption favoured the use of formal measures and monitoring to control profitability. The profitability measures (including customer-, product-, and company-level ones) existed and were even frequently utilised within the companies. These, however, remained top-level measures and were considered “everyone’s responsibility”; thus, essentially, they were no one’s responsibility in particular. The more personal measures were related to functional and team performance rather than directly to profitability. This created a situation in which a gap existed between the company goal of profitability and functional objectives. Informal controls were then apparently utilised to bridge this gap. For example, informal controls could be used to flexibly highlight or prioritise the necessary nuances in the daily management of separate functions. This is a robust way to enforce control, which could be the reason behind its use. Additionally, informal controls could be utilised due to the lack of optimal functional-level profitability measures.

The topic of informal controls was more thoroughly investigated when the respondents were asked about concrete ways of influencing, especially in terms of profitability management. In response to this question, the following interesting ways emerged:

- Preparing things well in advance made it easy for individuals to choose the desired option.
- Acting as a secretary gave one a certain amount of freedom to record decisions made together.
- The ability to seamlessly utilise the company’s internal databases provided an opportunity to verify the facts. In decision making, facts often outweighed suggestions based on mere opinions.

To summarise, in the observed companies, the CEOs played the most important role in managing profitability, followed by the accounting departments. This was not surprising, as the CEOs were quite visible and central characters in the companies, and profitability management, in contrast, was typically perceived as a part of accounting; however, the prominence of the CEOs over the other major
stakeholders in terms of importance made this observation notable. Interestingly, profitability management was influenced by many interviewees via informal discussions and regular meetings. In these, influencing informal encounters and meetings through agenda setting, preparing topics in advance, and acting as a secretary were seen as the most efficient ways of managing. Notably, access and the ability to utilise decision-critical data were seen as important aspects of making favourable decisions.

4.2.2 Roles of different types of information and processes in profitability management

The respondents were asked to evaluate the role of different processes and information from the perspective of profitability management. They were also asked to rate the current importance and level of satisfaction regarding different topics in their companies from the perspective of profitability management. During the interviews, instructions were given to rate the importance based on the current usage (used a lot = important) and satisfaction in relation to the importance (i.e. if an important aspect was not fully utilised or could be used in a better way, the interviewees were asked to give a low satisfaction rating for the issue). The averages of the results and the counted differences (Δ) between importance and satisfaction are shown in Table 10. The top five differences have been emboldened. The delta (Δ) between importance and satisfaction can be interpreted such that a larger difference indicates a need for development, especially in cases with a high (5 or 6) rating for importance. It is worth noting that several respondents gave 5 as their satisfaction rating based on the idea that there should always be room for improvement while indicating that they were happy with the current situation.
Of the inquired information and process options, customer-level cost information was ranked the highest (the most important). Notably, product-level cost information and pricing decisions also received high rankings. Customer-level cost information was ranked the highest most likely because of the nature of the companies involved in the interviews – they were subcontractors. Their main “product” was customer service for certain key customers. The product itself was not as important as the customer relationship, as these relationships were the key to the companies’ survival. Furthermore, the results showed that KPIs and monthly financial statements were important tools in profitability management, whereas yearly or quarterly published financial statements were not considered to be as important as the monthly statements. Capital budgeting processes were not widely used practices among the SMEs.

All the information and processes were discussed during the interviews. They were further discussed during the feedback sessions; however, most of the focus was on the issues with the highest delta between importance and satisfaction. In general, the topics were discussed quite broadly to better understand how they were utilised in the companies. The consolidated findings are outlined below, and the topics in the order of their rated importance are shown in Table 10. In some cases, similar themes have been consolidated within one paragraph.
Customer-level cost information and product-level cost information: Both levels of cost information were largely based on the same data in the companies. Customer-level costs consisted of the sum of product-level costs and customer-specific costs. In general, producing product-level cost information requires a great amount of effort, and the information may include distortions due to, for example, variations in the product size or complexity. In the studied companies, product-level cost information was not readily available in the enterprise resource-planning systems, and the required calculations were generated offline on an ad hoc basis. This was also one of the reasons for dissatisfaction with this aspect.

Pricing decisions: In the companies involved in the interviews, CEOs played a key role in pricing decisions. Of the four companies, only Case Company D had such a wide product range that they planned to introduce an automatic bidding system. With this investment, they sought consistency in pricing, increased speed of service, and savings in resources.

KPIs: The respondents were mostly satisfied with the KPIs used in the companies. Thus, it can be interpreted that the KPIs corresponded well to reality. However, in Case Company C, the KPI satisfaction rate ranked very low. In this company, several indicators were used, but the interviewees stated that most of the employees were not interested in the actual values. This company had been incurring losses for a long time, which might have been a cause or an effect of the lack of interest in the company’s performance. Notably, one of the CEOs (Company D) explained that he was dissatisfied with the current profitability KPIs because they did not adequately highlight the drivers behind profitability. This was true and demonstrated familiarity with and knowledge of the subject.

Monthly, quarterly, and annual financial statements: In all of the companies, income statements were analysed on a monthly basis. This interval did not necessarily reflect the tightness (or looseness) of the control, only the interval duration itself. The variance analysis compared the budgeted target values with the actuals of the income statement. This was seen as a good way to check if the plans were actualising. It was also mentioned as a good addition to customer-specific and product-specific analyses, as the unit of interest was the entire company. However, several interviewees felt that one month was too brief a period to draw conclusions. This was mainly because the variations between the different months were significant. As the limitations of an annual income statement, its historical nature
and the inability to influence the affairs of the past year were mentioned. An interim report might be able to address the challenges posed by both of the aforementioned types, but none of the companies appeared to use statements other than monthly and annual financial statements. It is worth noting that cumulative values were available on a monthly basis, but no real need was seen for interim reports, despite the challenges brought up. Only one of the four companies took the initiative to consider using an interim report in the future.

**Reporting methods other than financial statements:** Customer-level sales and production volumes were among the most important reporting items. These deliverables were reviewed in weekly meetings. Furthermore, margin monitoring was permanently on the agenda of these meetings. Part of the dissatisfaction reflected the current demanding reporting requirements caused by new technology – mainly cloud services (independence of place and time) and diverse visualisation and various trend analyses. In Case Company C (negative profitability), the main reason for dissatisfaction was the fact that the available reports were not utilised at all. In addition, in this company, no real-time information was available.

**Strategy:** It can be said that two of the four companies studied had no strategy. In these companies, the owners played a very passive role. One of these owners was an investment company intending to sell the studied business (Company E) in the near future. The other, company C, was family owned and had been owned by the same family for a long time. The original entrepreneur had retired, and his children were involved in the business as board members. The company had been operating at a loss for a long time, and the owners were not very interested in it. Furthermore, their goal was to get the company to a saleable state. It is worth noting that, in both of these companies, the key role of strategic planning for influencing profitability was clearly identified but not utilised. In the other two companies, strategy clearly played a more central role. Interestingly, in these two companies, the CEOs held a significant portion of the company shares.

**Budgeting:** In the studied companies, the starting point for budgeting was typically the last year’s actuals. Considering how the upcoming year would likely be different from the previous year was stated to be important. These differences consisted of both already agreed upon and anticipated changes, which occurred in the customer base, volumes, prices, resources, and costs. Realistic figures were sought after; one of the interviewees stated that a realistic budget built a base for estimating company
success. The business owned by an investment company was said to have two different budgets: a realistic one and a dream one. At first, the realistic budget was created from the bottom up by the responsible employees. It was then modified by the group management to be more challenging. This was called a “dream budget”, and it had no real control function as the group management did not impose any follow-ups on it. Hence, the idea and function of the dream budget remained unclear. Variances that would occur in the realistic budget needed to be explained on a monthly basis to the group management. The interviewees felt that this procedure was not useful, and the need to provide regular explanations was seen as a waste of resources.

**Incentive plans and capital budgeting:** A few types of incentive plans were used in the companies, but the people interviewed said that these programmes did not play an important role in the profitability management process. In essence, these programmes had no influence on the people’s behaviour from their perspective in terms of profitability. Furthermore, a capital budgeting process was not used in the studied companies.

Overall, the interviews yielded valuable insights into how profitability was formally controlled in the target companies. From the processes and information analysed, the following three factors were perceived as the most important tools in controlling profitability: customer-level cost information, pricing decisions, and product-level cost information. The rise of customer-level cost information to the top of the list can be explained by how subcontractors do not have their own products and typically work in close collaboration with a few important customers. In essence, customer relationship management can be seen as central to their business and, thus, important for profitability. Pricing is also a key factor, not only for the profitability of a subcontracting company but also for their interactions with customers. Thus, it is understandable that customer-level cost information was perceived as important in the sample.

### 4.3 Survey 1 – Purchasing departments of large manufacturers

All the target companies of S1 were large manufacturers (revenue greater than 500 M€) operating in Finland. The purchasing and, specifically, sourcing departments of these companies were the groups of interest. In total, three corporations participated
in the survey, of which one corporation included two different business units with separate purchasing departments. All of these corporations were OEMs in the manufacturing industry, and one of the subunits produced subassemblies within an OEM corporate. Considering the size of the manufacturing industry in Finland and the number of employees working in sourcing in the companies within it, this sample size can be considered sufficient.

In the survey, the questions of interest regarding this study were mainly in two separate sections: The first dealt with the aspects that the respondents perceived to be important in their current jobs, while the second covered the current status of control within the companies. A few questions outside these sections were also included in the results; these were from the sections covering the basic elements of control in purchasing and freedom in non-routine (project-type) work in purchasing. The survey questions relevant to this research are listed in Appendix 2. The survey mapped, among other themes, how autonomy was perceived by the respondents. The questions regarding autonomy were based on the list of characteristics outlined in Section 2.2.5, which can be used to determine whether autonomy is present from an individual perspective. Not all the points in the list – such as the responsibility for personal development and whether the individuals can align their actions with their long-range plans, intentions, and values – were included in the survey. The autonomy-related questions were spread out in different sections of the survey depending on how they fit the survey’s overall theme.

To better evaluate the mutual ranking of separate questions, Table 11 presents four classes of answers, with a split based on the range of averages for each question. The ranges of classes are different for the 5- and 6-point scales. The total number of questions was 17 and 25 for the 5- and 6-point scales, respectively. The ranks were constructed in such a way that each range contained the same or a similar number of answers.

<table>
<thead>
<tr>
<th>Scale</th>
<th>Low</th>
<th>Mid-Low</th>
<th>Mid-High</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>6-point</td>
<td>3.15–3.89</td>
<td>3.97–4.26</td>
<td>4.29–4.64</td>
<td>4.78–5.43</td>
</tr>
<tr>
<td>5-point</td>
<td>2.93–3.32</td>
<td>3.38–3.48</td>
<td>3.6–3.72</td>
<td>3.75–3.96</td>
</tr>
</tbody>
</table>

*Table 11. Ranking based on answer averages*
This ranked quartile-based approach was chosen as the survey yielded a relatively small sample size \((n = 40)\), which did not facilitate extensive statistical analysis. The quartiles supported the use of descriptive statistics (averages and standard deviations) by providing mutual order and a base for comparison for separate questions. Moreover, correlations were calculated based on the respondents’ reported years of work experience in sourcing. This was performed for the sample as a whole rather than for individual case companies due to the small sample size, which would cause case-level results to be heavily impacted by a change in even one answer. The correlations were considered weak (+/- 0.1–0.3), moderate (+/- 0.3–0.5), or strong (+/- 0.5–1.0) depending on the value of the correlation coefficient. In general, the analysis provided fairly weak correlations; nevertheless, the five most significant ones were separately reported. These were mainly related to measures and monitoring. Furthermore, the correlation between the work experience and the importance of having autonomy was reported. This approach was chosen to highlight the most statistically relevant relationships and to provide insights into the main finding related to autonomy.

### 4.3.1 Importance of autonomy in sourcing

The first section in S1 relevant to this research considered the aspects that the respondents found important in their current work. They were asked seven separate questions about the themes of autonomy, performance measurement, and objectives in their current job. From the autonomy perspective, these questions mapped the importance of freedom to choose actions, the importance of the possibility to influence the respondents’ personal objectives, and the importance of the freedom to choose the means to achieve these personal objectives. In general, the respondents’ answers were quite cohesive across the different companies and business units in this section of the questions (i.e. for all 7 questions), with the standard deviations calculated for the means of each respondent group ranging from 0.12 to 0.27, depending on the question. The answers were analysed as one large group, which strengthened the generalisability of the conclusions. The questions in this section were worded such that they specifically inquired about the situation from the respondent’s personal perspective.

The first question in this section concerned the importance of having sufficient autonomy (i.e. freedom of choice) in one’s work. With the mean of all responses being 5.25, having autonomy can be said to be important when working in sourcing.
This finding was important, considering the RQs of this study. The question did not demonstrate any correlation when calculating the correlation coefficient (0.15) with regard to the respondents’ work experience in sourcing. Nevertheless, further analysis provided more insights, as the importance of autonomy was significantly higher for the group of respondents who had over 20 years of sourcing experience. For this group \((n = 7)\), the mean of the answers was 5.71. For the other groups, the means were 5.06 (10–20 years of experience; \(n = 17\)) and 5.25 (less than 10 years of experience; \(n = 16\)). The results formed a parabola-type curve, explaining the weak correlation. Given the small sample size and the close proximity of the two younger age groups, the results can be interpreted as follows: The importance of autonomy increases as experience in the field increases. This is logical, as people with less experience may feel safer with fewer options and less room for choice, whereas more experienced employees would already know how to navigate most challenges and value the freedom to do so autonomously. Confidence may also increase with experience, leading a person to appreciate more freedom of choice, as they would feel self-assured that they can handle situations autonomously. In addition to confidence, self-knowledge may increase as people become more experienced and older. Thus, they may appreciate autonomy as it would allow them to better regulate and adjust their work according to their character, values, abilities, and emotions. Insecurities could be another issue affecting the appreciation of autonomy; for instance, the fear of making mistakes might be higher early in the career but could diminish with greater experience and a more stable career and life situation. Finally, older and more experienced individuals may have a higher sense of self-worth and, thus, a need for autonomy to feel that they are being trusted and given adequate space to perform.

There were three questions that mapped the importance of having a clear set of objectives and the importance of the origins of these targets. The responses suggested that having clear objectives was important \((\mu = 5.23)\). However, the answers also indicated that getting these objectives from direct supervisors \((\mu = 4.35)\) or from upper management \((\mu = 4.23)\) was not as important as having them clearly stated. According to the answers to the next question, the possibility of influencing one’s own objectives was perceived as important \((\mu = 5.13)\). Moreover, the existence of performance measurements that provided feedback regarding an employee’s performance was perceived as important \((\mu = 4.93)\), albeit less important compared to autonomy and the ability to influence the objectives. In this case as well, the group with over 20 years of experience in sourcing stood out. They valued having clear
objectives even more ($μ = 5.57$) and appreciated having the objectives set by their direct supervisors ($μ = 5.29$). In addition, there was a moderate positive correlation (0.36) between the amount of sourcing experience and the importance of having performance indicators that provided feedback regarding one’s personal job performance. Thus, in general, more experienced employees seem to be more demanding in terms of performance measures. It can be assumed that, for less experienced employees, the source of the objectives is less relevant as long as they are clear. The finding that the more experienced employees preferred objectives to be set by their direct supervisors over upper management can be attributed to the fact that the corporations included in the sample were large in size, and thus, their upper management could be distant entities. In general, as upper management is perceived as a less important source of objectives, it is important that profitability targets come to sourcing through the direct supervisors.

The question that obtained the highest score among all the questions in the survey concerned the freedom to choose the means to achieve the objectives in one’s work. With 5.43 as the mean score of the answers, it can be argued that having the autonomy of means is highly important in sourcing. In this case, there was no significant difference in the answers depending on the respondents’ experience in sourcing. The reasons behind the requirement for the autonomy of means in sourcing can be said to stem from how building and managing supplier relationships are subtle activities. The related contingencies can be seen as difficult to communicate in that well-informed decisions concerning suppliers could be made by people outside sourcing, and thus, the autonomy to make such decisions is required. In addition, the autonomy of means could be appreciated for personal reasons, but this explanation relies on an assumption regarding the homogeneity of the people working in sourcing. However, people in general may feel very strongly about the autonomy of means, and this, in turn, may also be true in sourcing. One sourcing-specific reason could be the function’s position at the edge of core competence-focused modern companies. In such a setting, autonomy can be argued to be more important at businesses’ peripheral parts, where less focus and fewer resources are typically allocated. If this is the case, a similar situation with autonomy should also be observed in sales.

Based on the results of this study, when managing sourcing, it is important to ensure that employees are offered the autonomy of means over how to achieve their goals and objectives. Furthermore, employees can be expected to value autonomy more
as they gain more experience in the field, and this is accompanied by an increase in the appreciation of clear objectives that come from their direct supervisors.

4.3.2 Current state of measures and control as perceived in sourcing

The second section of questions mapped the current state of measures and control in the organisations and whether the respondents were satisfied or wanted changes. The interviewees were also asked about the direction and strength of the desired change. This section contained 11 pairs of questions. In these pairs, the first question always concerned the current state, while the second concerned the need for change. The current state and the need for change were evaluated using a scale from 1 to 6 and a scale from 1 to 5, respectively. In the latter scale, 3 was a neutral option, which indicated that no change in either direction was necessary. The standard deviations of the answers concerning the current state of the organisational means were between 0.12 and 0.69, with the average being 0.45. Therefore, there was some variance between the organisations in some of the questions. From the autonomy perspective, the responsibility for the chosen actions was mapped with a question regarding whether concrete actions rather than “good explanations” were required in case the set objectives were not met (Question 33, Appendix 2). In general, the questions in this section were worded such that they inquired about the situation at the company level from the purchasing perspective.

According to the answers to the first two questions in this section, the companies had adequately defined processes in place to ensure proper control and to guide actions ($\mu = 4.08$). The respondents also felt that the current state was at an adequate level, with some room for more processes to be implemented ($\mu = 3.72$). On comparing the results, the need for more processes was at a mid-high level. Based on the next pair of questions, compliance with the set processes was interpreted to be monitored but not very closely ($\mu = 3.15$). However, no particular need for more or less monitoring was observed ($\mu = 3.4$). From these results, it can be assumed that the respondents were satisfied with the current situation, in which some processes were in place but without extensive monitoring.

The next four pairs of questions concerned the objectives and target setting in the companies. First, on average, the respondents agreed ($\mu = 4.55$) that there were objectives set to guide actions. The standard deviation of these answers was relatively high (1.12) among the companies. However, there was no particular preference
regarding changing the status quo in any of the companies ($\mu = 3.28$). The results of this question demonstrated moderate positive correlation (0.37) with the respondents’ work experience in sourcing, indicating that the more experienced employees perceived the objectives set for action in a more detailed manner. Correlation is not an indicator of causality; however, this result could be explained by, for example, employees growing more familiar with the way management is conveyed in terms of objectives as they gain more experience, whereas less experienced employees may perceive the same management efforts differently. The second pair of questions concerned whether or not the objectives were prioritised. This yielded a minor variance between the companies. On average, the responses implied that there was only a little prioritisation regarding the objectives ($\mu = 3.70$). The situation in Company 1–Unit B was significantly worse, as its average was only 2.5, indicating there was very little prioritisation in place. This is interesting, as the sample also included another business unit from the same corporation, where the average of the answers to this question was 4.2. As both business units were part of the same corporation, they had the same objectives for their global purchasing function; therefore, the answers reflected the differences in the communication and implementation regarding these objectives (i.e. the perception by the respondents) in the two units. When asked whether more or less prioritisation would be preferred, the respondents were cohesive in requesting more prioritisation ($\mu = 3.96$). This was the highest average score of the answers to the questions regarding change. The answers to the remaining two pairs of questions regarding the objectives implied that the respondents agreed that the objectives in the companies were somewhat logical ($\mu = 4.26$), while they only slightly agreed that these were constant ($\mu = 3.70$). The respondents also indicated a preference for changes in more logical ($\mu = 3.72$) and constant directions ($\mu = 3.60$) for these objectives.

Next, the survey mapped the measures used to track the realisation of the objectives in the sample companies. The respondents agreed that this was carried out using KPIs ($\mu = 4.64$). No particular need for a change was indicated ($\mu = 3.31$) in relation to the use of KPIs for this purpose. This was in line with expectations, as the use of KPIs to track progress is considered a standard procedure in modern companies. This question was primarily aimed at setting up the following inquiries regarding the theme. The next question mapped whether KPIs were monitored actively, which was found to be the case ($\mu = 4.35$), with a low desire for change ($\mu = 3.48$). There was a moderate positive correlation (0.34) between the respondents’ experience in sourcing and the perception of whether KPIs were monitored actively. This is in line
with previous results regarding correlations between the questions related to objectives being in place and the respondents’ sourcing experience. If it is assumed that the monitoring is equally active for all employees within a particular company, the correlation indicates a change in how the monitoring is perceived as employees gain more experience.

There was less conformity ($\mu = 3.97$) regarding the question on whether the image given by KPIs matched the respondents’ perceptions; furthermore, there were a few more indications of the desire for change regarding receiving a more coherent image from KPIs ($\mu = 3.76$). In this question, Company 1–Unit B stood out again. The image given by the KPIs in this business unit was not consistent with the respondents’ perception ($\mu = 2.9$), and a change towards a more coherent image was preferred ($\mu = 4.1$).

In the penultimate question, the respondents were asked if concrete actions rather than “good explanations” were required if the objectives were not met. The responses implied slight agreement ($\mu = 4.11$) that concrete actions were required. Furthermore, a preference for a slight change away from “good explanations” was indicated ($\mu = 3.75$). The requirement for concrete actions indicated a positive correlation (0.53) with the respondents’ experience in sourcing. This may, for example, point towards an increased sense of responsibility over one’s actions as more experience is gained over time. Moreover, expectations placed on more experienced employees may be higher; hence, they may feel that more concrete actions are required. Conversely, employees with less experience may feel that “good explanations” from them are enough as someone else is carrying the responsibility of taking concrete actions.

The final pair of questions asked whether monitoring had a significant influence on the actions taken; this was indicated to be the case, although the agreement was quite weak ($\mu = 3.82$). Interestingly, the preference for this effect appeared to be even lower ($\mu = 2.93$). This implies that monitoring is not the strongest driver for individual actions in sourcing and that employees do not want it to possess a larger role. Furthermore, the answers regarding monitoring influencing actions had a moderate positive correlation coefficient (0.42) when comparing the respondents’ work experience in sourcing. This implies that, as employees grow more experienced, they perceive monitoring to influence actions more significantly. This can be explained by the assumption that employees begin to understand the context of
monitoring, business in general, and the intention of control better as they gain more experience. However, no definitive conclusions can be derived based on the results.

To summarise, the results imply that, in large corporations, KPIs are typically used to guide actions towards profitability. Control is also enforced through processes, but this plays a smaller role compared to KPIs. The lack of prioritisation of KPIs could be a potential cause of confusion and conflict. Interestingly, monitoring in general does not seem to have a significant effect on the actions taken. This effect was indicated, by a moderate correlation, to be more significant among those respondents with more work experience in sourcing.

4.3.3 Objectives and autonomy in sourcing

Later in the survey, some of the questions were specifically asked in the context of sourcing. The aim was to crosscheck whether the respondents saw a difference between the company as a whole and their own function. However, very significant differences were not found in the answers, implying that either there really were no differences or that the respondents interpreted the situation from the same perspective throughout the survey. For example, when asked if the objectives had clear priorities “in sourcing”, the mean of all answers was 3.75, while the earlier wording was whether the objectives had a prioritisation “in our company”, which yielded a nearly identical mean (3.70). There were also a few additional questions that mapped autonomy in terms of having options when making decisions, having the means to achieve the objectives under control, whether the project-type work in purchasing contained freedom, and how the degree of freedom compared to that of other departments.

A few additional sourcing-specific questions were also asked in the later parts of the survey. The responses to these questions implied that the objectives in sourcing were well known (μ = 4.78) and that sourcing was highly motivated to achieve these goals (μ = 5.18). Furthermore, the respondents agreed that they had the means to achieve these goals under control (μ = 4.33). They also felt that they genuinely had options regarding their actions when making decisions (μ = 4.23). This could be interpreted as the autonomy of means being present in the sample. To some extent, although not significantly, having more options to choose the actions from (μ = 3.83) and having greater control over the means (μ = 3.7) were desired.
When asked if the amount of autonomy in terms of freedom to choose their actions was higher in sourcing compared to other departments within the companies, the respondents expressed agreement that they possessed more autonomy compared to other departments ($\mu = 3.89$). This question was on a 5-point scale: 3 meant “the same amount”, 4 was “more”, and 5 was “significantly more”. The respondents also agreed that they had autonomy in terms of freedom of choice in the projects (defined as non-routine work) that they were executing in sourcing ($\mu = 4.29$). No particular change regarding this was preferred ($\mu = 3.26$), indicating that the respondents were satisfied with the level of autonomy they possessed.

The finding that the employees in sourcing appear to have more autonomy than their peers in other departments is interesting. The question did not specify which departments the respondents should compare their own to; thus, the responses can be interpreted generally. It should also be noted that this survey reveals only the situation as it appears in sourcing. Other departments may perceive the situation similarly – that is, that they have more autonomy compared to other departments. However, if we consider that sourcing does have more autonomy than other departments, it would be interesting to investigate the underlying reasons. For example, is this an inherent feature of sourcing, and is it there by design or by evolution? Moreover, could sourcing benefit more from autonomy and should thus be granted more, or is managing sourcing simpler through autonomy? Answering these questions would evidently help in understanding both sourcing and autonomy more thoroughly.

Despite perhaps requiring more data for conclusive validation, the apparent reasons behind the results can be analysed. For example, sourcing may benefit from having more autonomy and is thus given the same. Furthermore, sourcing may enjoy autonomy because companies are focusing less on sourcing compared to their other functions. This could stem from the fact that the examined companies are all centred on manufacturing and may therefore let sourcing do its work autonomously in the supplier–customer interface, while building more structures to manage the core competences of their businesses. The “less structure and more autonomy” explanation could also be supported by how sourcing and purchasing, in general, are rather young functions in modern business. Compared to the manufacturing or R&D functions, professional and separately managed sourcing has existed for a relatively short time. Thus, the presence of fewer structures built over time and more autonomy is natural, as the function is still finding its place and evolving further. The
nature of the work in sourcing also favours greater autonomy. Typically, buyers operate quite independently in the supplier–customer interface when building contingent relationships with vendors. This can be seen as a versatile and complex effort that requires autonomy to be efficient. In this sense, autonomy in sourcing is a natural and even required attribute. This may stem from the fact that tasks such as negotiations and relationship building are nuanced and require delving into each case, with a considerable amount of time needed to fully understand the emerging situations. Thus, it is more efficient to allow sourcing employees with their specialised skills, training, and resources to perform these tasks autonomously and at the pace suited to each case.

4.4 Post-survey interview results

After the preliminary processing of the results from S1, the PSI were conducted to obtain further understanding and clarification regarding some of the themes of interest, with a particular focus on autonomy. The PSI comprised a total of 16 interviews, and the data can be used to enrich the findings of this study. The main findings of the PSI are presented in this section. The quotations presented in this section are from specific interviews. The company as well as the number of the interview within that company are marked at the end of every quote. For example, “(Company 2, PSI1)” would denote the first post-survey interview conducted in Company 2.

The results highlighted the dyadic relationship between autonomy and control in sourcing. Thus, the employees in sourcing appreciated a clear direction regarding where to go, as expressed through controls, and they valued the fact that they were granted the autonomy to select the means to get there.

Over the last years, we have had clear responsibilities and autonomy to do our thing, as long as the guardrails have been in place. […] From my direct supervisor, I only need the direction [where to go]. (Company 2, PSI2)

The interviews depicted autonomy as a positive feature present in sourcing that also increased job satisfaction. However, it was acknowledged that the delivered results needed to be in accordance with the set objectives:
I’ve been allowed to do my job very autonomously, and I’m really happy about it. (Company 1–Unit B, PSI1)

I like my job because I’m allowed to do as I best see fit as long as the end results are, of course, according to what is expected from me. (Company 2, PSI2)

I enjoy the fact that I’m given clear targets and also the freedom to choose the means and tools to deliver them. (Company 3, PSI2)

The autonomy to choose the means was seen as necessary to perform well in sourcing. This was because the employees working in sourcing possessed the best expertise regarding the situation in their commodity and/or supplier base; thus, they were able to make decisions with the most accurate and up-to-date information. For example, such an employee would possess the knowledge of whether the most effective way to meet the cost-reduction objective was through negotiation or resourcing initiatives, which was held in sourcing, and thus, the autonomy to decide which means to choose was required and also granted to the functions in the companies involved in the interviews. The requirement for autonomy was also seen as an external necessity, as the freedom to choose and make decisions (at least at the functional level) was perceived to increase the power and, thus, negotiation success in supplier–customer relationships:

So, nobody tells you directly that, with this specific supplier, you need to negotiate this much cost reduction. [...] In my opinion, when we do it like that, people will commit, as they can freely choose the means of how they will deliver [the target]. (Company 1–Unit B, PSI1)

There is also an interesting indication of the connection between sourcing performance and the autonomy of means. According to the results, the ability to choose the means will increase employee commitment, and this, in turn, will likely lead to productivity and increased performance. Performance and autonomy can be expected to be even more closely related, specifically in sourcing, where supplier relationships are complex and company interfaces contingent. In such an environment, it can be argued that the related decisions are best informed when made at the source, which will also engender better results. A problem associated with the autonomy of means and making sourcing-related decisions pertains to the approval of these decisions within an organisation. Other functions may have differing opinions; thus, justifications for the sourcing decisions must be thoroughly considered. Incorporating information from other internal sources into sourcing’s decision making will also help rationalise the chosen means within the business.
Autonomy, by definition, requires one to independently analyse the options, make decisions, and endure at least some uncertainty. Thus, it may not be suited to everyone or every situation. This was also brought up during the interviews.

*We’ve had free hands to modify our approach, for example, in supplier relationship management. [...] But it doesn’t necessarily suit everyone, as some people would rather take a ready playbook to follow.* (Company 1–Unit B, PSI6)

Interestingly, while autonomy was highly appreciated in sourcing, a more systematic structure for the projects was occasionally coveted. Compared to, for example, projects executed by the R&D function, sourcing seemed to have fewer milestones, follow-ups, and mandatory approvals regarding their projects. This was said to lead to a less official status of the projects in sourcing within the companies, resulting in fewer resources and more difficulties with regard to pushing the initiatives through the internal processes. At the functional level, this lack of official status in terms of projects could be seen as a disadvantage of autonomy for sourcing.

Cost savings being the primary objective in sourcing was also addressed during the interviews. It was present in all the observed companies and played a significant role in each one. Notably, it was disregarded occasionally when ad hoc priorities, such as availability issues, were escalated to sourcing. Cost savings also acted as a gatekeeper of autonomy and freedom from disturbance in the sense that, as long as the savings targets were met, little to no additional questions were asked regarding which suppliers to select and under which conditions to procure the goods.

*The thing I was hired for was cost savings.* (Company 1–Unit B, PSI4)

*Cost reduction is our target. It will not change, and it comes to us every year.* (Company 2, PSI1)

*We are measured with cost reduction, and the progress is monitored every month. [...] It is better that you meet the target so that the focus will not be on you. [...] When it seems that we [sourcing] are meeting the budget, the evil eye will not look at us.* (Company 2, PSI2)

While delivering the savings targets granted more autonomy in terms of freedom to choose in sourcing, the ad hoc requests from outside the function limited it. These urgent and somewhat chaotic tasks limited autonomy in purchasing, as “firefighting” was prioritised and focus was taken from other functional objectives. Furthermore, this required purchasing management to filter and prioritise incoming requests to
avoid the situation becoming overwhelming for individual buyers because, in some cases, they did not have the freedom to decline tasks coming from outside the function. Interestingly, one of the interviewees perceived getting an urgent ad hoc task as liberating because, at that time, he had a clear priority regarding what to focus on and could put all other duties on hold during that time.

Overall, the PSI revealed interesting features regarding the essence of autonomy in sourcing. The following list illustrates how autonomy was seen in the sample companies:

- The perception of autonomy was personal and so was the preference regarding its presence.
- Clear directions on where to go and the autonomy to choose the means to get there were an appreciated combination and created job satisfaction in employees.
- Meeting the set objectives of cost reduction granted the autonomy to choose the means in sourcing.
- The autonomy to choose the means increased commitment and accountability.
- The autonomy to make decisions was seen as increasing the negotiation power in supplier–customer relationships and, thus, enabled better performance.
- Ad hoc requests from outside of sourcing were typically prioritised and limited autonomy.

In general, autonomy was highly valued by the employees in sourcing, and it was seen to enhance performance in the function. Some disadvantages of autonomy were also identified, but the positive effects clearly outweighed them. Savings, which were expected to be delivered by sourcing, acted as a gatekeeper of autonomous operations at the functional level. Furthermore, tight schedules and a lack of resources limited autonomy. However, in general, the employees felt that they had adequate options and possibilities, despite the number of suppliers and the ways to approach them being limited.
5 DISCUSSION

This chapter summarises the findings of this dissertation and reflects on them based on the initial theoretical background. An extensive study was conducted with an objective to examine the appearance of profitability management and employees’ perception of autonomy in sourcing. This chapter is divided into two sections, which discuss the findings based on the study’s RQs. Table 12 presents an overview of the study’s main findings, categorised by the RQs and data sets. The presented results are most relevant empirical findings that are further discussed and reflected upon in the discussion. In addition, the table is organised to illustrate which data sets provide the answers to each RQ.

The findings presented in Table 12 can be used as a general summary of the study and as a guide to anchor the more detailed discussion later in the chapter. Hence, the purpose is not to present the complete results but to tabulate the findings in a more compact manner while facilitating an understanding of the related discussion. The aim is to provide a clear overview of the key results and the upcoming sections.
Autonomy appeared to be a positive feature and a factor that increased job satisfaction. Autonomy to choose the means was seen as necessary to perform well. Autonomy was seen to increase employee commitment and thus performance. Autonomy was indicated to increase negotiation power in supplier–customer relationships and enable better performance. Employee satisfaction was created through a combination of clear direction regarding where to go and autonomy to choose the means to get there. Profitability management was visible in daily operations and actively discussed at all levels in SMEs. There was variability in profitability management in terms of visibility, prioritisation, and impact on daily actions. Limited prioritisation of objectives was observed, and more prioritisation was preferred. Active monitoring was utilised and preferred to track progress towards objectives. Profitability appeared mainly as a top-level measure and corporate goal. Profitability was used in business case evaluation and approval in the subsidiary. Top-down measures and monitoring for profitability were in place at company, product, and customer levels. Separate functional measures were used to track team performance. Informal methods were used for profitability management. Autonomy was identified as an important feature that became increasingly critical as more experience was gained. Freedom to choose the means was perceived as even more important than the autonomy of goals. Sourcing was perceived as possessing more autonomy than other functions. Autonomy appeared to be a positive feature and a factor that increased job satisfaction. Autonomy to choose the means was seen as necessary to perform well. Autonomy was seen to increase employee commitment and thus performance. Employee satisfaction was created through a combination of clear direction regarding where to go and autonomy to choose the means to get there.

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<tr>
<th>RQ1a— How does profitability management appear in daily operations?</th>
<th>Interview package 1 (IP1)</th>
<th>Interview package 2 (IP2)</th>
<th>Survey 1 (S1)</th>
<th>Post-survey interviews (PSI)</th>
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<td>Profitability appeared mainly as a top-level measure and corporate goal. Profitability was used in business case evaluation and approval in the subsidiary.</td>
<td>- Profitability management was visible in daily operations and actively discussed at all levels in SMEs.</td>
<td>- Limited prioritisation of objectives was observed, and more prioritisation was preferred.</td>
<td>- Autonomy appeared to be a positive feature and a factor that increased job satisfaction.</td>
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<tr>
<th>RQ1b— What kinds of controls are used in profitability management?</th>
<th>Interview package 1 (IP1)</th>
<th>Interview package 2 (IP2)</th>
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<tr>
<td>Top-down measures and monitoring for profitability were in place at company, product, and customer levels. Separate functional measures were used to track team performance. Informal methods were used for profitability management.</td>
<td>- Autonomy was identified as an important feature that became increasingly critical as more experience was gained. Freedom to choose the means was perceived as even more important than the autonomy of goals. Sourcing was perceived as possessing more autonomy than other functions.</td>
<td>- Employees were satisfied with the current situation, where autonomy over formal structure was granted through management control.</td>
<td>- Autonomy appeared to be a positive feature and a factor that increased job satisfaction. Autonomy to choose the means was seen as necessary to perform well. Autonomy was seen to increase employee commitment and thus performance. Autonomy was indicated to increase negotiation power in supplier–customer relationships and enable better performance.</td>
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The appearance of profitability management

The first RT (*The appearance of profitability management in business organisations*) concerns profitability and the way it was managed in the examined companies. A particular focus has been placed on daily operations and how profitability management was perceived in the companies, for example, through the goals and objectives; the use of direct methods (mainly measures and monitoring) in controlling profitability has also been considered. The aim is to describe the phenomena as they were perceived in the studied companies and, through this, answer the set research questions. In the following sections, a general discussion of the results related to the first RT is presented first, after which the results are considered from the perspectives of the two RQs related to this theme. In addition to the findings related to the set research questions, other points of interest were identified from the data. However, due to a small sample size or limited data, no conclusions could be drawn from these. These preliminary ideas and themes have been modified into the form of future research topics in this chapter and later presented in Section 6.5.

**The appearance of profitability management in business organisations (RT1)**

The initial theoretical background has portrayed measuring profitability as simple, with the measures to monitor it being easily available (e.g. Pringle & Harris 1987; Damodaran 2010; Needles et al. 2013). Considering this, profitability management could also be assumed to be quite straightforward. However, the results of this study reveal differing ways of managing profitability in organisations. Depending, for example, on the company’s size (SMEs or large MNCs) and position (OEMs, subsidiaries, or subcontractors), profitability management appears to vary significantly between the companies and/or their business units. In this research, profitability management has been studied from three considerably different perspectives: a subsidiary of an MNC, SMEs, and sourcing. To the academic discussion, this study contributes an interesting comparison of these three different research subjects as they have offered varying perspectives and proved that, in reality, profitability management is not as straightforward as initially expected based on the theoretical background with regard to measuring profitability. Overall, it is noteworthy how the generally accepted company-level goal of profitability (Paranko 2012) had different appearances, emphases, and interpretations depending on the observed environment. The variability in the appearance of profitability manifested, for example, in its visibility, prioritisation, and impact on daily actions. In essence,
while profitability measures initially appear to be quite similar, closer examination shows the actual profitability management to be quite different.

In general, the interviews conducted have indicated that direct profitability measures appeared quite differently in the studied businesses. For example, the product- and customer-level profitability measures were emphasised in SMEs, whereas in the studied subsidiary of an MNC, the profitability measures were more focused on business case evaluations and approval for either capital or operational expenditures. A common trait among the studied companies was that the profitability measures appeared as the top-level company/corporate indicators regardless of the size and complexity of the business.

It is important to acknowledge that the collected data and, thus, the related analysis are inextricably connected to the context of the case companies. Thus, the observations made regarding the case companies should be understood in their specific environment. For example, the strategic intentions of a business can vary from building up a potential business to holding on to existing market share to harvesting the profits and investing them elsewhere (Gupta & Govindarajan 1984). The reflections of the strategic intentions can be assumed to be visible in the management control of the companies; hence, the observations of this research are bound to their context.

**RQ1a: How does profitability management appear in daily operations?**

The literature review of Paranko (2012) concluded that the essence of profitability and its complex nature are, on the one hand, important and interesting but, on the other hand, would benefit from having more academic focus directed towards them. This study extends the knowledge on the subject from the perspective of profitability management. The essence of profitability management appeared in the studied SMEs (IP2) in a straightforward manner, as it seemed that profitability was measured in all the studied companies and, at least, communicated to all levels of business. In essence, profitability was clearly a visible goal in all the SMEs. Regardless of the surface-level similarities, there were differences in the details, such as the dissatisfaction regarding how profitability was measured and monitored in Case Company C.

It is worth noting that, in these businesses, the CEOs played the most important role in profitability management, sometimes even personifying it. Interestingly, their
importance overshadowed even that of the owners and the board of directors, who could have been expected to play a more prominent role in profitability management. This was especially true in two companies (Case Companies C and E); in these, it was surprising that the roles of the owners and boards of directors were not deemed to be more important. This finding brings an interesting data point to the academic discussion, connecting financial performance, owners, and the board of directors in SMEs (see, e.g., Lappalainen & Niskanen 2012). Typically, it is thought that owners and the board of directors are the stakeholders who drive profitability rather “fiercely” by utilising the executive teams. This is supported by the following conclusion of Vos and Roulston (2008): owner involvement results in more profitable and financially safer businesses in SMEs. However, owners and the board of directors did not appear to be important in terms of profitability management when assessed from the perspective of the employees in this study. In one case, the owner’s passivity and lack of initiative in profitability management were a major concern to the interviewed employees. This was even more peculiar because the main owner of this business was an investment company, which are typically portrayed as companies focusing on the financial success of their assets. The roles and importance of the rest of the observed stakeholders in profitability management were largely in line with the expectations. For example, the accounting department was found to be very important, as anticipated, since profitability is typically presented with numbers and communicated through the accounting reports prepared by this department.

However, the strategic intentions of the case companies were not studied, and the context may offer alternative explanations for the observations. For example, the owners may be harvesting the profits while preparing to divest the operations. Although this is only speculation, this example is mentioned to highlight the importance of a business’ strategic direction and the impact it can have on the observations related to a case company. As all the studied SMEs were well-established companies in a mature state in terms of years in operation, it can be said that none of the companies were in a start-up phase, which might, for example, direct the strategic focus towards growth rather than profitability. Moreover, the interviewees did not refer to any of the strategic intentions of the owners (such as build, hold, and harvest by Gupta & Govindarajan 1984) impacting the state of management or control. Taking this into account, limited conclusions can be derived. However, it can be assumed that the case-specific contexts, including strategic intentions, likely influenced the observations made during the interviews.
Through its descriptive research design, this study further extended the knowledge regarding profitability management, exploring the perspective of a larger business as well – namely a subsidiary of an MNC. Compared to the SMEs, profitability appeared almost exclusively as a corporate goal in this subsidiary (IP1). The most concrete touchpoint at the subsidiary level was the approval process of the local business cases, which required the preparation and presentation of the financial analyses, for example, to have new investments approved. The profitability of the subsidiary itself received little attention. This was surprising, as the company also had its own products that were sold to third-party customers. The reason behind the lack of attention to subsidiary-level profitability seemed to be the company’s significant focus and embeddedness in the internal network of companies (i.e. the parent company and other subsidiaries). This type of approach is recognised in the literature, and its advantage is that it can increase the company’s success in the political process within the corporation (Andersson, Forsgren, & Holm 2001) by aligning the subsidiary’s autonomous decisions with the overall corporate goals (Busco et al. 2008). Nevertheless, the focus on the intraorganisational network was acknowledged and generally seen as an opportunity to grow and prosper. The disadvantages of the internal focus, such as the lack of a clear understanding of actual market performance (Andersson, Forsgren, & Holm 2001), were also understood. However, it is worth noting that there were no controls or measures directed towards managing market performance, and the embeddedness in the external network was low. This is likely a consequence of the parenting style (e.g. Nilsson 2000) selected by the MNC as it was responsible for the MCS design of the subsidiary as well. In this case, the subsidiary had not been granted the autonomy to design its own MCS, and the focus was on corporate-defined financial measures. However, the subsidiary had the autonomy to make decisions, for example, regarding cost efficiency related to the operations. Despite the cost-centre identity and the related autonomy given to Case Company A, it should be noted that, in general, autonomy is individually perceived. For example, employees in sourcing may feel they have all the needed autonomy as they are typically more cost focused, whereas employees working in sales may feel they are missing out on more autonomy as their typical focus is more revenue and profit oriented. In such a situation, sales employees may feel that the MCS is not measuring their results and that they have limited authority delegated to them in terms of decision making; this, according to Merchant and van der Stede (2007), could lead to lower market performance.
The interviews have also revealed that the subsidiary’s employees would have valued the understanding of the profitability of their own unit and not only that of the corporation. These results show that the interviewees were well aware of the importance of profitability to a business and wanted to know more about it regarding the subsidiary, which was the business entity they identified with more and felt their actions affected to a significant degree. Given the cost-centre identity as an assumed role of the subsidiary, the lack of profitability measures was logical. This is in line with Kaplan and Norton’s (1996) idea that measures should be linked to the selected business strategy. While intraorganisational transfer pricing is considered, it can be argued that the employees of the subsidiary were not able to fully influence the profitability of the subsidiary. Nevertheless, the interviewees expressed their desire to understand the profitability, and it is difficult to argue that making this information available to them would be detrimental, even though it would not be at the centre of MCS or guide day-to-day actions. Anecdotally, the situation has since changed in the subsidiary, and there has been more embeddedness in the external network in terms of focus on increasing non-corporate sales. Therefore, profitability measures have also gained greater visibility.

From the perspective of individuals working in a subsidiary, a centralised profitability management, particularly treasury management, may feel unfair or demotivating. A problematic example of this is the case where the goals and objectives of a subsidiary are not aligned with those of its parent company. A profitable subsidiary with little to no strategic importance to the MNC and low growth expectations could represent this type of case. In such a situation, the MNC is likelier to invest the profits in another subsidiary. Despite its profitable operations, without new investments, the initial subsidiary is likely to fall behind over the course of time and, ultimately, collapse despite its current profitability. Understanding the justification in this type of situation from an individual perspective engenders the question of whether the individuals identify more with the subsidiary or with the parent company and how they feel the situation is influencing them directly. Both of these situations, however, can be influenced through management control.

This study provides insights into profitability management by incorporating two-fold results in terms of the first RQ. These results are based on how profitability management appeared in the interviews quite differently between the two data sets (IP1 and IP2). In the studied SMEs, profitability appeared as a visible company-level goal. This can be interpreted to be out of necessity, as the small companies needed
to curb financial uncertainty by keeping a steady focus on profitability to stay in business in the long run, as the profits of the businesses were not stable. In essence, management needed to emphasise the economic performance of the companies to ensure the existence and longevity of the business. Evidently, Case Company D had been very successful in their communication, as everyone in the company seemed to be aware of the profitability goals. In general, the prevalence of profitability management was supported by the existence of regular and lively discussions about profitability in all the companies, including even the shop-floor employees. Notably, Case Company C was an exception; in this case, dissatisfaction towards the measures and monitoring remained high.

In general, the findings were in line with Chenhall’s (2003) analyses on uncertainties. Namely Chenhall (2003) divides uncertainties into external and internal ones in relation to the analysed organisation. Overall, there were several external uncertainties faced by the studied companies, but these were not particularly examined during the study. However, the findings of this study are in line with Chenhall’s (2003) remark that environments defined by external uncertainty are likely to host more interpersonal controls as well as tight budgetary controls, both of which were present in the SMEs. Regardless of the scope of the study, the environment of the SMEs in manufacturing industry can be argued to host external financial uncertainties due to the cyclical nature of the industry. The situation was different in the bigger and more stable subsidiary of an MNC which might be due to its pricing power and position in financial markets. With this, the business was already in a state that allowed the company to focus on additional goals. In addition, the business identity was aligned more with a cost centre than a profit centre, and the focus was more on the internal network of the companies. All these factors contributed to reducing the everyday visibility and priority of profitability within the company. The subsidiary identifying as a cost centre implied that it had been assigned such a role as a financial responsibility centre. In such a role, managers are expected to focus primarily on manufacturing costs in the financial statement (Merchant & van der Stede 2007). The observations from the subsidiary can also be interpreted such that the closer you are to the corporate management, the more clearly profitability appears in your work. Consequently, the awareness of profitability as a goal or objective decreases further down the chain of command and network of companies within a corporation.
If profitability appears more clearly at the top of an organisation, what are the implications for sourcing? In the manufacturing industry, this function is quite far from the business core, and one could assume that profitability does not directly impact it to a notable extent. This is evidently a question of management and communication; however, if this is the case, the question of whether it would be more logical to integrate profitability more concretely into the everyday work in sourcing arises. This is favoured by the important role purchasing plays in the profitability of manufacturing companies by being responsible for up to 80% of product costs through third-party spending (Anderson & Katz 1998). Thus, profitability management may benefit from being a more visible theme in sourcing, as the actions made there make a notable difference and, hence, could lead to better outcomes in terms of profitability. This idea is also supported by the results, which indicate that employees appreciate it when the financial situation of their business and the prioritisation in terms of the set goals and objectives are visible.

A future research topic has been derived from the data in the area of *employee perception of the roles of different internal stakeholders in profitability management*. While this area has been explored in this study, due to the relatively small sample size, more research is needed to draw definitive conclusions. The interest for further research was sparked by the results in which employees perceived the CEO to be more important than the company’s owners, board of directors, or executive teams in the financial success of the business. Further research would also be valuable since the situation is not fully in line with the current conception, according to which a company’s board of directors is responsible for safeguarding its financial success from potential managerial opportunism (Brunninge et al. 2007); furthermore, although they do not hold a direct role in operational management, they are the ones choosing the CEO and ultimately answering to the shareholders. Thus, further research is needed to fully understand how employees perceive the roles of different internal stakeholders in terms of profitability management. It is also important to include the impact of different kinds of business environments, such as the strategic intentions of business owners (e.g. Gupta & Govindarajan 1984), which may influence the perception of profitability management.

To conclude, the results of this study depict profitability goals and objectives as somewhat indefinite and vague, as they take different forms based on the contingencies of the business in which they are being observed. Profitability is enforced by management, and the message is conveyed, both formally and
informally, through MCS to the lower levels of the organisation. This is logical, as management must justify its existence and authority through the economic results it produces (Drucker 2012, p. 7), and profitability is a suitable measure for this. Typical contingencies affecting the role of profitability in the studied cases seemed to include the financial situation of the business, as well as the size and position of the business unit. Thus, management’s role is to manage profitability in accordance with these contingencies and find the most suitable way to express it in terms of visibility, prioritisation, and accountability.

**RQ1b: What kinds of controls are used in profitability management?**

The interviews in IP1 have revealed that profitability controls were very limited at the subsidiary level. This could indicate that control of group profitability was executed separately in more informal ways. This is expected in a large corporation, in which the subsidiaries differ from each other and may require different types of management control. The use of tailored and ad hoc methods to approach different subsidiaries may yield better results than making everyone follow one-size-fits-all controls. This finding adds to the understanding that profitability measures are challenging to utilise due to, for example, transfer pricing and tax considerations within an MNC (Andersson, Forsgren, & Pedersen 2001) and are hence expected to be scarce. These controls are also likely lacking to avoid the suboptimisation of profitability in the subsidiaries. In contrast, corporate profitability is typically the sum of the profitability of its subsidiaries, and if this connection fades, one could ask if the subsidiaries are motivated to actively increase corporate profitability, especially if their success is not directly measured through their own share in it. This is because, even if corporate profitability increases, a single subsidiary may not benefit from it directly if it is not at the core of the corporation and, thus, a beneficiary of new investments or other monetary compensations. The financial benefits of increased subsidiary profitability are routed through the corporate treasury; therefore, the subsidiary may not be directly rewarded for this. It is worth mentioning that an understanding of profitability and the benefits of corporate financial success was present during the interviews, and the aforementioned behaviour was not observed. Thus, a situation in which a single subsidiary is focusing on multiple goals is worth considering in the literature related to financial responsibility centres (e.g. Merchant & van der Stede 2007), in which certain business units are assigned to be responsible for certain areas of the financial statement (i.e. costs, profits, and revenues). Specifically, the financial responsibility centre literature could be enriched by
evaluating how the individual employees perceive the set identity of financial responsibility centres. The perspective could reveal, for example, how the chosen focus impact employee motivation and through it organisational outcomes.

The results of IP2 provide the literature with a descriptive material indicating that profitability controls were highly visible in the studied SMEs. From the employee perspective, profitability appeared as a top-down goal directed by management, while the accounting department handled the most relevant controls (measures, budgets, monitoring, etc.). In the target setting of all the case companies, profitability was commonly used as a goal, which was monitored through monthly financial statements and compared with the budgeted values. There were lively discussions about profitability within the businesses. These were made possible mainly by the clear goals for customer- and product-level profitability, which were combined with a visible monthly review process. However, the lack of prioritisation regarding the set goals caused dissatisfaction in the studied companies. The profitability controls utilised were further highlighted in the studied SMEs through informal controls executed by management.

Notably, only top-level profitability measures were discussed during IP2, and no mentions of functional-level profitability controls were present. This also included sourcing, which was more thoroughly researched during S1 and the PSI, and in which only separate submeasures were observed. Similarly, as noted in the earlier literature, these measures aimed to improve functional efficiency, such as cost or quality, which are among the most typical measures in purchasing (Caniato et al. 2014). This study extends the current understanding by describing how the approach encountered resulted in profitability fading as a priority from the employee perspective; thus, communication and other informal controls were required to ensure that the individuals were able to connect their everyday actions to the overall business goals. The results of S1 indicate that more prioritisation of objectives was preferred and that active monitoring was appreciated. The risk associated with limited prioritisation and monitoring of profitability is that its importance becomes distorted and not well understood when it is not actively monitored or prioritised in the formal set of controls. This, in turn, may increase short-termism among employees (Marginson & McAulay 2008) and, consequently, lead to lower long-term profitability. Further research on the balance between short- and long-term perspectives in sourcing could offer interesting findings for the academic discussion on short-termism.
Interestingly, rather than relying only on direct methods to control profitability, the studied SMEs utilised informal controls to a notable extent. Random encounters and meetings were utilised in managing profitability in all the case companies. As a result, preparation and data gathering were important, as decision making mainly happened during the meetings. These informal controls also brought profitability closer to everyday operations and seemed to compensate for the lack of profitability measures at the functional level. This adds to Wouters and Roijmans’ (2011) finding that informal controls are used to support formal requirements. It is also in line with Lukka (2007), as it extends the understanding that informal controls can offer some leeway in situations in which formal controls are insufficient. From the management perspective, these findings indicate that the importance of profitability has been recognised but that no suitable measures have been identified for implementation at the functional level.

It is evident that finding a distinct connection between the actions of individual employees and business profitability is a complex task. In contrast, the alternative approach of focusing on individual functional factors is simpler and more tested and, thus, an easier choice. This research has highlighted two important factors that helped execute the latter approach in the studied companies. First, informal communicative controls were used to bridge the gap associated with profitability management at the employee level. This allowed the use of tailored ad hoc narratives – a flexible method that nevertheless places the pressure to succeed on the individual managers practising it and underlines the importance of their communication skills. Second, typical functional-level measures were targeted at the subcomponents of profitability, such as costs, efficient use of assets, and revenue. However, dissatisfaction caused by the lack of prioritisation of multiple objectives was raised as an issue. These two factors contribute relevant insights to the ongoing discussion on management control. Notably, as performance measures are used to communicate and prioritise organisational goals (Kaplan & Norton 1996), cost- and quality-related objectives can be said to be prioritised over profitability goals in sourcing.

Further research on profitability measures and monitoring is needed to develop a deeper understanding of the current state and development needs of profitability management in the subsidiaries of MNCs. As the data were too lacking to allow definitive conclusions to be drawn, future research should first validate the prevalence of the encountered situation in which profitability measures were lacking in their operative presence in
the studied subsidiary. Following this, an understanding of the reasons behind both the corporate and subsidiary perspectives should be formed to evaluate whether change would be beneficial from these perspectives. In terms profitability management, Case Company A had been assigned a cost-centre responsibility, which could lead to suboptimal market performance if the subsidiary were to focus only on internal efficiency (cost reduction/control). In this case, the corporate profitability measure could act as common goal to reduce the subsidiary’s suboptimal behaviour from the MNC perspective. This future research topic is also connected to the academic discussion on subsidiary management and performance (e.g. Andersson, Forsgren, & Pedersen 2001; Birkinshaw et al. 2005) and would help provide a better understanding of the mechanics of profitability management in global organisations and the incentives of the subsidiaries within these networks. Furthermore, this topic would support the efforts to better understand profitability management and the different forms it takes in companies. When considering the literature related to parenting style (Nilsson 2000) or strategic intentions of a business unit (Gupta & Govindarajan 1984), this future research topic could promote a holistic approach that would facilitate an understanding of how corporate strategic variables (see, e.g., Kald et al. 2000; Jannesson et al. 2014) influence profitability management in subsidiaries.

To summarise the findings regarding profitability measures and monitoring, it can be said that direct formal controls were utilised in the studied companies to monitor the top-level (corporate, product, or customer) performance. This is logical, as top-level profitability is what ultimately matters, and further dividing it into, for example, business-unit profitability may lead to suboptimisation. However, the limited use of profitability measures in the daily management of a larger and more established subsidiary company was a surprising finding. It is difficult to determine why this was the case; it is possible that the narrative of working towards a corporate goal of making a profit does not motivate all employees in a similar way, as the alternative and, perhaps more fit-for-purpose, goals do. This would be in line with the theoretical frame (Vroom 1964), in which motivation is derived from the expectation that an individual’s effort leads to performance and that they have control over the outcomes because, in a bigger corporation, a top-level goal may feel too distant to influence. Choosing a softer narrative may also offer a better connection at the level of personal values compared to a formal measure of profitability. Notably, the profitability measures were lacking at the functional level, where informal controls and functional-level submeasures (i.e. cost, quality, and time) were utilised instead.
Furthermore, the lack of profitability measures observed in this study should not be interpreted to mean that profitability was not managed; rather, it was managed in a different manner. If the nature of profitability is considered, the findings indicate that profitability management is simple in theory but complex in practice.

5.2 Perception of autonomy in sourcing

The second RT involves considering autonomy and the way it is perceived in sourcing. The selected perspective is “autonomy granted through management control”, with the aim of better understanding autonomy’s role in management. The objective is to describe the actual situation in the sample companies and, through this, obtain an understanding of the phenomena. In addition, satisfaction regarding the current situation with the autonomy granted through management control has been observed to determine whether the current state could be considered positive or negative in nature. In addition, future research topics based on interesting data points have been formed to identify promising areas of further inquiry. In the following sections, the theme is first discussed in general terms under the RT headline; subsequently, the results are outlined for both subelements of RQ2.

**Employee perceptions of the autonomy granted through management control in sourcing (RT2)**

Having autonomy over one’s choices is a basic psychological need according to the SDT (Ryan & Deci 2000); therefore, it can be argued that humans have a natural need to feel that they are in control of their own lives. This can be assumed to hold true in work environments as well, which means that we want to perceive that nobody is forcing us and that we are acting freely and voluntarily. The perception of autonomy creates the impression that individuals have chosen their own way, their employer, and their job – that is, individuals feel that they have autonomy. Thus, it is natural that autonomy is observed from the perspective of individual employees, as it is an individual’s perception that matters when judging autonomy.

In addition to autonomy, management control is always involved in an organisational setting. Enforced control can be considered as setting guardrails to govern the area in which autonomy exists and can be expressed. Autonomy and control are also connected in the following manner: Control can be directed towards enhancing
autonomy, for example, by encouraging individuals to reflect and evaluate their own actions. Thus, these two are somewhat interconnected, making it logical to also observe them as a pair; this is particularly true in the context of sourcing, where autonomy can be argued to be important for good performance, while control is needed to ensure that the function’s role and efforts are aligned with the rest of the company. From the managerial perspective, the focus is on understanding how management control can be used to grant autonomy and ensure performance while aligning the actions taken with the company goals.

**RQ2a: How is autonomy perceived by employees in sourcing?**

From an individual perspective, this research interprets autonomy to be present in an organisational setting if the criteria in Table 13 are met. Compared to the existing literature, which has focused primarily on what autonomy is (e.g. Banker et al. 1996; Janz et al. 1997; Lumpkin et al. 2009), the table offers a way to observe it. The table (initially formed and presented in the literature review section as a list) also indicates which of the criteria have been studied during this research. The list of criteria has been developed by examining autonomy-related literature (e.g. Banker et al. 1996; Deci & Ryan 1987; Janz et al. 1997; Langfred 2000; Lumpkin et al. 2009; Williams 2015), with the aim of better examining autonomy in an organisational setting, as it is an elusive concept and hard to define comprehensively. There is also a feedback loop acting on the list of criteria, as the research results have helped evaluate the usefulness of the list. This list helped significantly in planning the survey and the related interviews. Whether the list succeeds in exhaustively capturing the nuances of autonomy can be questioned, but it does aid in comprehending the concept better. This study has also helped validate parts of the list in the sense that using it helps determine the presence of autonomy easily and reliably. However, one aspect of the studied criteria has proved to be slightly problematic – responsibility for the chosen actions. The variable of responsibility was observable and related to autonomy as originally intended, but the results did not clearly disclose whether responsibility was a condition of autonomy or a result of it. For example, in a purchasing meeting, the assignment of responsibilities (e.g. delivering the set cost-reduction objectives) enhanced autonomy to some extent, but one might also have the same responsibility and results without gaining any autonomy as a result. In addition, the last two criteria require further scrutiny, as these were not studied in the experimental part of this research. Two of the seven criteria were excluded as the research was carried out in an iterative manner, and the dialogue between the theoretical and empirical parts of
the dissertation had not been finalised when the data collection on the topic was conducted. As a result, these interesting aspects of autonomy could not be studied. In particular, the last point in the list would have been interesting and potentially value-adding with regard to formulating the perspective of the thesis.

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<th>Criteria of autonomy</th>
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<tr>
<td>Possibility of influencing and/or choosing personal objectives</td>
<td>Yes</td>
</tr>
<tr>
<td>Possibility of influencing and/or choosing means to achieve personal objectives</td>
<td>Yes</td>
</tr>
<tr>
<td>Freedom of choice over actions and level of contribution</td>
<td>Yes</td>
</tr>
<tr>
<td>Genuine options available to act upon</td>
<td>Yes</td>
</tr>
<tr>
<td>Responsibility for chosen actions</td>
<td>Yes</td>
</tr>
<tr>
<td>Responsibility for personal development</td>
<td>No</td>
</tr>
<tr>
<td>Opportunity to align actions with long-term plans, intentions and values</td>
<td>No</td>
</tr>
</tbody>
</table>

Table 13. Criteria of autonomy from an individual's perspective

The results of S1 indicate that autonomy is an important factor in sourcing and that its importance further increases as employees become more experienced. Furthermore, the autonomy of means is even more important than the autonomy of goals, although both were perceived to be important by the employees participating in S1. This result differs from the expectations formed on the basis of the theoretical review. It initially seemed that there would be no room for the autonomy of goals in sourcing, with the rationale being that the goals in sourcing are most commonly the price, on-time delivery, and quality conformance (Caniato et al. 2014); this was reflected in the studied companies as well. However, the employees felt that they could influence their goals even if they could affect only the magnitude of the goals rather than the direction of these goals. In purchasing, for example, the autonomy of goals was perceived when an employee was able to influence how much savings was targeted rather than whether savings was a goal at all. This leaves room for management to influence the perceived autonomy of goals when executing a set plan with defined control measures.

The results of S1 and PSI indicate that, regardless of who had set the goals or influenced them, it was important that they were clearly defined and measured.
Having the autonomy of means to freely choose how to achieve the set objectives was found to be the most important aspect in sourcing. The autonomy of means was also present in the surveyed sample, as the respondents felt that they had genuine options regarding their actions when pursuing the set goals. From the management perspective, enabling the autonomy of means is somewhat easier than enabling the autonomy of goals. This is because, typically, neither strategic planning nor management control entails the level of detail necessary to define the means that sourcing should use to meet its objectives. Thus, it is logical for management to let sourcing decide on the means. This is in line with the findings of Stewart and Manz (1995), who stated that a growing number of teams are given the ability to self-manage performance in their area of responsibility. An exception at the employee level could occur when micro-management is present within the purchasing function, thus limiting autonomy. To a certain extent, the autonomy of means can also be seen as necessary in sourcing, as it creates value through long-term partnerships (Chen et al. 2004), and limiting the autonomy of means could also limit the supplier-selection process and, consequently, the possibility of finding the best supply partners in the long run. For example, if the means to reach the savings objectives were set to be only through resourcing, sourcing could be forced to select a new supplier instead of the current partner, which could be suboptimal in the long run. A situation in which the means of sourcing is not limited is in line with the work of van der Meer-Kooistra and Scapens (2008), who proposed using a minimal structure in terms of control to provide individuals with the opportunity to react to changing circumstances by not limiting the possibilities within the agreed guardrails. Sourcing has been identified to be an area with this type of uncertainty (Gadde & Wynstra, 2018), and the results of the current study indicate that autonomy is used to navigate through these in sourcing.

Furthermore, the results of this study imply that the level of autonomy was higher in sourcing than in the other functions in the studied companies. This would also be interesting to study from the perspectives of other departments to determine if they perceive the situation similarly. Nevertheless, the employees in sourcing felt they had the autonomy to choose which and what types of projects to pursue, as long as their savings objective was fulfilled. This type of situation can be described as having a minimal structure in terms of control, which also means that the highest level of autonomy is provided as long as the desirable performance level and system stability are met (Keating & Katina 2019). According to the SDT, having autonomy is one of the basic psychological needs, and satisfying this will provide intrinsic motivation.
and, thus, positively impact performance (Ryan & Deci 2000; Van der Hauwaert et al. 2021); this was the case in the current study’s sample. Moreover, the employees in sourcing were held responsible for their actions, which was considered a criterion of autonomy. Thus, it can be said that purchasing was granted autonomy from management to choose their actions in terms of the means to deliver the set goals and that they were held accountable for their choices. As expected, this occurred within the limiting guardrails set by controls, codes of conduct, and ethics.

From an organisation’s perspective, the lack of focus on purchasing as long as the savings are delivered can be interpreted in the following ways. First, sourcing is trusted with autonomy, as it is competent regarding its tasks and can carry out its job without additional interventions; hence, only loose controls are applied. In addition, autonomy is found to increase performance through motivation and is hence utilised to enable optimal performance in sourcing. This connection is in line with the findings of studies testing the SDT-based link between autonomy and performance (e.g. Baard et al. 2004; Stone et al. 2009). Second, a narrow view of sourcing is assumed, in which sourcing is only needed for one purpose – cost savings – and as long as that is delivered, no additional interventions are needed. Third, the other areas of a business require more attention, and as long as one area performs according to expectations, the other areas are given the needed attention. Fourth, management is passive, and autonomy is assumed to be a necessity in sourcing. Notably, the minimal required structure through control and management is only rational, as any extra efforts can be argued to be a waste of resources in the form of overconstraining. The first explanation seems most likely as buyer–supplier relationships have been recognised to be important for business (Saccani & Perona 2007), but it has proven to be difficult to define when and in which situations to pursue partnerships (Goffin et al. 2006). By equipping sourcing with the autonomy of means, management can remove the need to provide detailed instructions while enabling sourcing to work with the contingencies in specific buyer–supplier relationships and to define when to pursue partnerships as well as how to deliver results. Such an approach would also explain the difficulty of defining the details of when to pursue partnerships, as stated by Goffin et al. (2006), even though it is well known that partnerships are one of the main ways to create value in sourcing (Chen et al. 2004).

The autonomy-related results can be used to form the following future research topic: Future research should examine whether sourcing is granted more autonomy on average
than other functions and what the reasons behind this are. This is an interesting notion and should be explored further because, during this research, the situation was observed only from sourcing’s perspective. According to the results, autonomy was emphasised and impactful in sourcing, but an additional perspective has been deemed necessary to determine the actual amount of autonomy in sourcing compared to other functions. If the proposed claim holds true, a deeper understanding of the reasons behind it and its implications should be acquired. For example, why does sourcing get more autonomy, and how are benefits generated through it? Can autonomy be used as a motivating factor or a reward for all employees, or are different functions built to require different amounts of autonomy? These are examples of some of the questions related to this future research topic. The understanding gained through further research would advance both the autonomy- and sourcing-themed dialogues in the existing literature.

To summarise the findings for further academic discussion, sourcing presented itself as a fairly autonomous function in the studied companies. The employees in the function possessed limited rights to self-governance as long as the objectives, mainly savings, were delivered. They also had some influence over the functional objectives, as these were not purely top-down driven but were under review during budget and forecast routines. The amount of autonomy was perceived to be higher in sourcing than in the companies’ other functions. Autonomy was highly valued in sourcing and was seen as performance enhancing as well as necessary, to a certain extent, to operate at the interface between the companies and to perform successfully in buyer–seller relationships.

RQ2b: How satisfied are the employees with the autonomy granted through management control?

This research provides the literature on management control with a descriptive analysis of the case companies regarding the co-existence of autonomy and control. In general, formal processes, such as policies, rules, and procedures, are part of MCS, and they are used to provide structure, predictability, and clear actionable steps to follow (Malmi & Brown 2008), which is necessary to some extent, especially in large corporations. All the studied companies had some processes in place to control and guide the actions of its employees. The results of S1 imply that the employees were satisfied that there were processes to provide structure, without an excessive amount of bureaucracy or scrutiny regarding their functioning. In essence, processes were
required to provide a feeling of safety and support when needed rather than as a step-by-step guide on how to perform. This finding is in line with the optimal planning process description of Merchant and van der Stede (2007, p. 345). They used an example of budgeting and stated that a process should avoid minutiae; furthermore, it is ideally used to save time by providing guidelines and ensuring that the necessary steps are taken while providing the freedom to adapt the process to suit the management style and culture.

The results of S1 indicate that, compared to the processes, measures and monitoring played a more prominent role in guiding employee actions towards profitability. However, the role of monitoring as a driver of actions was not particularly strong in sourcing. This was most likely because, although measures and monitoring were perceived as important, they were not considered to be as important as having autonomy. Alternatively, the control itself was perceived (and perhaps also intended) as loose, and hence, its impact was not particularly strong. However, the perception of measures and monitoring seemed to change with experience: As the employees gained more experience, they became more aware of management control. This could be related to the results indicating an increase in the importance of autonomy as the employees’ experience increased. This connection may arise from how control can diminish the perception of autonomy (O’Grady 2019); hence, if control is influencing autonomy, it is more easily noticed by those who perceive autonomy to be more important. Notably, in sourcing, the used measures were well known, and the studied employees were highly motivated to achieve the set objectives, which could be because they were allowed to choose the means to achieve the objectives. However, the most prominent objective, cost savings, was seen as a gatekeeper of autonomy in the function, which meant that the employees worked towards it to earn their freedom of choice. Thus, it might have been the measure and the reward that actually led to the achievement of the goal rather than the monitoring that drove the actions.

The aspect that engendered the most dissatisfaction regarding measures and monitoring was the lack of prioritisation, which was also a potential cause for confusion and conflict. This was somewhat expected: Prioritisation is difficult because the constant nature of priorities does not suit the dynamic nature of doing business. One way to approach the problem is to always openly prioritise the objectives and the related measures that are falling behind and to communicate the method within the organisation to avoid dissatisfaction due to the confusion caused.
by the changes in the focus. Notably, in case a desirable performance level and system stability are met in a company, the lack of prioritisation can be argued to be a consequence of providing a minimal structure combined with a high degree of autonomy (see Keating & Katina 2019; van der Meer-Kooistra & Scapens 2008).

According to the study, having autonomy was highly valued in sourcing. However, at least one downside of autonomy was also recognised, namely the desire for a systematic and official project structure (similar to that possessed by R&D). Such a structure would provide sourcing projects with a more official status in the organisations and would thus ensure the needed resources as well as smoother cross-functional progress. As an official status and strict structure in implementing sourcing projects would limit the freedom to choose and operate in purchasing, it is important to strategically manage the balance between autonomy and structure to maximise employee performance and satisfaction. The current situation in the studied companies, in which autonomy over formal structure was granted through management control, had created satisfaction among the sourcing employees. This is in line with Deci and Ryan (1987); according to the authors, an autonomy-supportive environment promotes positive qualities in employees.

These results have been utilised to form the following future research topic: Future research should examine whether (and how) promoting autonomy more than tight control through MCS yields better performance in sourcing projects. This future research topic is based on how, in this study, autonomy was indicated to have positive impacts on purchasing performance, and in addition, it prevailed over a more structured (or tightly controlled) approach in sourcing projects. Sourcing projects seemed to be lacking tight control in terms of a high degree of assurance and follow-up in the sample. This engendered a situation in which sourcing projects had minimal structure (van der Meer-Kooistra & Scapens 2008) and a high degree of autonomy (Keating & Katina 2019). In essence, the autonomy of means was present within projects, allowing the employees to choose the means to deliver results, while an external project structure to, for example, present progress or report milestones was kept at a minimal level. Further research on this topic would help gain an understanding of whether the situation encountered in the sample, in which sourcing projects had a loose control, minimal structure, and high autonomy, is common or exceptional and whether it is beneficial from the business perspective. Researching this topic has the potential to aid in the better utilisation of MCS in managing sourcing by creating the right environment for success. This future research topic
has been limited to sourcing projects and considers non-routine work, such as negotiations or resourcing, as projects in the function. This limitation has been chosen as project-type work can be argued to create the biggest portion of value in sourcing. By studying this topic, knowledge can be extended at the crossroads of management control, autonomy, and sourcing. Hence, this topic would continue directly in the footsteps of this study.

Overall, the results suggest that having autonomy in sourcing can be viewed as a positive and performance-enhancing factor that increases employee satisfaction. Autonomy should be coupled with measures and monitoring that show direction and progress and set guardrails while allowing employees to choose which actions to take to achieve the functional goals. Savings have been highlighted as the driver of sourcing; this can easily direct focus onto short- to mid-term achievements, which, in turn, can lead the function to perform suboptimally in the long term. This is because sourcing creates value by creating long-term strategic partnerships (Chen et al. 2004), which can suffer if not managed properly while focusing on short-term objectives.
This chapter summarises and concludes this research and its key findings. The contributions of the study are discussed from both academic and practical perspectives. Following this, a critical evaluation of the limitations of the research is presented. Finally, suggestions and guidelines for further research are offered based on the future research topics generated from the research results and their analyses.

6.1 Summary of the main findings of the research

This research has attempted to examine the appearance of profitability management and employees’ perception of autonomy in sourcing. This objective has been pursued by designing a study, which has deepened the knowledge and provided an understanding of the subject by interconnecting the underlying themes of profitability management, sourcing, and autonomy. As there is scant prior research on this topic, a thorough theoretical groundwork has been laid in terms of defining the concepts and creating a theoretical framework to illustrate how profitability is managed and the role of autonomy in this equation. Furthermore, a descriptive study was conducted, with a rich data set collected from selected Finland-based companies operating in the manufacturing industry. The total sample included data from eight companies, two of which were separate business units of the same corporation.

To describe the characteristics of profitability management and autonomy in sourcing, four RQs have been set based on the theoretical framework (Figure 17). This framework forms a link between an organisation and the individuals working in it. In addition, the framework demonstrates the two perspectives, which are present when analysing business organisations – individuals (micro) and organisations (macro). In particular, the framework of this study illustrates how management control is utilised to drive business outcomes and how individual employees take actions based on their perception of the said controls. This research studies profitability management, which is a management process focusing on profitability and hence the related management controls are being examined. In
addition, this research focuses on autonomy in organisational setting, which is the individuals’ right to choose and take independent actions even with the presence of management control. Thus, the unit of analysis in RT1 is at the organisational level, and this shifts to individuals in RT2 on autonomy. This unique setup has enabled the research to study the individual perception of autonomy and connect the contribution to a wider, organisational context. The RQs have been answered with the data collected through a total of 52 interviews and a survey with 40 individual respondents. In the following sections, the main findings for each RQ are outlined.

**RQ1a: How does profitability management appear in daily operations?**

The first RQ explores how profitability management appeared in the daily operations of the studied companies. The study found contrasting situations between the studied SMEs (IP2) and Case Company A (IP1). In the SMEs, all the interviewees were involved in profitability management by having the related goals and objectives extended to them. They also had regular and inclusive discussions related to the current state and progress. In essence, profitability management concerned everyone in the SMEs. Conversely, this was not the case in the studied subsidiary of an MNC (Case Company A), where the focus was on the efficiency of cost management rather than on profitability management, which remained a distant corporate goal with minimal direct effect on daily operations.

**RQ1b: What kinds of controls are used in profitability management?**

For this RQ, the main findings concern the measures used and the differences in these between the studied companies. In the SMEs, profitability was measured at the company, product, and customer levels, and these measures were made visible through a monthly review process. In contrast, in Case Company A, profitability appeared mainly as a business case approval metric. These comprised a rather wide spectrum of control and revealed the variability among these different types of companies.

**RQ2a: How is autonomy perceived by employees in sourcing?**

Regarding autonomy, the main finding is that autonomy and the autonomy of means in particular were perceived to be very important aspects in sourcing. In addition, the importance of autonomy seemed to increase as the employees became more
experienced. The employees also indicated that autonomy led to further positive outcomes, which are further explained later in this chapter.

**RQ2b: How satisfied are the employees with the autonomy granted through management control?**

In the studied companies, the current situation was regarded as satisfactory in terms of the autonomy of means being combined with the guardrails set by measures and monitoring, codes of conduct, and ethics. These provided a minimal structure in sourcing while ensuring system stability and performance from the company’s perspective. This arrangement can be regarded as effective, as no management resources are wasted through overconstraining.

Overall, the research presented in this thesis can be judged to have met its objectives of deepening the understanding of profitability management and contributing new findings to both academic and practical discussions by exposing the differing ways to manage and control profitability. The same applies to the role of autonomy as an enabler of business performance, as autonomy has proved to be an important aspect in managing sourcing.

**6.2 Contributions to the existing knowledge**

This dissertation has explored a novel combination of themes: profitability management, sourcing, and autonomy. The research has been designed to primarily describe the area of interest rather than to address a specific research gap in the literature. Therefore, in setting the RQs, critical thinking has been used to connect the themes and, thus, expand the knowledge and understanding regarding the area. In addition to the main findings answering the set RQs, the research has provided further contributions to academic discussions. The study conducted was descriptive by design, allowing it to reveal the characteristics of the selected RTs and explain them through the chosen perspective.

First, the understanding of profitability management has been extended with this research. It was found that, in the SMEs, the majority of employees were involved in profitability management, whereas in the subsidiary of an MNC, profitability was a distant corporate goal. Similarly, the controls related to profitability considered multiple perspectives (company, product, and customer) and were under tight
control in the SMEs, whereas in the studied subsidiary, the controls were few and only related to business case approvals. Furthermore, there was an indication that informal controls were used to control profitability. Notably, the contingency theory is well established in the MCS literature, and the findings of this research can be reflected on earlier studies (e.g. Chenhall 2003) by highlighting the differences between the SMEs and the subsidiary in terms of profitability-related management control. This context-related contingency factor (subsidiary versus SME) includes the size and organisational structure of the companies (earlier examined by Chenhall 2003) and could offer avenues for further research regards its relationship with profitability management.

Regarding financial responsibility centres (e.g. Merchant & van der Stede 2007), a new perspective is offered as this research suggests that by including an individual perspective to studying the topic, new insights could be acquired. These insights could broaden the understanding by revealing how perceived management control impacts outcomes of an organisation. In addition, adding an individual perspective, would allow a more holistic understanding of the impact of the assigned financial responsibilities such as cost, profit, or revenue. Regarding this, it can be argued that how profitability was managed in the studied subsidiary could lead to suboptimisation and that the MCS could thus be better optimised in terms of profitability management. Regardless of the cost-centre identity encountered in the studied subsidiary, more direct and visible profitability management might offer a possibility for wider employee commitment through, for example, extending controls from efficiency-related measures to more holistic ones. A more holistic set of controls could gear the perspective of employees towards understanding the financial situation of the underlying business rather than improving efficiency in a few particular areas.

Notably, the strategic intentions related to the studied business units impacted the context in which the observations were made. Considering this, the utilised individual perspective as a unit of analysis offers a complementary point of view to the considering organisational level analyses. For example, literature related to strategic fit between a parent and its business (Goold et al. 1993), parenting styles (e.g. Nilsson 2000) or connection between company strategy and MCS (Kald et al. 2000) could gain new insight could from including the utilised perspective of individual employees since, typically, the perspective of the organisation is assumed. Even though combining the two perspectives in a single framework can be
challenging, the individual perspective utilised in this research offer relevant notions regarding, for example, employee motivation or performance related to different strategic fit, parenting styles or MCS design. By studying both the organisational and individual level a more holistic understanding can be formed as the intended management control can differ from the perceived one.

Moreover, although the literature review determines sourcing to be in a strong position to influence profitability, no functional-level profitability measures were presented during the interviews (IP1/IP2). However, profitability was heavily influenced by informal controls within the organisations observed in IP2. The identification of the existence and even prominence of informal controls in profitability management supports the existing literature (e.g. Lukka, 2007; Wouters and Roijmans 2011), which has shown that informal controls are used to support the formal set of controls. During the SME interviews, the risk caused by relying on informal controls was noted in case the importance and essence of profitability were not well understood by employees, which could lead to short-termism and, consequently, lower the long-term profitability. This is in line with Marginson and McAulay’s (2008) claim that organisational as well as individual factors act as determinants of short-termism. In general, the employees valued the understanding and knowledge regarding the financial situation of the underlying businesses, and profitability management could be a more visible theme, especially in sourcing, given the function’s significant influence on it. Finally, some surprising findings were obtained regarding profitability management: Profitability management was strongly personified in the CEOs, whereas the owners’ and the board of directors’ roles were seen as rather passive.

Second, autonomy has been explored as a cross-sectional theme; this approach facilitates an understanding of its appearance in an organisational setting and as an enabler of business performance. In the studied companies, autonomy and the autonomy of means in particular were identified as very important aspects in sourcing. In addition, the employees were satisfied with the prevailing situation, in which they possessed this type of autonomy. The autonomy of means was perceived as particularly important, and the employees felt that it increased performance by allowing decision making regarding from where and under which conditions to source; this, in turn, was indicated to increase negotiation power with the suppliers. Regarding the main objective in sourcing, cost savings cemented its position, and its existence was not even questioned. Autonomy was granted to sourcing as long as
the targeted cost savings were delivered. Autonomy was viewed as having such a key role in sourcing that it can be regarded as a requirement for obtaining optimal results in the function. In addition, autonomy was identified as a driver of motivation and performance in sourcing; this supports the motivational concepts from the SDT and the related recent studies regarding employee performance (e.g. Baard et al. 2004; Deci & Ryan 2008; Stone et al. 2009). The findings of this study are topical as they indicate that it would be nearly futile to further discuss or study sourcing management without taking autonomy into consideration. In general, the results of this study can help better define and study the somewhat elusive variable of autonomy in the future.

6.3 Managerial implications

With data gathered via interviews and surveys from a variety of companies, the orientation of this study is also practical; thus, the results should also have managerial value, as presented in this subsection.

Understanding one’s environment and one’s role in it can be considered to hold intrinsic value. This is also true for business organisations, which are the subject of this research and for which the basic theoretical understanding of management, control, and motivation have been investigated. This understanding can be utilised not only to better perceive one’s own actions as a manager but also to take better actions and be able to anticipate their results. This, in turn, can shorten the learning curve of a new manager or fine-tune the expertise of more experienced ones. Essentially, this research can help managers better understand their work from a theoretical perspective, which can be argued to be helpful in practical work as well.

The enhanced understanding of profitability management offered by the results of this research can help business managers critically evaluate their choices in this area. Are the profitability management practices of a business designed to be the way they are, or are they just the result of a series of largely unplanned separate actions? Could they be changed for the better in any way? These are the types of questions that may arise when analysing a company’s existing practices. More concretely, managers could evaluate whether their business would benefit from even more visible and prioritised profitability measures since, in this study, the measures currently in place in the studied companies were generally valued by their employees. Regarding this,
the results have also shown that the perception of measures and monitoring may change as the employees gain more experience. This could be considered when planning the management control for a certain team or an individual. Further, it may be worthwhile to evaluate whether the existing profitability management practices suit the current situation and environment of the business in the best possible manner.

Sourcing managers should consider whether emphasising the function’s role as a powerhouse of profitability is useful for either the internal discussions within the business or the managerial work within the function. The former can increase the understanding of the function’s importance for the business, while the latter can help the employees in sourcing better understand their role in the business, thereby increasing motivation. Both of these options could be argued to increase business performance.

To grant autonomy in a for-profit business setting, it is imperative that the autonomy generates benefits for the business as well. This can be assumed to be true, as several businesses have opted to grant a certain level of autonomy to their employees. The question is more about the amount of autonomy to be allowed, as well as to whom it should be granted. The results of this research indicate that, in sourcing, the autonomy of means increases performance and the negotiation power in supplier–customer relationships. In contrast, a lack of autonomy can lead to suboptimal results, as having autonomy is linked to better-informed decision making, for example, regarding suppliers. Thus, the autonomy of means should be a strategic part of sourcing management, and to increase its efficiency, operative guardrails set by management control should be implemented as well.

In general, autonomy in decision making can be considered to encourage individuals to think and evaluate the options more carefully. This could lead to, if not better, at least better-planned decision-making processes. However, to perceive autonomy, genuine options must be available in the decision making. This should be considered when setting up the guardrails through control. Notably, in sourcing, the options can be somewhat limited, as finding and onboarding new suppliers from a relatively small group of available businesses would naturally be restricted. Nevertheless, in the studied companies, autonomy and its benefits were recognised and appreciated in sourcing.
People are different, as are their need and appreciation for autonomy. This underlines the fact that obtaining the maximum amount of benefit from autonomy requires management to have a holistic understanding of employees so that it can place the right people in the right positions and provide them with human-centred management. In essence, managers need to understand which type of people are suitable for sourcing, a function in which the value added is created through long-term relationships that are built and fostered in a relatively autonomous manner through a series of meetings, encounters, and negotiations. This research suggests that employees in sourcing may benefit from an entrepreneurial spirit, as the goal-oriented and autonomous environment correlates with relatively loose oversight and a requirement for long-term planning and strategic thinking. Conversely, strictly defined processes, bureaucratic project structures, and/or step-by-step instructions are unlikely to lead to high-performing sourcing teams, as people who appreciate autonomy and its benefits may not strive to do their best in overly restrictive and controlling environments.

6.4 Limitations of the study

Every research project has its strengths and limitations. These typically stem from the choices made while planning and conducting the research. The current research is no different and has a number of limitations. This subsection does not discuss all of them, instead concentrating on those that are important to the quality of the research or its ability to answer the set RQs. The study evaluation itself could be performed in several ways, but typically, at least the validity (internal and external) and reliability of the research are assessed (Gummesson 2000).

External validity, or generalisability, refers to whether the outcome of the study is applicable in other settings (Gummesson 2000, p. 187). Typically, generalisability is considered an inherent issue with case studies (Westbrook 1995). This also holds true for this research, in which the multiple embedded case study approach was utilised. However, both qualitative and quantitative data were sought from multiple organisations in an attempt to alleviate this issue. However, an argument can still be made that the results specifically reflect the characteristics of the organisations that were observed. As this is true, the results have been used to form topics for future research, which can be further tested with larger and more general samples. These topics should be tested in a wider context, as this study was conducted only in
companies operating in Finland, which can be seen as a limitation regarding the generalisability of its findings.

Internal validity in research refers to establishing causal relationships through the gathered evidence, and this considers how well any alternative explanations can be ruled out (Yin 2009, p. 34). As a variable, internal validation is not particularly relevant to this study, which is descriptive by nature and does not aim to establish any particular causalities. For more naturalistic studies, such as case studies, credibility is proposed as a substitute for internal validity in terms of determining the trustworthiness of the study (Guba 1981). Credibility refers to demonstrating a truthful depiction of the phenomena being observed and is achieved when the findings are believable from the subject’s perspective (Shenton 2004). During this study, measures were taken to ensure credibility when the data were gathered. These measures are presented in the section on data and methods and include, for example, prior familiarity with the subject organisations, triangulation of the data-collection methods, and debriefing sessions to align the interpretations. Owing to these measures, it can be said that the findings are credible in describing the characteristics of the studied phenomena. It can be argued that the study should include more cases or interviews on specific subjects, such as an additional company acting in a subsidiary role to validate the related findings. However, finding the right balance is always difficult, as the resources to complete a research project are often limited. Upon reviewing the data obtained, there are at least two aspects that could have been handled differently in this research to mitigate its limitations. First, the survey could have focused more directly on the subject studied in this research, as the one actually used contained a significant number of questions related to other studies as well. Second, profitability could have been considered in a more direct manner while planning the questions for the survey. These changes could have provided an even more solid foundation for the findings.

Reliability refers to the extent to which a study can be reproduced with the same results (Yin 2009, p. 34). Furthermore, reliability can indicate whether the data used can be relied upon (McKinnon 1988). Reproducing case studies can be seen as inherently complicated as organisations change over time, and thus, gathering the same data set tends to be improbable. Moreover, there is always an impact related to the researcher’s intervention, which influences the results. These two limitations apply to this study as well. However, measures were taken to ensure the reliability of the study. For example, multiple data sets were used to confirm the findings, and
they were thoroughly discussed with researcher colleagues to avoid any personal biases. Nevertheless, to fully overcome the limitations related to reliability, similar studies should be completed in the future.

6.5 Suggestions for further research

As this research explores novel ground, it has also sparked ideas for further studies. When looking at the research from a broader perspective and in hindsight, the study offers additional platforms for further studies. For example, further research is needed to study autonomy and the related benefits from the perspectives of employees, middle management, and top management in a single case company. This would facilitate an understanding of how the intended management control and granted autonomy are perceived through the chain of command. A single case environment would also enable a comparison of the possible differences between the intentions and the perceptions at the different levels of an organisation. This would make it possible to further connect the themes of profitability management and autonomy.

In addition, this study has engendered more detailed RQ-specific ideas for further research, which have been presented in the form of future research topics in Chapter 5. These emerged as points of interest during the study, but no conclusions regarding them could be drawn due to the small sample size or limited data. Nevertheless, they are worthy of further research to determine whether or not they hold true. The four future research topics are listed below:

1. Employee perception of the roles of different internal stakeholders in profitability management
2. An understanding of the current state and development needs of profitability management in the subsidiaries of MNCs
3. The autonomy granted to sourcing compared to that of other functions
4. The performance consequences of promoting autonomy more than tight control through MCS in sourcing projects

The first two of these topics concern profitability management; although many of its facets have been revealed during this research, further understanding is needed. The first topic stems from an interesting finding from the data collected during IP2.
The CEOs were perceived as the main stakeholders in the studied sample; however, further research is needed for two reasons: (a) the small sample size and (b) the significant difference in terms of importance compared to the other major stakeholders (executive teams, owners, the board of directors). In one of the companies in particular, the shareholders had a surprisingly passive stance on profitability management. More research is needed to discover whether this particular case is typical or atypical, as profitability is currently understood to be first and foremost in the owners’ interest, although its operative management is in the hands of CEOs and executive teams. As this finding is contradictory to the current conception, further studies are needed to understand how employees perceive the different roles stakeholders have in terms of profitability management and to determine the factors influencing this perception. It is recommended to integrate the company’s context into such future studies, as there could be differences based on elements such as the company’s size, age, or strategy.

The second topic for future research involves the connection between a subsidiary and an MNC. The results of this research suggest that subsidiaries do not use corporate profitability measures as a part of their management control, and the topic seeks to not only validate this further but also understand the current state of profitability management in subsidiaries and whether it requires further development. For example, based on the encountered case, including corporate profitability measures in the MCS of subsidiaries may yield performance benefits. The idea is that by highlighting and focusing on the common goal of profitability, a corporation could minimise suboptimisation in subsidiaries. By further studying this topic, insights into profitability management in a global organisation could be acquired, and the roles and incentives of subsidiaries could be better understood. Differences in corporate parenting styles and strategic intentions should be taken into account when planning studies on this subject, as these are likely to impact profitability management in subsidiaries.

The third topic for future research concerns autonomy. Interestingly, in the studied organisations, sourcing perceived that they had more autonomy compared to the other functions, and this notion should be further explored. Notably, as this research has observed the situation only from the sourcing perspective, the results need to be validated with a more varied sample. Nevertheless, in case sourcing actually holds more autonomy, it would be interesting to understand the underlying reasons – for example, if autonomy is granted to sourcing to enable performance, if it is used to
motivate, or if it is employed as a management tool. Understanding why sourcing is more autonomous compared to other functions, as well as the benefits of this, would advance the related discussions from both managerial and academic perspectives.

The fourth and final topic for future research connects autonomy and MCS. The aim is to direct further research towards the interesting observation that sourcing projects had loose control combined with a high degree of autonomy. The question regarding this issue was somewhat ancillary in S1; hence, more rigorous research on the topic is required. Understanding whether loose control combined with relatively high autonomy is the right approach to executing sourcing projects will help sourcing managers better utilise MCS and, ultimately, obtain better results. It is also academically relevant to understand the relationship between autonomy and control, how it affects the actions taken, and, ultimately, performance in sourcing.

Overall, this research has yielded several interesting insights into the fields of profitability management, sourcing, and autonomy. By pursuing the opportunities thus revealed, academic discussion as well as industry practitioners can benefit from the new knowledge and understanding accumulated via this study as well as forthcoming studies.
REFERENCES


Appendix 1. General structure of the interviews conducted as a part of IP1 and IP2

Overview of the interview structure in IP1
- Background information of the respondent
- Description of the respondent’s own function and role
- Key resources in terms of function and role
- Key roles and responsibilities in terms of function
- Key resources and responsibilities of the subsidiary
- The subsidiary’s role in the parent company
- The subsidiary’s financial and market performance
- The subsidiary’s strategy and value promise
- Goals and objectives as well as the measures used
- Influence of measures and monitoring
- Role of the supply chain and impact on subsidiary performance
- Amount and type of suppliers and their categorisation
- The subsidiary’s role as a customer

Overview of the interview structure in IP2
- Background information and current role of the respondent
- Main role-related drivers for improving profitability (profits, costs, volume, assets, etc.)
- Profitability as a theme in the respondent’s company
- Responsibilities related to profitability management
- Ways to manage and control profitability (formal/informal)
- General and role-specific ways to influence profitability
- Current state of control and the basic elements of control
- Current state and prioritisation of goal setting and KPIs
- Operational and financial development of the business over the past five years
- Importance of and satisfaction with different stakeholders in terms of profitability management
- Importance of and satisfaction with different types of information and processes in terms of profitability management
- Quality of profitability-related data in the company
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<th>Question</th>
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Profitability Management as an Enabler of Business Performance Through Employee Autonomy in Sourcing

JAAKKO SUNDBERG