The emergence of management controls in an entrepreneurial company

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Abstract

The dilemma faced by founders of entrepreneurial companies is how to scale their business while staying in control. While the accounting literature has found that financial controls are important to rapidly scale a business, we do not know how these controls emerge in entrepreneurial companies in relation to other management controls. Using a case study of an entrepreneurial company that rapidly scaled its business, this study examines the management controls that emerged to become a package of controls. We highlight the importance of the management control package remaining in balance, with controls working together interdependently in a complementary fashion.

Key words: Complementarity; Culture; Entrepreneurial companies; Management control package; Organisational lifecycle

1. Introduction

The management literature has found a number of critical activities necessary for entrepreneurial companies[1] to successfully scale their business through the lifecycle stages of birth and growth (DeSantola and Gulati, 2017; Gulati and DeSantola, 2016). Three of these four critical activities relate directly to the development of a package of management controls[2] as set out in Malmi and Brown's (2008) typology, including financial controls such as planning and forecasting, administrative controls such as management structures and processes, and cultural controls such as the design and reinforcement of cultural values (DeSantola and Gulati, 2017; Gulati and DeSantola, 2016). The management of entrepreneurial companies as they grow has not yet been adequately examined (Cardinal *et al.*, 2004; DeSantola and Gulati, 2017; Gulati and DeSantola, 2016) and the manner in which a management control package emerges in early-stage companies remains unclear (Davila *et al.*, 2010). As such, this paper uses a case study to examine the management control package that emerged in an entrepreneurial company that rapidly scaled it business. We investigate at what stage in the company's lifecycle various management controls emerge and the reason for their introduction.

In contrast to the management literature, which has found a number of management controls as being critical to scaling entrepreneurial companies, the accounting research examining the first controls to emerge in early-stage companies has consistently found financial controls to be the first management control adopted (e.g. Davila and Foster, 2005, 2007; Moores and Yuen, 2001; Sandino, 2007; Simons, 1995). Even when the strategy of these companies differs, financial controls are still found to be the first management control to be implemented, with only subsequent management controls differing based on company strategy (Sandino, 2007).

To gain an understanding of when various management controls are introduced and how they enable an entrepreneurial company to scale, we draw on the descriptive strengths of a case

[1] We follow DeSantola and Gulati (2017, p. 640), who define entrepreneurial companies as young, growth-oriented companies that engage in innovative behaviours. Furthermore, entrepreneurial companies differ from small companies based on growth potential. Entrepreneurial companies are usually based on an innovation and consequently have higher growth potential compared with a small business that operates within an established market.
[2] A management control package is a set of management controls managers use to align individual activities with the company's goals (Bedford *et al.*, 2016; Grabner and Moers, 2013; Malmi and Brown, 2008).

study (Ahrens and Dent, 1998). Our case study company is HRV,[3] a New Zealand company operating in the home ventilation industry that rapidly scaled its business, leading to an increase in revenue over its first four years of operation from NZ$100,000 to NZ$7.23 million, and reached NZ$19 million in revenue by the end of year six. HRV manufactures, sells, and installs a ventilation system it developed that is functionally different from the other ventilation systems on the market.

To undertake this case study, we draw on complementarity theory (Milgrom and Roberts, 1990, 1995). Complementarity theory originates from economics and investigates how a decision maker 'tries to maximise "performance" by (simultaneously) deciding on multiple choice variables' (Grabner and Moers, 2013, p. 408). Activities are complementary if doing more of one activity increases the returns from doing more of the other activities (Milgrom and Roberts, 1995). As argued by Grabner and Moers (2013), such a theory is suitable for the study of how management controls operate in combination with each other; that is, do the management controls within a package operate independently of each other or are they interdependent, operating together as a system? As argued by Milgrom and Roberts (1995, p. 180), 'the idea of complementarities … gives substance to previously elusive notions such as "fit" or "systems effects"', noting that, in complementarity theory, the term *fit* relates to how, in this instance, management controls fit with each other (Grabner and Moers, 2013). Kristensen and Israelsen (2014) refine complementarity theory by introducing the notion of balance in understanding how the right balance between management controls is constituted. Packages of management controls can therefore be either in balance, when all the management controls are working interdependently, or off balance, when one or more management control obstructs complementary performance effects.

While predominately used in quantitative studies, Miller and O'Leary (1997) draw on complementarity theory in their qualitative study on the redesign of budgeting practices at Caterpillar Inc., highlighting the complexities associated with how complementarities are identified and acted on within a company. Mouritsen and Thrane (2006) also draw on the notion of complementarities in their research on understanding how management control is mobilised in network enterprises. Given the importance for entrepreneurial companies to

[3] HRV is the official company name. The name comes from an acronym for 'Heat Recovery Ventilation'. Permission was granted by the company to use its name in any academic publications.

have the right mix of management controls (DeSantola and Gulati, 2017; Gulati and DeSantola, 2016), they would be expected to be operating in balance (Kristensen and Israelsen, 2014), with management controls working together in a complementary manner to support the company's strategy. If management controls were not complementary to each other but operating independently of each other, the management controls comprising the package would be off balance (Kristensen and Israelsen, 2014). It is hard to imagine how an entrepreneurial company could successfully scale its business in such a situation. Complementarity theory is therefore ideally suited to the study of how management controls operate and evolve within an entrepreneurial company.

Our findings contrast prior accounting research that finds that financial controls are the first management controls adopted in early-stage companies (e.g. Davila and Foster, 2005, 2007[4]; Moores and Yuen, 2001; Sandino, 2007; Simons, 1995). Instead, we find that our entrepreneurial case study company first introduced cultural controls in the form of a vision statement and core values. These cultural controls were constantly reinforced and built upon. As the company grew, it introduced administrative and financial controls to further support its cultural controls. HRV was able to maintain the balance of its control package through the continual reinforcement of cultural controls whenever new management controls were introduced. Our analysis highlights how this balance was maintained by management controls working interdependently in a complementary manner, facilitating HRV's ability to rapidly scale while remaining in control. This also contrasts the management literature (Cardinal *et al.*, 2004), which finds that as young companies grow they go through phases of being out of balance, with their management controls working against each other, thus requiring rebalancing.

This paper contributes to the accounting and management literatures as follows. First, drawing on complementarity theory, we highlight the importance of maintaining management control packages in balance during the early stages of an entrepreneurial company's lifecycle. This balance is maintained by ensuring that each newly introduced management control acts in a complementary manner to existing management controls. This ensures the management

[4] The sample for these studies came from the Stanford project on emerging companies (Baron and Hannan, 2002), which examines the evolution of 200 early-stage companies. On average, the companies were just over five years old and employed 75 people. In year 5, our case study company, HRV, with 480 employees, was larger than these companies and spread across a much wider geographic area, since they operated across New Zealand, whereas the companies in the Stanford sample mostly operated in the Silicon Valley area.

controls work interdependently as a system, resulting in the control package remaining in balance and thus able to support a company's growth.

Second, contrary to research that views culture as a contextual variable that can impact the selection and design of management controls (e.g. Ferreira and Otley, 2009), through the lens of complementarity theory, we are able to highlight the interdependence between cultural controls and other management controls.

Third, contrary to research that suggests management controls are underpinned by culture (e.g. Ferner, 2000), we build on research highlighting how the different management controls can interact (Alvesson and Kärreman, 2004; Kraus *et al.*, 2017) to show how cultural controls can play a major role within a management control package and that other management controls sometimes underpin cultural control.

Fourth, this paper highlights how an entrepreneurial company that rapidly scaled its business could require a different staging of management controls than that suggested by experience-based models[5] (Flamholtz and Randle, 2000; Simons, 1995, 2000) and prior research (Davila, 2005; Davila and Foster, 2007). Finally, this paper adds to the growing body of literature on the adoption of management controls in early-stage companies by focusing solely on an entrepreneurial company. Besides contributing to the academic literature, we believe this paper can also assist entrepreneurs and practitioners engaged with entrepreneurial companies by highlighting the importance of both selecting appropriate management controls and ensuring that each new management control introduced works in a complementary manner with existing management controls, thus maintaining the balance of the management control package.

This paper is structured as follows. Section 2 presents our current understanding of the emergence of management controls over a company's lifecycle and develops expectations about how an entrepreneurial company would introduce management controls. Section 3 presents our research method, while Section 4 gives an overview of HRV's background as well as a detailed description of the staged introduction of management controls during the company's birth and growth stages. Section 5 discusses our findings. Finally, Section 6 sets

[5] These models have been presented in business books examining organisational design.

forth our conclusions, including the limitations of this research and avenues for future research.

2. Management control and organisational lifecycles

Accounting research has confirmed the adoption of financially focused management controls in early-stage companies (Auzair and Langfield-Smith, 2005; Davila, 2005; Davila *et al.*, 2010; Moores and Yuen, 2001; Su *et al.*, 2013, 2015a, 2015b, 2017), highlighting the importance of planning and forecasting and the fact that these are often the first controls introduced (Davila, 2005; Davila and Foster, 2007; Moores and Yuen, 2001; Sandino, 2007). Companies with faster growth are associated with the accelerated adoption of financial controls such as operating budgets (Davila and Foster, 2005), which, it has been argued, enables these companies to deal with the increased complexity associated with growth (Davila and Foster, 2007, 2010). However, research has also found that entrepreneurial companies place less emphasis on budgets and cost controls (Chenhall and Morris, 1995; Dent, 1990; Van der Stede, 2000).

An extensive management literature also shows that companies change in relation to different lifecycle stages (e.g. Greiner, 1998; Kazanjian, 1988; Miller and Friesen, 1984; Quinn and Cameron, 1983). Although the stages of a company's lifecycle have been categorised in various ways and given many different names, we use Miller and Friesen's (1984) categorisation of birth, growth, maturity, revival, and decline.[6] Table 1 provides an overview of the characteristics of the birth and growth stages (Miller and Friesen, 1984),[7] which are the focus of this study.

Insert Table 1 here

[6] In line with the arguments of Moores and Yuen (2001), Silvola (2008) and Su *et al.* (2013), the Miller and Friesen (1984) categorisation is used because the model encompasses a company's complete biological lifecycle, from birth to death, provides well-established measures of the lifecycle stages, has been validated, and has been used extensively in prior research (e.g. Auzair and Langfield-Smith, 2005; Davila, 2005; Moores and Yuen, 2001; Silvola, 2008; Su *et al.*, 2013, 2015a, 2015b, 2017).
[7] We limit our discussion to the birth and growth stages of the Miller and Friesen (1984) categorisation, since these are the two stages of the lifecycle with which this research is concerned.

2.1 Expectations based on prior research

Given that management controls play a key role in managing the conflict imposed by growth (Davila, 2005), the introduction of the right control at the right time in a company's lifecycle is essential to achieve sustainable growth (Davila and Foster, 2007; Moores and Yuen, 2001; Simons, 1995). Based on prior cross-sectional empirical research (Davila, 2005; Davila and Foster, 2007; Moores and Yuen, 2001; Sandino, 2007; Su *et al.*, 2013, 2015a) and experience-based models (Flamholtz and Randle, 2000; Simons, 1995, 2000), we highlight how management controls could be expected to emerge in entrepreneurial companies during the birth and growth stages of their lifecycles.

Given the small size of companies during the birth stage, with employees in frequent face-to-face communication with each other, and the fact that founders play a dominant role, companies would be expected to rely mainly on informal controls at this stage (Moores and Yuen, 2001; Simons, 1995, 2000). Internal controls such as administrative policies and procedures would be required to ensure the security of assets and the reliability of accounting information (Simons, 1995).

Prior research has highlighted the increased formalisation and adoption of controls as a company moves from the birth stage to the growth stage (Davila, 2005; Moores and Yuen, 2001; Su *et al.*, 2013). It has also highlighted the importance of financial controls such as budgets and has shown that these are often the first formal controls introduced in early-stage companies (Davila, 2005; Davila and Foster, 2007; Moores and Yuen, 2001; Sandino, 2007). Further, Davila and Foster (2005) find that higher-growth companies are associated with the faster adoption of financial controls. However, although not examining when controls emerge over a company's lifecycle, there is contrary contingency-based evidence that entrepreneurial companies place less emphasis on budgets and cost controls than non-entrepreneurial companies (Chenhall and Morris, 1995; Dent, 1990; Van der Stede, 2000).

During the growth stage, as a company increases in size and potentially undergoes geographic expansion, more decision-making authority is delegated to lower-level managers (Miller and Friesen, 1984). Given growth of the company, a broader array and greater amount of information are required for decision making during this stage (Miller and Friesen, 1984). Therefore, formal, verifiable targets and the monitoring of participants' behaviour become increasingly necessary (Simons, 1995). Consequently, companies are expected to introduce and rely more on financial and administrative controls to meet the information and control needs of top management (Moores and Yuen, 2001; Simons, 1995).

Administrative controls such as policies and procedures are necessary to constrain behaviour, limiting the domain of search activities for employees based on defined business risks (Simons, 1995). The purpose of administrative policies and procedures is to establish clear limits on employee behaviour and to allow employees freedom to innovate and make decisions within these clearly defined limits (Heinicke *et al.*, 2016; Simons, 1995; Widener, 2007). As administrative controls are introduced, the development of cultural controls, such as beliefs and values, is necessary to manage internal and external relationships (Simons, 1995). The primary purpose of cultural controls is to communicate a company's core values to inspire and motivate its employees and to guide organisational search and discovery (Dumay and Dai, 2017; Heinicke *et al.*, 2016; Simons, 1995; Widener, 2007). Sandino (2007) finds that early-stage companies pursuing differing strategies implement different sets of management controls. However, irrespective of the strategy pursued, financial controls are found to be the first controls implemented; only subsequent controls are found to vary based on company strategy. Companies pursuing a growth strategy are found to then introduce management controls focused on revenue, such as marketing databases and sales productivity measures. This supports Guilding's (1999) finding, that companies adopting a build strategy rely more on broadly scoped planning information than companies following a harvest strategy. Likewise, Mia and Chenhall (1994) find that marketing departments use broadly scoped information to enhance performance, since they typically face high task uncertainty.

In summary, based on prior research, we would expect an entrepreneurial company to implement management controls in the following chronological order. In the birth stage, the company would be expected to have only informal controls and administrative policies and procedures to protect its assets. As the company starts to scale, it would introduce financial planning and forecasting-based financial controls, followed by administrative controls and, finally, cultural controls.

3. Research method

We undertook a retrospective longitudinal case study of the management control practices at HRV, one of New Zealand's fastest growing companies. While acknowledging that individuals ‘tend to impose order retrospectively on phenomena’ (Kimberly and Bouchikhi, 1995, p. 12), in following similar protocols as the retrospective approaches taken by Cardinal *et al.*, (2004) and Miller *et al.* (1997), we believe we have ensured the accuracy of our data. First, the founders of HRV did not impose any limitations on us in terms of who we interviewed or what aspects of the management controls we investigated. Thus, we were free to pursue any avenues that we deemed interesting or relevant and all requests to information were granted.

Second, in addition to seeking the opinions of interviewees, we also sought information in the form of facts (Cardinal *et al.*, 2004) from interviews. By seeking information on facts from multiple interviewees, we were able to enhance validity, since any perceived inconsistencies could be questioned and clarification sought. We were reassured that there were no large discrepancies between the facts provided across interviewees and the interviewees appeared to freely acknowledge when they were unsure of certain events and note who we should check with to ensure the facts provided were correct.

Third, our interview protocol of using semi-structured interviews meant we asked similar questions of multiple interviewees while providing the flexibility to pursue interesting avenues of discussion. This allowed us to verify individual reports. Finally, we collected evidence from a wide variety of sources, supplementing interviews with company documents, business press articles, and observations. This process enabled data triangulation (Modell, 2005), enhancing the reliability of the collected data (Modell, 2005; Yin, 2003).

In addition to the above retrospective case study techniques used by Cardinal *et al.*, (2004) and Miller *et al.* (1997), we employed two techniques designed to enhance the validity of our data collection: 1) we scheduled interviews with a range of managers who had been employed for different periods, from relatively recent hires to managers who had commenced soon after the formation of HRV, and 2) we intentionally scheduled the interview with the founder last, so we would be able to hear the actors’ stories without being influenced by the founder and to check the veracity of the facts provided by other interviewees.

We began with a scoping meeting with HRV’s general manager and financial controller. This gave us background information about HRV and its strategic direction. Next, we were given a tour of HRV’s facilities to better understand the organisational context. We then developed a list of questions that we used as a guide during the semi-structured interviews. Our interview questions were based on themes from prior accounting and management literature on management control. As our focus was on the dilemma the founders of entrepreneurial firms faced as they scaled their business our questions covered the themes of informal controls (Moores and Yuen, 2001; Simons, 1995, 2000), financial controls (Auzair and Langfield-Smith, 2005; Davila and Foster, 2005, 2007; Mores and Yuen, 2001; Sandino, 2007), administrative controls (Alvesson and Kärreman, 2004; Cardinal *et al.*, 2004; Ferner, 2000; Malmi and Brown, 2008; Moores and Yuen, 2001; Simons 1987,1995), culture (Alvesson and Kärreman, 2004; Cardinal *et al.*, 2004; Ferner, 2000; Flamholtz, 1983; Flamholtz *et al.*, 1985; Malmi and Brown, 2008; Simons, 1995), and strategy (Guilding, 1999; Langfield-Smith, 1997; Kober *et al.*, 2007; Mia and Chenhall, 1994; Sandino, 2007), all coupled with the issue of how these are managed in a situation of high growth (Bhidé, 2000; Carland et al., 1984; Davila and Foster 2005, 2007, 2010; Greiner, 1998; Kazanjian, 1988; Miller and Friesen, 1984; Quinn and Cameron, 1983).

We carried out interviews with 13 members of the organisation, one founder, the general manager, the financial controller, two franchisees, and eight middle and lower-level managers (see Table 2). All the interviews were audio recorded and transcribed. To provide contextual richness and maintain the anonymity of the respondents, we refer to the founder as the founder, the general manager and chief financial controller as senior managers, the middle and lower-level managers as managers, and the franchisees as franchisees.

Insert Table 2 here

Interview data were analysed using a thematic approach based on meaning and not words to avoid any loss of richness in the data that can occur when coding based on words (Alvesson and Kärreman, 2011). Consistent with the comparative method, we adopted a self-critical and reflexive approach, continuously comparing data with prior interpretations and emerging theoretical constructs (Glaser and Strauss, 1967; Miles and Huberman, 1984). This allowed the researchers to identify themes as they were emerging, as well as investigate any potential discrepancies in either opinions or perceived facts worth investigating further in subsequent interviews. The results of this analysis were linked to the documents obtained and observations made during our time at HRV. This reflexive approach continued up until and even during the writing of this article, with the authors frequently revisiting both the literature and their thematic analysis, rearranging material, and refining coding, thus allowing us to match patterns, build explanations, and develop theoretical explanations.

To assist in the framing of our description of HRV and subsequent discussion we draw on the Malmi and Brown (2008) framework to categorise management controls. Malmi and Brown (2008) developed a broad framework with five types of control (administrative, planning, cybernetic, reward and compensation, and cultural) based on analysing and synthesising prior management control research from the prior 40 years. Administrative controls "direct employee behaviour through the organizing of individuals and groups, the monitoring of behaviour and how you make employees accountable for their behaviour, and the process of specifying how tasks or behaviours are to be performed" (Malmi and Brown, 2008, p. 293). Planning controls direct effort and behaviour of organisational members by establishing the goals of functional areas and providing the expected standard to be achieved in relation to the goals (Malmi and Brown, 2008). Planning controls also enable co-ordination across functional areas through the alignment of goals (Malmi and Brown, 2008). A cybernetic control is "a process in which a feedback loop is represented by using standards of performance, measuring system performance, comparing that performance to standards, feeding back information about unwanted variances in the system, and modifying the system's comportment" (Green and Welsh, 1988, p. 289). Reward and compensation controls focus on creating goal congruence between organisational members and the organisation through the alignment of financial interests of both parties. The underlying assumption is that rewards and compensation lead to increased efforts by organisational members as they wish to maximise their own financial well-being (Bonner and Sprinkle, 2002). Thus, these increased efforts benefit both the organisation and the individual. Cultural controls are "the set of values, beliefs and social norms which tend to be shared by [organisational] members and, in turn, influence their thoughts and actions" (Flamholtz, 1983, p. 158).

4. HRV case study

HRV was founded by two entrepreneurs[8] in March 2003 and is owned by a holding company they incorporated called Cristal Air International. By 2008, HRV had 19 franchises across New Zealand, with NZ$19 million in revenue. HRV's product is a home ventilation system that takes filtered air from the roof cavity and pumps it into the home. Over the six years

[8] We refer to these entrepreneurs as the founders.

from 2003 to 2008, HRV experienced rapid growth and expanded into all regions of New Zealand. HRV was awarded Deloitte's Fast 50 prize in 2006 as the fastest growing company in New Zealand, with revenue growth of 732% from 2004 to 2006 (*Unlimited Magazine*). In 2008, HRV was again acknowledged as a fast-growing New Zealand company, placing 22nd on Deloitte's Fast 50 list, with revenue growth of 261% from 2006 to 2008 (*Unlimited Magazine*). We collected our case study data at HRV between August and November 2007.

4.1 Birth stage

HRV's birth stage began when the company was founded in March 2003. As explained by one of the founders.

> I got the phone call. At the time, I was a very highly paid executive with a commercial and corporate sales team. I had enormous budgets and no accountability. It was fabulous. So, there I was, very cushy, and to have a call from [other founder] saying, 'Hey, would you like to start all over again and knock on doors in the rain in Ranui [a suburb of Auckland]?' [It] was very, very tough. But I can certainly tell you now, I'm very glad I did.

At the start of the venture, the founders hired a business coach (now their general manager) who helped them develop a vision statement of what the business would be and how it would evolve. They believed that a vision would help them stay focused on scaling the business. The Vision (see Figure 1) focused on the company's structure, revenue expectations, customers, alliances, and employees. The Vision was designed to include several very specific goals and general ideals.

Insert Figure 1 here

At the same time, the founders, with the help of their business coach, created three other documents directly linked to the Vision. The first, titled Company Purpose, focuses on two key areas: 1) creating healthier homes and 2) building long-term successful and profitable relationships. The second document, titled Core Values (see Figure 2), sets out what they believe in and it is posted on the walls at HRV and all its franchises.

Insert Figure 2 here

A final document shows employees how to act so that they can be successful in their jobs and in life in general. Titled Eight Steps to Success, it is posted in all meeting rooms at HRV and all its franchises (see Figure 3).

Insert Figure 3 here

Once the founders had set out their vision for the business and when they were sure the HRV product was good enough, they spent their evenings selling the product door to door and their days installing the products they had sold. At this early stage in the company's lifecycle, the business comprised largely of the two founders, who ran the business out of a garage:

> So, there was the villa and that was it. We battled there..… We did have a garage as a storeroom. (Founder)

Since one of the founders had prior experience working in, and then managing call centres, it was soon decided that HRV would start using direct marketing techniques, since this would be a more efficient use of time compared with relying solely on door-to-door selling; it would also allow the company to reach more potential customers:

> I'd done telemarketing before... for about a year and a half... doing about [XX] grand a day so it was a very, very good call centre. So, I backed myself to do it. (Founder)

Consequently, HRV set up a direct marketing call centre within the company to set up in-home appointments and positioned HRV as a direct marketing company. The call centre started with only a copy of the White Pages and some Post-It Notes, since that was all that was available at the time. However, the founders continued to knock on doors and visit homes. Subsequently, they increased the size of the call centre to expand its coverage of potential customers. Once more in-home appointments were being scheduled than the founders could handle by themselves, they commenced hiring a team of sales people. The founders were still very hands on at this stage; they would still make calls and coordinate with sales people. Many of the new employees were people who knew the founders. This facilitated quick immersion into the HRV culture.

To ensure the sales people all understood what was expected of them, the founders set up regular sales meetings. These sales meetings occurred three times a week and were seen as an extremely important exercise, since this was where the company's cultural values were emphasised. The company's cultural values were further reinforced by the fact that, in each meeting room, the founder placed on the wall a copy of the Eight Steps to Success (Figure 3), as well as a list of the Seven Core Values (Figure 2):

> Culture's really important.... Now this could be at team meetings... reviewing the Core Values and the Eight Steps to Success. (Senior manager)

From the very beginning, compensation for sales people and direct marketers was on a commission-only basis, linked to individual performance and team effort. The commission-only structure stemmed from the company's Core Values and the discipline necessary to work at HRV, set out in the Eight Steps to Success.

At this stage, an administrative policy for the payment of invoices was introduced by assigning one of the founders to open all the mail and pay all the cheques. According to a manager,

> [The founder] always used to open the mail. He then distributed it and he knew if somebody was trying to rip us off invoice-wise…. I still write out all the cheques…. I put it all on his desk, so he can go through all his invoices and see what's going and what's coming. And then as soon as he authorises it, he signs the cheques and gives them to me.

In summary, during the birth stage the management controls the founders introduced primarily focused on the design and reinforcement of cultural control. The founders developed a Vision, Core Values, and Eight Steps to Success. The message in these documents was reinforced at meetings that occurred three times a week, as well as being evidenced in the founders' daily actions. According to one of the founders,

> I used to bang our culture into people's heads, like, put it on a stake and slug it through their cranium. (Founder)

The only other controls that the founders thought were important at this stage were a compensation system that rewarded the behaviours set out in the cultural controls and a simple internal cash control.

4.2 Growth stage

In early 2004,[9] HRV began to franchise the business around New Zealand. By 2006, the company had 14 franchises operating across New Zealand, expanding to 19 franchises by the end of 2008. At this time HRV stopped additional franchising within New Zealand, since it considers 19 franchises sufficient to serve the New Zealand market. The initial franchises were mainly sold to current employees, with each given a different geographic territory so they would not directly compete with each other. The main role of these franchises was to sell the product directly to homeowners.

At this point, the founders began to realise that cultural controls were necessary but not sufficient to manage the business. Consequently, administrative control was formalised in the form of a management structure necessary to accommodate the increased head count, while maintaining informal ties across the organisation. HRV also began to invest in training, which complemented their vision to support a learning environment where all employees could contribute to the company's performance. The founders were aware that achieving sales results depended on the competence, innovation, and productivity of the work force (key parts of HRV's cultural control system):

> The first thing we did [at the growth stage] was to get a direct marketing manager training set up… it's all about immersion. (Manager)

Shortly after this administrative control, the founders established a financial control, in the form of revenue management system:

[9] While it is difficult to determine precisely when the growth phase started at HRV, this time frame has been selected, as this is when HRV commenced franchising the business, which corresponds to the growth phase according to Miller and Friesen's (1984) life cycle model. Further, HRV won the Deloitte Fast 50 award for being New Zealand's fastest growing company from 2004 to 2006, which provides a good indicator that the growth phase had commenced in 2004. This time frame was also discussed with managers, who broadly agreed with our separation into birth and growth phases.

> To get the best out of our people, we manage via the results…. The design of the [revenue management] system is built purposely to manage by the results. (Manager)

All work at HRV was linked to its key objective, making a sale. Everyone was aware of the importance of sales at HRV. The revenue management system was set up to measure output variables that represented important performance dimensions of HRV's ability to scale the business.

> We have KPIs [key performance indicators]. Everybody knows the expectations…. It's all about consistency of good performance. (Manager)

Because all sales to customers were cash sales and all payment to the direct marketing and sales people was on commission, there was no need for a complex accounting system. Even with the introduction of a revenue management system, managers at HRV still used the company's vision to reinforce the importance of the cultural controls. This worked because the vision document developed by the founders at the company's birth was posted at the HRV head office, at all franchise offices and on the intranet, so each employee understood how his/her work was linked:

> Everything that we've developed supports the vision. (Senior manager)

By 2006, HRV had built their revenue management system into a fully functional customer relationship management (CRM) system (a cybernetic control) and had started to use it to support the management of a direct marketing and sales approach. This allowed employee performance to be tracked in real time and a dialogue about performance management across the company was constantly promoted:

> If you took the direct marketing KPIs, this all comes down to the reports that we have. This is a report based on appointment results by a direct marketer. We can tell you how many good call appointments you've made, total appointments you've made. (Senior manager)

Following the introduction of the CRM system, an administrative control based on policies, procedures, and audits was established. This was important, since reputation lost in any one region was likely to adversely affect the whole company. Performance pressures also influenced the imposition of business conduct controls. HRV believed in a high level of customer service, which was incorporated into its operations manual. Regular audits were carried out to ensure adherence to the processes established by the operations manual:

> The auditing facet of what we do is important because three times a year I'll be visiting your business to make sure that you haven't dropped back into your old ways …. As I say, one of the unique things about HRV is that we just don't do things normal. That's what I think differentiates us from any other business out there. (Senior manager)

Managers at HRV also began to encourage continuous search activities and created information networks inside the company to scan for and report critical business changes. This was accomplished through three main management controls. First, the reports generated by the CRM system allowed all managers and franchisees within HRV to see the performance of all the franchises. If one area of the company or one franchise was doing well, employees were encouraged to contact them. To further facilitate knowledge transfer within HRV, the company established franchise conferences. The most recent conference was scheduled for two days to ensure sufficient time for all the attendees to provide input into scheduled agenda items, as well as adequate time to discuss matters raised by attendees that were not on the agenda:

> We'll talk about what's going on. It's always an open forum. People just talk. We get up, and someone will talk and others will listen…. If there's contentious issues, we'll bring them up and, yeah, we'll just get stuck in. It's just about trying to do things so that we can get better at what we do…. We end up with an agreement which we're all happy with. (Franchisee)

An important part of the franchisee conference is for franchise owners to get together with top managers to discuss critical business issues and share experiences:

> Nothing is fixed in concrete in the HRV world…. If we don't have it right or you come up with a better idea, put your hand up and let us know. Because if it is better and we need to change, then we change. (Senior manager)

In addition to the CRM system and the franchisee conference, the culture within HRV encouraged managers and franchisees to engage in open communications.

> The processes have had to change where you've now got different people doing different roles.... I called up [the GM] and said, 'Hey, this is happening. Why are we doing this? Do we need to do this?' And he's, like, 'Well, no, actually you're right'. So, he came over here and I had my customer service guy and we sat here for a couple of hours and mapped out a new process, to make it better. (Franchisee)

Even with the addition of new controls, the company always ensured the new controls complemented the initially established cultural controls. This was due to the fact that the founders believed that their vision formed the basis of their unique culture, which played a critical role in the growth and success of HRV.

5. Discussion

The preceding case description highlights the emergence of management controls at HRV. As shown in the case study findings, each control emerged to meet the needs faced by the company at that time, with all controls intentionally designed to complement the cultural controls, thus allowing the management control package to remain in balance. This is summarised in Table 3, along with other important company information.

Insert Table 3 here

The founders' focus during the birth stage was the design and constant reinforcement of cultural controls, which they believed were necessary to support their aim to rapidly scale the business. This started with a clear vision statement about where the company would be in the future and how it would get there. The founders then focused on developing a Company

Purpose, Core Values, and Eight Steps to Success to ensure that employees knew what was expected of them. The founders then developed a product that would meet customer needs.

With cultural controls developed and the product in place, HRV began to concentrate on sales growth through direct marketing and in-house product demonstrations. This required a commission-based reward and compensation control that rewarded the behaviours set out in the Core Values and Eight Steps to Success. At this time, they also introduced an administrative control in the form of a simple internal cash control.

Once the company had penetrated the market, the company needed different controls to protect itself and the brand it had developed. This led to the development of planning and administrative controls. A planning control in the form of a revenue management system that went on to become a CRM system, a cybernetic control. Administrative controls in the form of a management structure which accommodated the increased head count and an operations manual accompanied by audits to ensure that the franchise owners followed certain processes. As the growth stage continued, HRV needed to manage strategic uncertainties. This was accomplished through fostering communication through cybernetic controls such as the CRM system and administrative controls such as the franchisee conferences.

Our findings on what management controls emerged and the order in which they were introduced differs from expectations based on the prior literature and experience models. We found only minimal administrative policies and procedures during the birth stage (except for a simple internal cash control). As discussed below, fully developed administrative policies and procedures were developed only well into the growth stage. Instead, we found that the first management control that emerged was cultural control in the form of a Vision, a Company Purpose, Core Values, and Eight Steps to Success that kept HRV focused on rapidly scaling the business. This was supported by a commission-based reward and compensation control that linked directly to the cultural controls. Based on prior experience-based models (e.g. Flamholtz and Randle, 2000; Simons, 1995, 2000), cultural control should have been one of the last controls to emerge during the growth stage. The introduction of cultural control as the first control also contrasts with prior management control research, which has consistently found financial control in the form of budgets to be the first management control introduced (Davila, 2005; Davila and Foster, 2007; Moores and Yuen, 2007; Sandino, 2007). Interestingly, when we exited the company, HRV was still not using budgets. While Malmi and Brown (2008) argue that budgets are typically used for evaluating and rewarding performance, because the commission-based reward and compensation control at HRV was based on a percentage of sales revenue, budgets were not required.

HRV's lack of reliance on budgets is consistent with research that no one particular combination of management controls are optimal in supporting a particular strategy. Rather, depending on how the management controls are constituted and their level of interdependency, there are multiple management control packages that can effectively support a company achieving its strategy (Bedford *et al.*, 2016). HRV not developing a budget as one of its first management controls is also consistent with the findings of Chenhall and Morris (1995), Dent (1990), and Van der Stede (2000), who find that entrepreneurial companies place less emphasis on budgets and cost controls. We contribute to this literature by showing why companies might not introduce budgets early in their lifecycle. As mentioned by one of the founders, the decision not to focus on cost controls was a conscious one. The founders felt the cost of doing so would outweigh the benefits. Instead, the founders believed that their emphasis on culture was important in communicating values, motivating employees, and giving the company direction. The emphasis on cultural control was seen as being especially pertinent, given that HRV was effectively adopting a blue ocean strategy (Kim and Mauborgne, 2005), in that there was no established market for the company's product. Given these unique circumstances, HRV's founders believed that, to ensure company success, cultural controls had to be given a prominent place in the overall control package.

The cultural controls were seen as being important in terms of *indoctrinating* (term used by one of the senior managers) employees into the company's culture and inspiring them about the benefits of the product. The cultural controls thus helped the company to create a new market and to position itself within that market. By emphasising cultural controls early in the process, HRV did not have to rely on other forms of control and could introduce other management controls when needed, so long as they were clearly linked back to the cultural controls.

During the growth stage, HRV began to focus on monitoring critical performance variables by developing a revenue management system (which later developed into a full CRM

system). The revenue management system developed by HRV was focused on collating data on successful sales, thus allowing the company to better plan future sales strategies.
This is consistent with findings that marketing departments and companies adopting a build strategy use more broad scope information (Guilding, 1999; Mia and Chenhall, 1994).
This type of management control is also, to some extent, consistent with prior literature on the evolution of management controls, in that Sandino (2007) finds revenue management to be the second management control (after budgets) implemented by companies adopting a growth strategy.

During HRV's growth stage, administrative controls in the form of management structure and an operations manual were introduced to limit franchises opportunity-seeking activities, while franchisee conferences facilitated knowledge transfer within HRV. These controls enabled managers to set and gain support for administrative policies and procedures to punish franchises who stepped outside the limits. It was understood that linking compensation to performance could create pressure for people to act in ways their superiors would deem inappropriate. Thus, administrative controls gave notice that some types of behaviour or activities were not tolerated at HRV.

The results of our analysis show that HRV did not rely purely on one form of control and, as it grew, implemented a variety of management controls, including cultural controls, reward and compensation control, planning control, financial control, cybernetic controls, and administrative controls, that formed a control package. We find the three management activities that Gulati and DeSantola (2016) discuss are important for entrepreneurial companies to carry out if they wish to successfully scale their business. Our findings thus appear to support the entrepreneurial literature on the importance of introducing management controls for these activities. We also extend this literature by showing how these management controls emerged from the birth stage to the growth stage in an entrepreneurial company and show that other controls, such as compensation control, can also be important for these companies.

In addition to confirming and extending the framework developed by Gulati and DeSantola (2016), our results extend prior accounting research highlighting both the importance of the management controls working together interdependently and the importance of ensuring the overall management control package remains in balance (c.f. Cardinal *et al.*, 2004). It is through this approach that complementarity is achieved, allowing a company to stay in control so that it can successfully scale its business.

There can be little doubt that HRV was successful in rapidly scaling its business given that within its first years it often had annualised growth of over 100%, won the Deloitte Fast 50 Award for New Zealand's fastest growing company and achieved an annual revenue of $19 million. It is hard to imagine how HRV could achieve such levels of success in such a short time if the management controls were not working together in a complementary manner to support the company's high growth strategy.

Whenever new management controls were introduced, thought was given to how the controls worked together to support HRV's ability to scale the business. This was done by ensuring that whatever new management controls were introduced, they reinforced and strengthened the cultural controls, as the HRV culture was seen as one of the major reasons for their success. Repeatedly in interviews, when asked why HRV was so successful, respondents commented on the culture of HRV. For example, when asked for the reasons for HRV's success, a senior manager responded, "culture is one of the top [reasons]."

When the administrative control of training was introduced, it was done in a manner to reinforce the pre-existing cultural controls. The training focussed on immersing employees in the HRV culture. Thus, the two management controls worked interdependently, allowing complementarity to be obtained. Similarly, management controls such as the CRM system were not established in isolation. In addition to measuring performance, the reports that managers and franchisees could generate from the CRM system were used to facilitate learning across the company. The openness of the CRM system, which allowed all employees within HRV to view all reports, meant that if a particular franchise or sales person was extremely successful, this became apparent to all organisational members. The open communication channels that existed within HRV as part of its culture meant that employees would engage in discussions with the successful franchise or sales person to learn the reason for their success and to see whether they could implement similar practices to enhance their performance. The CRM system was thus linked to the cultural controls within HRV and managers and franchisees used it to learn from each other, allowing complementarities to be achieved across the two management controls. Similarly, when the administrative control of an operations manual was introduced, it was not done in isolation of existing management controls but was linked to reinforcing the cultural controls. The operations manual reinforced the importance of adhering to the HRV culture, which was reinforced by regular operational audits to ensure that franchises were adhering to the processes within the operations manual.

HRV's ability to grow rapidly while maintaining its package of controls in balance contrasts markedly with Cardinal *et al.* (2004). As the company they studied grew, management controls became unbalanced, with controls working against each other, thus requiring rebalancing. They go so far as to suggest that the balance-imbalance-rebalance pattern observed "is likely to be more pronounced in emerging organizations or organizations undergoing substantial and rapid growth" (Cardinal *et al.*, 2004, p. 428). Our findings highlight that this is not necessarily the case. It is possible to rapidly scale a business while remaining in control through ensuring that controls are implemented in a manner where they are working interdependently to achieve complementarity, thus keeping the management control package in balance.

Our findings also reveal a more complex picture of management controls than revealed in much of the prior research on particular management controls in isolation. Consistent with Bedford *et al.* (2016), our results highlight the importance of looking at the entire control package and considering how the controls within the package are working together in an interdependent manner. In particular, our findings that the cultural controls were interdependent with other management controls runs contrary to much of the contingency-based research, in which organisational culture is seen as a contextual variable (for a review, see Chenhall, 2003). This finding builds on the research that highlights how management controls interact (e.g. Alvesson and Kärreman, 2004; Kraus *et al.*, 2017). Contrary to Ferner (2000), who finds culture underpins management controls, we show how cultural controls and other management controls act interdependently to achieve complementarity. It could even be argued that in this instance, newly introduced management controls were constituted to underpin and reinforce the cultural controls. As noted above, our findings reveal a more complex picture of how management controls work together to support an organisation than revealed in much of the prior research.

Given the importance of entrepreneurial companies undertaking a number of critical activities (DeSantola and Gulati, 2017; Gulati and DeSantola, 2016), this paper gives an initial understanding of the way a control package emerges to manage these activities in an entrepreneurial company and how the balance between management controls is constituted. We demonstrate that HRV introduced management controls to work interdependently in a complementary manner supporting the company's strategy to enhance company performance.

6. Conclusion

In this paper we present a longitudinal case study of HRV to better understand the emergence of management controls in an entrepreneurial company. Our findings contrast with prior experience-based models and research that focuses on the effect of lifecycle stage on the introduction of management controls. One of the main findings of this literature is that financial controls are the first formal controls adopted (e.g. Davila and Foster, 2005; Davila and Foster, 2007; Moores and Yuen, 2001; Sandino, 2007; Simons, 1995). In contrast here, the design of cultural controls was the first management control introduced in our entrepreneurial case study company. Cultural control was then constantly reinforced and built upon throughout the birth and growth stages. The emphasis on cultural controls was a conscious one that helped HRV to position itself in the market. Subsequent controls emerged to meet the needs of the company, with all controls designed to complement the cultural controls so that the management control package remained in balance. Financial controls, while introduced during the growth stage, were not a major component of the management control package. This is evidenced by the fact that despite having an annual revenue of NZ$19 million HRV had yet to introduce a budget. This corroborates Bedford *et al.* (2016) who highlight that there is not one unique package of management controls that are optimal in supporting a particular strategy, but that depending on how they are constituted, there are different management control packages that can effectively support a company achieving its strategy.

Our findings are qualitative generalisations (Yin, 2003: Parker and Northcott, 2016) that reveal the importance of founders designing and demonstrating cultural controls and reinforcing them by linking them to reward and compensation controls, planning controls, financial controls, cybernetic controls, and administrative controls, which enables complementarity between different controls. For example, the founders of HRV designed their cultural controls in a way that they could compensate for the lack of critical financial and administrative controls. It could even be argued that the founders felt they could rely more on formal cultural controls when they started the business than on financial and administrative control processes. Even when the company did develop financial and administrative controls, there was an explicit link to the cultural controls developed in the birth stage, such that the new controls worked interdependently with the existing cultural controls, resulting in complementarity.

Our findings not only contrast the findings of prior accounting research, but also those of the management literature (Cardinal *et al.,* 2004), who find that as young companies grow they go through periods of having their control package out of balance, which negatively impacts on their performance. We thus highlight how balance and complementarity among management controls in an early-stage entrepreneurial company can be achieved through the use of formal cultural controls. It is important that when management controls are implemented that they are working interdependently to ensure the balance of the overall management control package is maintained. It is through this balance that founders of entrepreneurial companies will be able to scale their business while staying in control.

From a practice perspective, we highlight the importance of founders of early-stage entrepreneurial companies designing and demonstrating their commitment to a set of cultural controls. This is because it is not possible to introduce other management controls to complement cultural controls if the cultural controls are not ingrained in employees. Even with the addition of reward and compensation controls, planning controls, financial controls, cybernetic controls, and administrative controls, we show that it was important for our case study company to link these management controls back to their cultural controls, so as to enable the founders to stay in control while scaling the business.

Given that contingency research and recent research on management control packages has found that to enhance performance, companies pursuing different strategies require different management controls (e.g. Akroyd *et al.,* 2017; Govindarajan and Shank, 1992; Kober *et al.,* 2003; Miller and Friesen, 1982; O'Grady and Akroyd, 2015; Simons, 1987; Sridharan and Akroyd, 2011), a potential avenue of future research would be to explore entrepreneurial companies that adopt different growth strategies and face different contextual variables. Such research would prove valuable in gaining a greater understanding of the different management controls that can be required across these different environments and how management control packages can emerge differently.

Furthermore, a contingency-based approach would also be fruitful in exploring some of the unique aspects of the entrepreneurial setting. Similar to all research, in this paper we have focused on a particular organisational dilemma. While doing so, we have been unable to also attend to the broader area of the unique nature of the entrepreneurial setting. There is still limited understanding of how conditions or pressures idiosyncratic to the entrepreneurial setting affect the emergence of management controls. For example, it is likely that agility and the ability to quickly negotiate are important for new management controls to function effectively. A contingency-based research approach exploring the impact of idiosyncratic contextual factors unique to the entrepreneurial environment would increase our understanding of the emergence of management controls within entrepreneurial companies.

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Figure 1
HRV's Vision Statement

Vision

"Remember, our vision is our dream - Stay true to our dream and never lose sight of it. Keep it in view and it will keep us on track"

- Cristal Air International Limited is first and foremost an international franchise organisation with representation in many major markets around the world. Our Head Office is based in Auckland, New Zealand and our revenues exceed 75 million dollars per annum.
- We have built a worldwide network of licensed "HRV" franchisee's who are dedicated and committed to providing their customers with the very same solutions we do.
- Our unique combination of HRV products and services are designed around creating healthier more comfortable environments for both families and their homes.
- We have the premium product which enables us to dominate the markets in which we compete. Our unique combination of control filtration and airflow systems keep us and our franchisee's at the forefront of our industry.
- We continue to grow our business by developing key business alliances with those who can add value to our business and at the same time can in some way contribute to the realisation of our vision.
- We also focus on new product developments which in turn, provides our franchisee's with future add-on sale opportunities – For when our franchisee's prosper so do we.
- As for our team – they are always professional, friendly and aligned with our company's culture and vision. Each team member is provided the necessary training and support through our "educate to motivate" induction program which is designed to create productive, profitable members of our team.
- Everyone understands the importance of delivering quality solutions and systems on time, every time. Our team are also dedicated and committed to providing our customers and our valued franchisee's with the very best.
- We expect everyone to take responsibility for their actions and contribute where possible to the overall success of the business.
- We encourage our team to make the most of any opportunities to grow themselves as well as our business.
- We are genuinely interested in all our stakeholders as our success will be measured by how successful we make others.

Source: Internal HRV document

Figure 2
HRV’s Core Values

Core Values

- **People**
  - We value our Team.
- **Honesty**
  - We expect open and direct communication.
- **Integrity**
  - We do what we say.
- **Commitment**
  - We are committed to achieving our vision.
- **Innovation**
  - We are always looking for ways to improve.
- **Excellence**
  - Be the best – always
- **Customer Service**
  - Make sure we leave our customers excited!

Source: Internal HRV document

Figure 3
HRV's Eight Steps to Success

8 Steps to Success

- Have a Great Attitude
- Maintain your Attitude
- Be On Time
- Be Prepared
- Work your full 8 hours or until you reach your goals
- Work your Territory correctly
- Know why you are here and where you are going
- Take Control

Source: Internal HRV document

Table 1
Characteristics of life cycle stages (Miller and Friesen, 1984)

	Situation	Organisation	Innovation and Strategy
Birth Stage	- Small size - Young - Dominated by founder–manager	- Informal structure - Undifferentiated - Power is highly concentrated - Crude information processing and decision making methods	- Considerable innovation in product lines - Niche strategy - Substantial risk taking
Growth Stage	- Medium size - Older - Multiple shareholders - More heterogeneous and competitive environment	- Some formalisation of structure - Functional basis of organisation - Moderate differentiation - Somewhat less centralised - Initial development of formal information processing and decision making methods	- Broadening of product market scope into closely related areas - Incremental innovation in product lines - Rapid growth

Table 2
Case study data

Interviewee Position	*Time at HRV*	*Hours*
General manager and financial controller	-	3
Financial controller	1 year, 4 months	1
General manager (founders' business coach)	1 year, 7 months	1
Franchise support manager	1 year	1
Communications manager	11 months	1
Direct marketing manager	8 months	1
Commercial manager	3 years, 5 months	1
Warehouse/production manager	1 year, 5 months	1
Accounts manager	2 years, 9 months	1
Installation manager	1 year, 9 months	1
Distribution manager	1 year	1
Franchisee	2 years	1
Franchisee	3 years, 2 months	1
Founder of HRV	4 years, 8 months	1
Total interviewee hours		16

Other data sources	*Number*	*References*
HRV documents	7	Vision, Company Purpose, Core Values, Eight Steps to Success, 2007 HRV head office organisational chart, operations manual, CRM report
Business press articles	5	*National Business Review, Unlimited Magazine, Building Today Magazine, Sunday Star Times,* Deloitte Fast 50
Corporate website		http://www.hrv.co.nz
Site visits	6	4 visits to HRV, 2 visits to HRV franchisees

Note: Interviews are shown in the order in which they were conducted. All interviews occurred between August and November 2007.

Table 3
HRV timeline

2003

- HRV founded in Auckland, New Zealand, March 2003.
- Founders developed a Vision, Company Purpose, Seven Core Values, and Eight Steps to Success.
- Hired engineers to refine the home ventilation system using feedback from customers.
- Founders started selling door to door during the evening and installed the systems during the day.
- Set up a direct marketing call centre.
- Began to hire sales people and direct marketers. By the end of the year, HRV had hired 10 employees (mainly friends as the founders felt they could internalise the cultural values).
- Commission-based remuneration for sales people.
- Three sales meeting per week that emphasised the Core Values.
- First year revenue of approximately NZ$100,000 (estimate).

2004

- Introduced revenue management to measure sales performance.
- Formalised business and training processes with training processes based on organisational culture.
- Hired approximately 10 more employees, including an accounts manager, bringing total employees to approximately 20.
- Began to sell franchises to current employees.
- Revenue increased to approximately NZ$1 million (*National Business Review*).

2005

- Hired approximately 10 more employees (total 30).
- Continued to sell franchises.
- Revenue increased to approximately NZ$2 million (estimate).

2006

- Hired 30 more employees (total 60), including department managers, a general manager, and a financial controller.
- Developed a formal franchise operations manual (*Unlimited Magazine*).
- Expanded to 14 franchises operating across New Zealand.
- Launched a CRM system.
- Revenue increased to approximately NZ$7.23 million (*Unlimited Magazine*).
- Won NZ Deloitte Fast 50 with revenue growth of 723% from 2004 to 2006 (*Unlimited Magazine*).

2007

- Moved operations to a larger location within Auckland.
- Developed a bonus system for senior managers.
- Hired about 40 more employees (total 100).
- Hired an external accountant to produce financial reports on past performance.
- Began to carry out financial planning, including financial ratios, projections, and benchmarking.
- Revenue increased to approximately NZ$13.5 million (estimate).

2008

- Number 22 in NZ Deloitte Fast 50 with revenue growth of 260% from 2006 to 2008 (*Unlimited Magazine*).
- 19 franchises (*Unlimited Magazine*), 20 in total, including the HRV parent Cristal Air International.
- HRV revenue increased to approximately NZ$19 million (*Unlimited Magazine*), not including franchisee revenues, which totalled about NZ$70 million (Bridgeman, 2009).
- HRV employs 480 people throughout its 20 franchise operations (Bridgeman, 2009).