

# Leadership change: A case study analysis of strategy and control systems development

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**Abstract.** This paper reports on how a change of leadership at the CEO-level influences strategic practices and control systems development. The case study describes how the new chief executive developed and communicated his vision and strategy through control systems and structural change. The findings indicate that senior employees' involvement in strategic plan development (through SLT mechanism in this case) brought clarity and assurance to them. Meetings are important control mechanisms to structure the sharing of information and to enhance employee commitment and help decision making. It is argued leadership manifests through the interactions of leader with employees in many control practices. The findings have implications for family-owned businesses that are facing imminent change in leadership. They benefit founders/top managers that are about to change leadership of entrepreneurial firm to the next level by highlighting the importance of preparing leader's capacity for an effective leadership role. The study also highlights some important factors which are seldom discussed in control theories.

## 1 Introduction

Research on leadership role in accounting has started since 1980s especially in budget process (see e.g. Brownell, 1983; Kyj & Parker, 2008) and the more recent works are by Abernethy, Bouwens, & van Lent (2010). Unfortunately, despite the growing interest in the topic, we do not see much investigation been done in developing economies such as Malaysia. With the exception of Abernethy et al., these studies only examine leadership styles influence on specific accounting tool such as budgeting (e.g. Brownell 1983; Chenhall, 2003). They also viewed leadership from typology perspectives which limit the understanding of the relations between the two concepts.

The present study attempts to fill the gap by examining leadership role and control systems in a Malaysian company using case study to increase our understanding of the subject as a whole [1]. The study stems from an interest in control systems development after the change in top leadership of a family-owned business. The initial question arose was: *what influence does leadership change have on the strategy and control systems development?* We reviewed the literature on leadership and accounting to explore the leadership role on the organizational design. Further questions emerge as to how leadership change manifests in an organization; and how it interacts with other contextual factors.

This paper is organized as follows: the next section presents the concepts on which the study is based. This is followed by a description of the study method and the case company's background. The findings are then presented followed by a section on discussion and limitation. Conclusion is provided in the final section.

## 2 Leadership and Control Systems

In general there are two opposing views of leadership. The first strand argues that leaders through their visions and strategic actions are able to affect firm's performance. It is well accepted that top management has the power and authority to dictate structure, set direction and targets, and implement formal controls to monitor implementation.

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CEOs and top management decisions have crucial implications on firm outcomes and “ultimately they account for what happens to the organization” [2]. The other view argues that top leaders could not do much due to the constraints as characterized by industrial forces and culture that act as inertia [3]. However, our understanding on leadership change and its influence on the particular changes brought is not well documented. Research on CEO-level management has drawn on transformational and transactional leadership framework [4]. Bass (1990) argues that behavioral tendencies of leaders influence how they use controls. In accounting literature the typology frequently used for examining leadership is of Stogdill & Coons, 1957 (see Abernathy et al., 2010; Otley & Pierce, 1995; Brownell, 1985). Under this typology leadership styles can be conceptualized into “initiating structure” and “consideration”.

The theoretical and empirical literature, as discussed above, highlights the importance of CEO leadership styles and control systems as a means of communication and control play important roles in organizations. However, what is lacking is the limitation imposed by examining leadership using typology in relations to strategy and control systems (see Western, 2013 for a critical review of leadership) [5]. Beside behavioral traits and tendencies what other aspects influence how a leader effecting change. What would be the focus of the new CEO when he attempts to introduce change? How the important elements interact to support the change?

### **3 Case Study Approach**

To understand the leadership change and the influence it has on strategy and control systems development requires an in-depth study such as using a case study method. To this end, the study aims to examine the subject as a whole in its context. In this study leadership is viewed as behaviors of the leader in introducing changes and his related actions in the context of events. These involve interactions with and reactions to managers and employees. Hence, leadership is not broken into types based on a set of skills or competencies or to a particular way of being

#### **3.1 Case Study Company**

The case study company, MProp Group<sup>2</sup>, which involved in property development business, provides a valuable research site for two reasons. First, it is a private company which involves in only one business hence, the complexity of ownership and structure is not too complicated. This provides an opportunity to examine the direct impact of leadership change at the top level introduced by the new leader on the organization. Second, the organization also provides a unique research site to examine strategic change because past research has shown that chief executive succession brings greater organizational change [6].

The research design was planned to capture the change that has taken place during the first year of the new CEO tenure. The data gathered was of three types – interviews, direct observation, and documents. Interviews were conducted with the new CEO himself, three chief operating officers (COOs), one CEO of a joint-venture company, who was the ex-COO of MProp Group under the founder, one general manager (GM) of Operations, and two heads of department. The interviews with subordinates provide information to interpret the nature and magnitude of change. The interviews were recorded and lasted between one to one and half hours conducted at the case study company. Company documents and public data such as business press coverage are also used to corroborate and cross-check sources. During the data collection we were invited to attend one full session of SLT meeting where two of the researchers managed to involve. The direct observation during the meeting provides invaluable insights for the two researchers.

### **4 Findings**

This section presents the findings from the case study that illustrates the antecedents, changes introduced by the new CEO and how he designs and uses control systems to direct and empower his managers.

#### **4.1 The New CEO and Vision**

In 2009 MKTS, the founder of the company, mentioned in one of interviews with media about a new CEO’s taking over the helm of MProp Group gradually. The successor is his own son, Alif, who has successfully lead and completed two significant projects worth over RM600 million. Alif in the sense is not new in property development industry and has been accumulated experience and continuing.

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<sup>2</sup> This is a pseudonym of the real company. Throughout the case the authors also use pseudonym for the individuals mentioned in the case.

As a qualified, young, and the only son<sup>3</sup> of the company's founder, Alif, the new CEO brings knowledge, new aspiration and hope to MProp Group. Having graduated with MBA from one of Australian universities, he is quick to share his goal: "30 years from now MProp Group will achieve global property footprint, the brand with a worldwide reputation for developing projects across the region. It will be customer-centric organization with customers being pivotal in everything we do".

Previous to that he spent several years working<sup>4</sup> in KProp Land Holdings Bhd, a public-listed property company where MKTS is among the major shareholders, focusing in the area of finance. It was in 2012 that he became the CEO of the MProp Group of companies. He still remains active in the running of his private company and also sits on the Boards of several other property companies. He believes in the importance of having core values that guide daily interactions with employees and customers. For example, he mentioned about making employees understand their role and contribution to not only company but society. He described:

"Once there was this customer – a contractor involved in the MRT<sup>5</sup> project - who rented some office space in one of our buildings. So I told my employees: 'if our client is happy you guys have actually been part of a national project' ... I told them they were contributing to the nation."

He related the company's service to the contribution to the nation. In doing so he extended the definition of company's role (thus, his role and employees' roles) and give meaning to it – matching company's mission to that of the nation. The new CEO's concern is to set a new direction – "to bring [the company] to the next level". Based on our analysis the three main themes that appear from the data are the changes that he makes in the first year after taking over which can be categorized into three – strategy, structure, and control. These changes are driven greatly by his vision that first translated from a training session lead by an external consultant.

#### **4.2 Strategy**

The new CEO brings with him a new vision to the MProp Group which guides the formation of the company's strategy. The knowledge and skills gained through education and experience in previous organizations, as discussed in previous section, may to a certain extent shape his perspective. For example, it was revealed in the interview that the company had a formal process of SWOT analysis lead by an expert from the university he graduated. This has resulted in a formal 10-year strategic plan of MProp Group. Apart from training, the output of the session has become the major input for the formulation of its business strategy resulting in two immediate decisions that the company saw as important in order to create value to the company.

First was the branding exercise which goal was to differentiate MProp Group from the public-listed company, KProp Land Bhd. In line with the branding exercise, the new chief executive has initiated a shift of focus to giving more value to the company's products and customers. He wants employees, regardless of their functions and levels, to understand what a product and service (e.g. a unit of apartment) means to customers. The customer-centric initiative is captured in the company's 10-year strategic plan document. For example, an "ambassador program" was introduced to enhance customers' experiential satisfaction. He explained:

"We want to create joy from the experience of owning great properties. So this tagline or the core purpose is something that is very important for me and very important for everyone who works in MProp Group."

The new CEO also was aware that the employees who have involved in the ambassador program talked among them about the excitements. This he believes creates wave of excitement to other employees who have not involved. MProp Group does reinforce the employees by publishing their stories in company's publication and announcing their names in company's event. In this way, the new CEO sends a strong and consistent message to employees about what is important to the company.

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<sup>3</sup> The founder has another three daughters who are involved in other associated companies both public and private in different capacity such as board members.

<sup>4</sup> He worked at the senior management position from 2002 to 2005.

<sup>5</sup> Mass Rapid Transit Corporation Sdn Bhd ("MRT Corp.") is a company wholly owned by the Malaysian government established by the Ministry of Finance to facilitate, undertake and expedite public infrastructure projects approved by the government.

In line with the shift to more product-and-customer focus, the marketing activities also have undergone some changes in its business practice. The marketing function comes under the purview of COO (Operations & Sales) and it recognizes the importance of targeting at specific segment. The COO, Azrita explained:

“Previously product exposure was considered less important and the focus was more on corporate communication. [But] marketing activities are now being outsourced to get optimum impact on sales.”

Based on the 10-year strategic plan, MProp Group has started to think its market beyond domestic. It has plans to spread its wing into neighboring countries in 2016. In its early analysis of venturing into international markets, countries such as Indonesia, Myanmar and Sri Lanka were under its radar before finally selected Indonesia to start with. This important step reflects the real intent of MProp Group to compete in international market. This comes from the new CEO’s vision, as stated earlier, to build worldwide reputable brand across the region.

#### 4.3 Structure

For analysis purposes, we categorize MProp Group’s structure into three eras – the founder’s era, transition, and the new CEO’s era. During the founder era he had only a COO who was PT and all the GMs of operations. As part of the succession planning, PT was made a business associate and holds a certain stake in a joint-venture company JF Star Sdn Bhd. During this period Azrita was appointed as a COO and to support her in the technical area a position of deputy COO was created.

In the 3<sup>rd</sup> quarter of 2012, just after a couple of months of his appointment as the new CEO, Alif changed the company’s organization structure to streamline its business process. Under the new three-COO structure, the COO (Operations & Marketing) focuses on the overall running of all operations companies whereby the respective GM has to report directly to her. The other two COOs (Finance and Project Management & Business Development) act as support services departments. A new post of COO (Project Management & Business Development) was created to provide technical service and coordinating projects. It seems that the new CEO wanted to introduce more functional responsibility at the top to support him in managing and making decision. This contrasts with what the founder’s management style as remarked by PT<sup>6</sup>, the ex-COO:

“[MKTS] called the shots. He decided on things ... just direct ... [and] we had to conform. The son is more open in the sense that he does source for opinion from the management.”

Being the founder, MKTS made almost all the decisions and has made himself as the focal point in the process. This is not uncommon in an entrepreneurial firm in which locus of decision-making and control lies with the entrepreneur [7].

#### 4.4 Control

The new CEO gives more attention on how to get information from his senior managers. In line with the structural change the new CEO has introduced some change to the control systems design features by implementing a number of formal periodic meetings. The goal is to have proper platform for the CEO to get timely report and managers to communicate information effectively. The types of meeting and participants are summarized in Table 1.

**Table 1** Types of formal periodic meetings

Meeting	Participants	Frequency	Scope	Main topics
COO	CEO, All COOs	Weekly	Company	
SCORE	CEO, COOs, corporate dept heads, all GMs of Operations companies	Weekly	Company	
SLT	CEO, COOs, corporate dept heads, all GMs of Operations companies, CEOs of associated companies	Monthly	Company	Discuss and debate opportunities and strategic priorities; learning/training using case study (question ideas)

<sup>6</sup> PT was the longest serving employee of MKTS which goes back to the early days when the founder started his business. As part of the succession planning, PT vacated the COO position and was made a business associate of MKTS. PT currently holds some stake in one of JV companies, JF Star Sdn. Bhd.

CCM (client-consultant meeting)	COO (PM & BD)	Weekly	Project	Technical and design issues with consultant/architect
Site Meeting	CEO, COOs, GM of the particular operations company	Weekly	Project	Construction progress and technical issues with contractors
COO-CEO meeting	CEO and COO	As needs arise	Company	Informal way of catching up with each other

It is evidenced from the data collected that the meetings have become important control mechanisms to support the strategy implementation. SCORE meeting is a weekly meeting where all COOs and GMs of operations companies have to attend. It is observed that the SCORE meeting has induced a different effect on the GMs. They are now made to listen to other projects and also have to report theirs in the meeting. This expectation of the new CEO has actually forced the GMs to give attention to what is going on in other people's project. The new CEO mentioned about allocating 15 minutes making the rounds among the meeting members sharing customer-related issues they encountered. He termed this as "stories on customers". He uses this interactively to bring managers' attention to customers' issue.

The most striking is the SLT, a monthly meeting attended by all department heads, which has been perceived by several senior managers as a very good avenue to allow middle-level employees to contribute. The interesting fact about this meeting is that it does not only develop the participants' knowledge and skills but more importantly is their involvement in giving new ideas for the improvement of the company. There are a couple of ideas which came from this meeting that have been implemented successfully. For example, the rebranding exercise was resulted from the SWOT analysis session and the 5-day working days whose idea came from the employees during SLT have been adopted by the company. It has become a new space for the managers to discuss ideas and to get them involved in the company. On the SLT meeting, one of the COOs gave the following remarks:

"The SLT meeting is good for prompting discussion among the whole team. Meetings also create overlap in knowledge. Everyone should know what is going on in other departments.

Through meetings and all the interactions problems can be heard. On top of COOs meeting with the CEO there is a monthly COO-CEO meeting. This is a one-to-one meeting between Azrita and the CEO. It is not based on specific agenda but a sharing of thoughts and anything that the COO thinks fit and would like to discuss. Azrita reflected:

"I found [the meeting] as helping me because [the CEO] allows you to clarify on particular issue. It helps me to get the trust. It's like 'letting out' ... like a 'pouring session'. Sometimes it was just more than work issue – asking how you are doing and family?"

## 5 Discussion and Limitations

The findings from the current study indicate that the new chief executive officer is central in instituting change in the organization's strategy and is consistent with what was argued by Ocasio (1993). The case evidence has shown that senior employees' involvement in strategic plan development (through SLT in this case) brought clarity and assurance to them. Abernethy et al. (2010) found the difference in the intensity of use of planning and control systems which they argued may be explained by the difference in leadership styles. They provided a plausible explanation that top management uses the control systems to structure the planning process and to personally interact with subordinates. The findings of this study support this argument by providing evidence that formal periodic meetings, as control systems, do provide structure for communicating information and in turn the flow.

It is evidenced from the case that the new organizational structure introduced shapes the control systems and in turn the decision making process. For example, the creation of three COO positions entails the need for COOs – CEO meeting and becomes an important platform for coordinating and making decision. The frequency of the meeting which is weekly and conducted right after the SCORE meeting allows room for timely input sharing from all three COOs and in turn help CEO-level decision making.

The findings also highlight the leader's characteristics and values do influence control systems design and use. The new chief executive combines both transformational and transactional leadership styles as evidenced by the findings discussed earlier. It can be argued that the introduction of SLT reflects the transformational dimension of the new chief executive leadership style. He also portrayed transactional style as evidenced by the structure change and more decision making power to the COOs. Next, both leadership styles (initiating structure and consideration) are

equally important. Top managers need to strike the balance and know when to use what in order to optimize the effectiveness. The study does not intend to measure and suggest how to strike the balance, but the findings provide rich descriptions to understand the two notions.

The study contributes to our understanding on control choices by highlighting elements which are not often discussed in the accounting literature. For example, structured meetings are considered as initiating structure type of leader and thus, would use less personal relationship with subordinates. The findings, however, point that many meetings (e.g. SLT, COO one-to one meeting) can in fact be used to show consideration side of a leader. The key is how a top manager chooses to use it whether interactively or otherwise.

This study is subject to certain limitations. First, it uses case study approach which may be exposed to the element of recall bias of respondents and researchers' biasness in interpretation. However, we have taken several steps to mitigate it through triangulation of data and analysis. Second, although SLT is considered the best platform/space to discuss and debate new ideas and strategic priorities, the study did not investigate the implementation stage. How MProp Group managers coordinate both across and within departments to implement the strategy (output from SLT) is beyond the scope of this study. Finally, this study did not examine external contingencies that may influence how the new CEO effects change in the organization. This is a contingent view that suits cross sectional type of study.

## 6 Conclusion

The current study contributes to extant literature by describing what exactly a new chief executive would do to enact changes and how they were adopted. The evidence presented in this study is particularly important in understanding the interactions among leadership, strategy and control systems. The arguments are based on one case study and therefore the authors do not wish to generalize the views to other settings. However, it is worth to note that the findings underline the close relationship between leadership change and the design and use of control systems. Change in organizational structure plays an important role in shaping the control systems design. In particular, meetings are important mechanisms to structure the sharing of information and help decision making.

The paper provides implications for family-owned businesses facing imminent change in leadership. . In particular, it benefits founders/top managers that are about to change leadership of entrepreneurial firm to the next level. It shows the importance of preparing leader's capacity for an effective leadership role. In developing economies, many small-and-medium businesses either get stuck at the same stage or are not well prepared for the leadership change to the next stage. It also highlights some important factors which are seldom discussed in control theories.

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