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SPOTIFY CASE STUDY: APPLICATION OF SIMONS' LEVERS OF CONTROL ON
STRUCTURE AND BOARD OF DIRECTORS

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TABLE OF CONTENTS

| | |
|---|-----------|
| 1. FRAMEWORK AND TOOLS | 3 |
| 1.1 INTRODUCTION..... | 3 |
| 1.2 COMPANY PRESENTATION & BUSINESS MODEL..... | 3 |
| 1.3 SPOTIFY MODEL: AGILE ORGANIZATIONAL STRUCTURE OVERVIEW .. | 5 |
| 1.4 SIMONS' LEVERS OF CONTROL..... | 7 |
| 2. INTERNAL CONTROL: APPLICATION OF 4 LEVERS OF CONTROL TO SPOTIFY STRUCTURE | 10 |
| 3. SPOTIFY BOARD OF DIRECTORS OVERVIEW | 14 |
| 4. APPLICATION OF 4 LEVERS OF CONTROL TO TASKS/ RESPONSIBILITIES OF THE BOARD OF DIRECTORS | 16 |
| 4.1 DISCLAIMER..... | 16 |
| 4.2 ANALYSIS..... | 16 |
| 5. STEWARDSHIP THEORY TO THE SPOTIFY CASE..... | 20 |
| 6. CONCLUSIONS | 20 |
| 7. REFERENCES | 21 |

1. FRAMEWORK AND TOOLS

1.1 INTRODUCTION

In my research, I will analyse the internal monitoring dimension in the case study chosen, which is Spotify, with a corporate governance perspective.

Specifically, the Management Control System tools of Simons' levers of control will be considered the pivot of my research and will be applied to both Spotify's organizational structure and the responsibilities and tasks of the company's board of directors.

After a presentation of the firm and its business model, I will introduce Spotify's peculiar matrix agile organizational architecture, then I will introduce the concept of Simons' 4 levers of control and apply them to Spotify's organizational structure, to outline the type of internal control in this framework.

Then, after describing the main characteristics of Spotify board of directors, remuneration and audit committees, I will apply the Simons' levers of control to the responsibilities and tasks of the board, to highlight their connections and interactions.

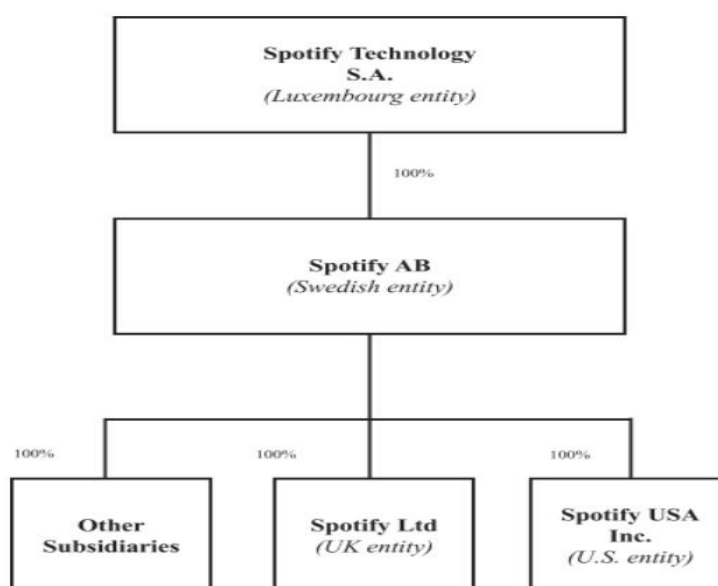
Finally, in my conclusion, based on the result of my research, I will explain how these Management Control Systems tools benefit Spotify and which between agency theory and stewardship theory can best reflect Spotify's management model.

1.2 COMPANY PRESENTATION & BUSINESS MODEL

Spotify is a Swedish media service and audio streaming provider, its headquarter is based on Stockholm and it was founded in 2006 by Daniel Ek and Martin Lorentzon and launched in 2008.

Spotify is a holding company that conducts all of its business through subsidiaries: below is a diagram of its current simplified corporate structure and its major subsidiaries.

SPOTIFY'S CORPORATE STRUCTURE:



Source: [Form F-1 \(sec.gov\)](#)

It's the most popular audio streaming subscription service in the world, with 381 million users and 172 million customers spread over 184 markets.

Spotify offers customers ready-made and tailored playlists to help them discover new artists, songs, and albums.

Spotify's business model is based on a freemium concept and it has two subscription-based services: basic services are free with Spotify Free, while additional ad-free features are offered via paid subscriptions upgrading to Spotify Premium. Indeed, with the free option, users' flexibility is limited to a small number of daily listenings, with ads for every few tracks played and then only listening to tracks with the Shuffle option, without the possibility of directly selecting which tracks to listen to; on the other hand, with Spotify Premium, the quality of the music played is better (higher level of kbps), the flexibility of the users' actions is unlimited and there is also the possibility of playing music offline by downloading tracks.

Spotify's main revenue streams come from selling Premium streaming subscriptions to consumers and third-party advertising placements and from the Ad-Supported Service; while its cost structure is mainly based on payments to music rights holders that allow the firm to get licenses to stream artists' music, which accounts for around 75% of revenues.

The mission statement, vision, and values of the organization all declare that its value proposition is to provide listeners with a personalized listening experience developed by empowering creators.



Source: [Spotify: Vision | Mission | Core Values | 2019 | \(A Complete Analysis\) \(bstrategyhub.com\)](https://www.bstrategyhub.com/spotify-vision-mission-core-values-2019/)

Spotify's service is available worldwide via the internet and may be accessed via its online and mobile applications.

The target of the company ranges to a wide variety of users, from casual listeners with its free service to audiophiles, with the premium membership packages.

Spotify is considered at the moment to be the most interesting and useful music streaming tool, both for the extremely varied availability of playable tracks and for its ability, through a powerful and to be the first company to have highly efficiently implemented its accurate algorithm to collect user data and organise ready-made and tailored playlists (Discover Weekly, Daily Mix, Release Radar, to name a few), to help them discover new artists, songs and albums, whether they are Premium or non-subscribers.

1.3 SPOTIFY MODEL: AGILE ORGANIZATIONAL STRUCTURE OVERVIEW

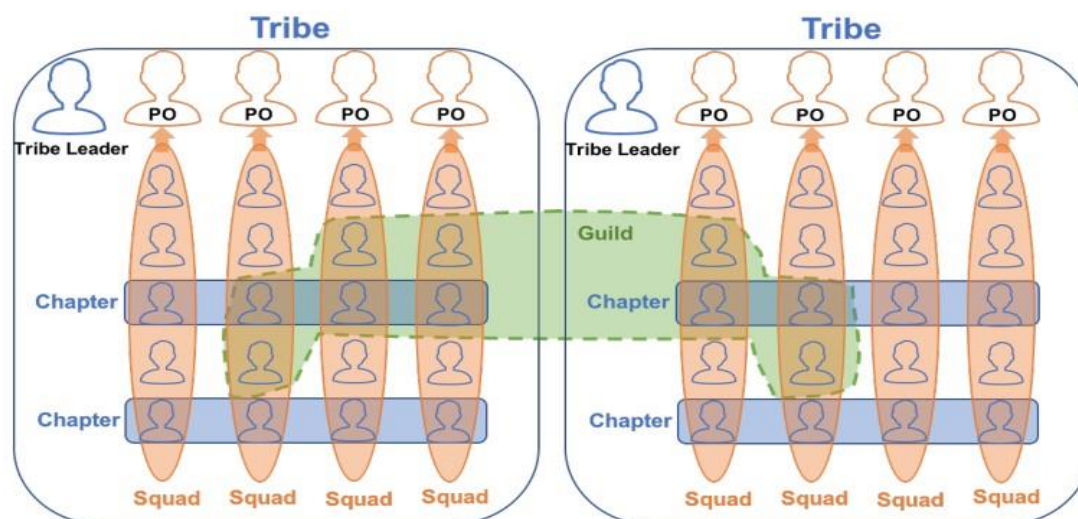
Spotify's model encapsulates the company's approach to scaling from both a technical and cultural perspective.

The model is made up of two parts: the organizational structure and a set of associated ideals that are intended to drive organizational development.

An engineering culture that prioritizes motivation, community, and trust over structure and control is at its core. When the team decides what to build, how to build it, and how to collaborate while doing so, autonomy becomes a primary motivator.

For what concerns the organizational structure, the company is known across the globe for its unique one, called Matrix Management. So, it is not correct to imagine the traditional hierarchical top-down management structures filled with bureaucracy. Instead, the model outlines the following critical factors for organising people and teams, praising autonomy and simplicity: **squads, product owners, tribes, chapters, and guilds**.

SPOTIFY MODEL:



Source: [Microsoft Word - Rapport för publicering.docx \(diva-portal.org\)](#)

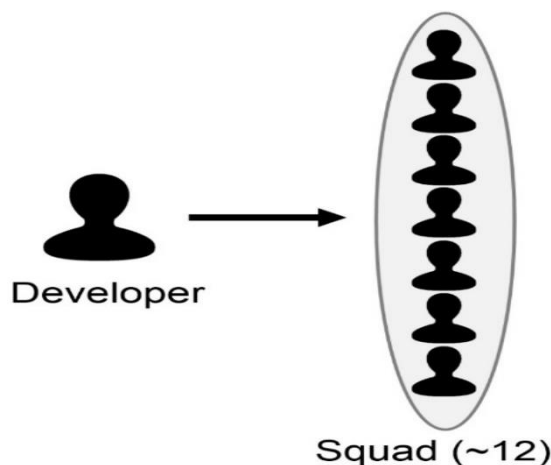
Facing a dynamic business environment, where innovation cycles happen in days or weeks rather than months and years, much of the work is cross-functional in nature and is undertaken by small, agile groups.

Spotify in 2021 had more than 6000 employees, most of them organized into agile teams, called **squads**, which constitute the organizational unit of Spotify. These kind small teams are composed by eight to twelve people and are self-organizing, cross-functional, autonomous, and almost self-managed, deciding on their own structure and methods of operation. A squad is focused on a single well-defined feature or project, such as building and improving the Android Spotify app, or the Spotify Radio experience, or integrating payments (a squad is designed to feel like a start-up).

The **product owner (PO)** is responsible for prioritizing the work done by the squads, creating roadmaps that specify the company's strategic direction. Each squad have design leads and are supported by agile coaches. The squad members decide how to undertake the work, what

methods to use, and how to coordinate. Leadership in a squad is emergent and informal, not assigned from without.

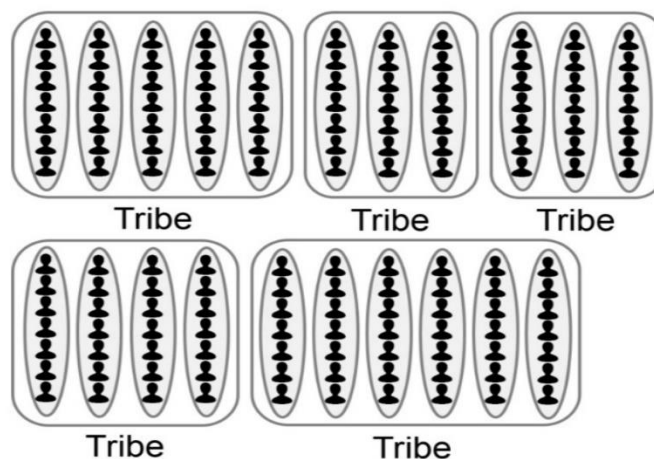
SQUAD & PRODUCT OWNER (DEVELOPER):



Source: [What It's Like to Work The Spotify Way \(corporate-rebels.com\)](http://corporate-rebels.com)

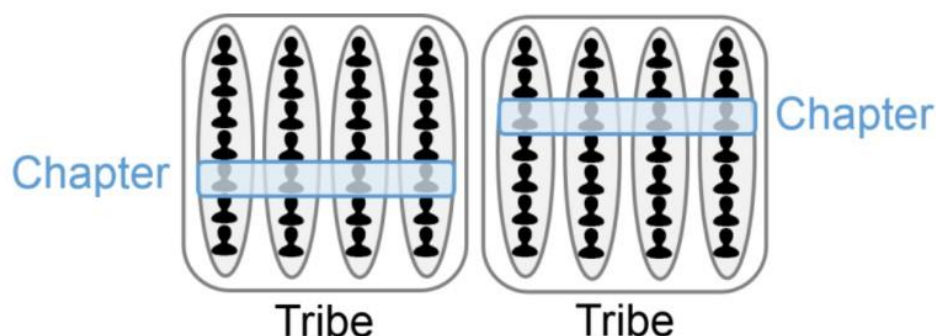
Multiple squads working on related features can make up a **tribe**, consisting of 40–100 people. Each tribe has a **tribe leader**, who does not direct the work within squads, but is responsible for supporting the work of the various squads within a tribe, and for working to coordinate shared initiatives across them, as well as creating an ideal working atmosphere.

TRIBE:



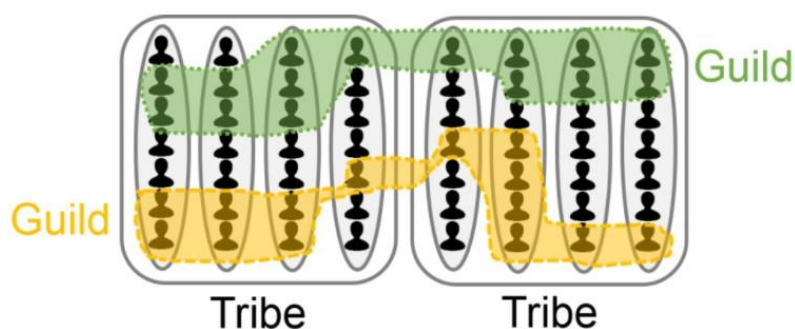
Source: [What It's Like to Work The Spotify Way \(corporate-rebels.com\)](http://corporate-rebels.com)

A **chapter** is a network of individuals with similar skills working in similar competency areas, for example, testing, database, or machine learning. Since Spotify is focusing on squads because they are the primary source of innovation, it introduced its chapters as a connecting matrix cross-squad competences. They are similar to a function-driven knowledge centre. Chapters have a lower level of formal authority and are more informal. Rather than broad functions, the organization is based on discrete capabilities.

CHAPTER:

Source: [What It's Like to Work The Spotify Way \(corporate-rebels.com\)](http://corporate-rebels.com)

Finally, a **guild** is more like a community of practice, a diffuse network of people sharing knowledge, tools, code, and practices. While chapters are local to a tribe, guilds can extend across tribe boundaries. Guilds do not have leads but instead coordinators.

GUILD:

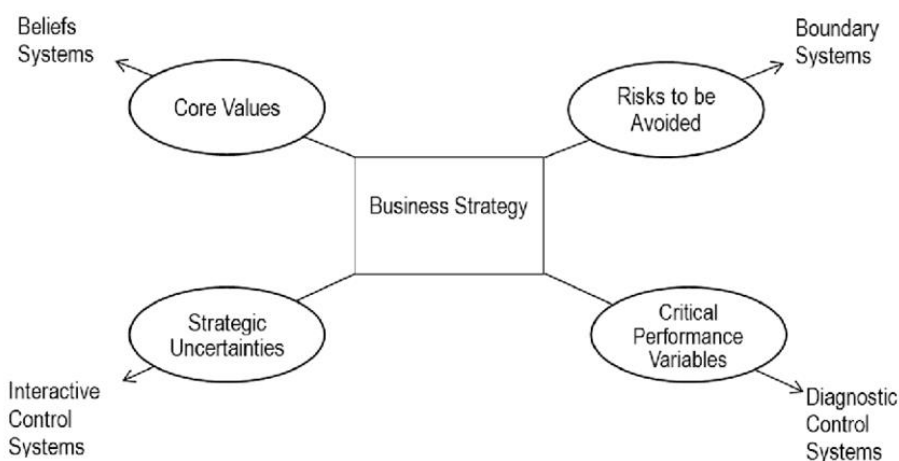
Source: [What It's Like to Work The Spotify Way \(corporate-rebels.com\)](http://corporate-rebels.com)

Spotify has done a good job of keeping an agile mindset and values while still being accountable. It allows for creativity while maintaining the benefits of repeatability, and it achieves alignment without being overly controlling.

1.4 SIMONS' LEVERS OF CONTROL

Management control system (MCS) is designed to provide information that can be used for decision-making, planning and evaluation. MCS, on the other hand, is known to be composed of numerous control systems that work together. The American economist and Harvard professor Robert Simons made a notable contribution by introducing the so-called 4 Levers of Control (LOC) in 1995 in his book "Levers of Control". Simons argued that the four control systems - beliefs (e.g., core values), boundaries (e.g., behavioural limits), diagnostic (e.g., monitoring), and interactive (e.g., prediction, management commitment) - do not demonstrate their strength and effectiveness when used separately, but in the way they complement each other when used all together.

Below is a summary diagram of the LOC:



Source: [\(PDF\) The Concept of Economic Security of the Hospital: A New Look at the Levers of Control \(researchgate.net\)](#)

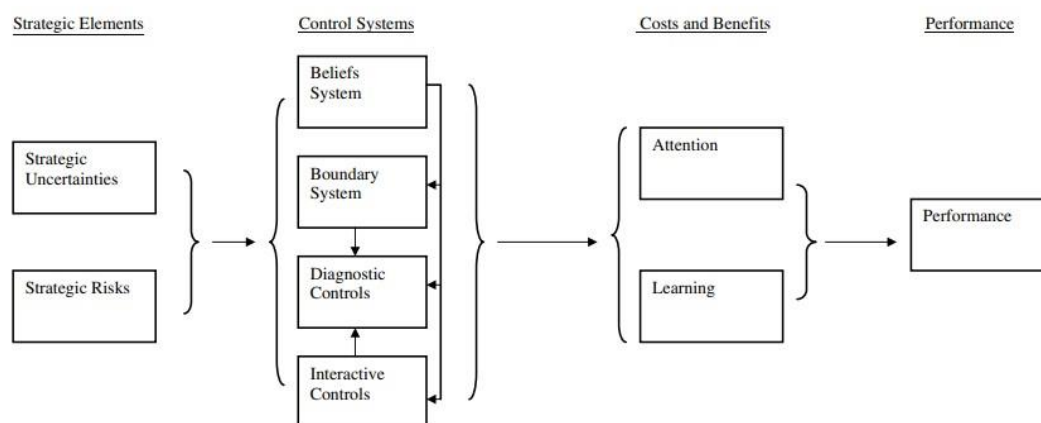
Strategic uncertainty and risk, according to the LOC framework, drive the selection and deployment of control systems, which, in turn, impact the company through organisational learning and efficient managerial focus.

The Levers of Control theory assumes that as a result of strategy changes the organization's objectives may alter as well. An organization is a product of its surroundings, which can undoubtedly influence it to the point where it is obliged to change its strategy. Control levers play an interactive part in this, and they can help you adjust your strategy.

It's about balancing the conflicts between freedom and constraint, authority and responsibility, top-down and bottom-up management, innovation, experimentation, and efficiency, according to Simons. As long as the four levers are balanced, all of these regions of tension can be located within the framework of the Levers of Control.

An organization with too many Boundary Systems, for example, will lose out on some possibilities and place too much emphasis on rules and processes. An organization that places too much importance on Belief Systems risks losing its reputation if its employees do not act as members of the organization and do not appropriately represent it.

Below is the process and concept for which levers of control should be implemented.



Source: [An empirical analysis of the levers of control framework - ScienceDirect](#)

BELIEF CONTROL SYSTEM

Companies have used belief systems for years to articulate the core values, purpose, and direction that managers want their employees to embrace. Employees are guided to find their own solutions by the belief system, and the results may be measured.

Managers ensure that employees make better decisions that are in line with the company's business strategy, rather than those that are better for the employee or that could harm the company's image, by establishing a common belief system.

According to Simons, the company's strategy is formed from the company's core values and mission statement. The company's mission serves as a compass for employees, influencing all choices and actions. It is not good to have a military type of control in creative organizations, because entrepreneurship would be hampered. Instead, they should foster an environment that encourages innovation and creativity.

Mission statements, vision statements, core values, and statement of purpose are examples of belief systems. Mission and vision statements, for example, should be integrated into planning and budgeting mechanisms of an organization and then an Activity Based Costing method, for instance, will be more or less effective depending on how the company's purpose is clear to all the elements of the organization.

Belief systems can augment diagnostic control systems to give today's managers a greater amount of control.

BOUNDARY CONTROL SYSTEM

While the organisation should encourage innovation and creativity to achieve its goals, sometimes creativity must be kept within certain limits.

Unlike diagnostic control systems (which monitor critical performance outcomes) or belief systems (which communicate core values), boundary systems are stated in negative terms or as minimum standards.

This control lever intends to establish rules and limits as boundaries for employees to work within, in the form of codes of business conduct, strategic planning and capital budgeting systems for example, in order to avoid major risks in the company.

DIAGNOSTIC CONTROL SYSTEM

Diagnostic control systems embody the typical feedback role of MCS, in which data are fed back to management to assess how successfully the specified objectives have been achieved and, for this reason, one of the main purposes of diagnostic measurement systems is to remove the burden of constant monitoring from the managers. This means that senior management develops (and/or approves) strategies in advance, and then communicates them to the rest of the organisation. It is used to provide guidance on how to meet management objectives. Its main objective is to identify and remedy breaches of established standards.

Managers are alerted to significant variations, which they must address and follow up through formal performance measurements. Most companies have relied on diagnostic control systems to help managers monitor goals and profitability, track the progress of individuals, departments or production facilities towards strategically important goals (market share).

Profit planning, budgeting, goal and target systems, project tracking systems, brand revenue tracking systems, and strategic planning systems are all examples of diagnostic control systems.

INTERACTIVE CONTROL SYSTEM

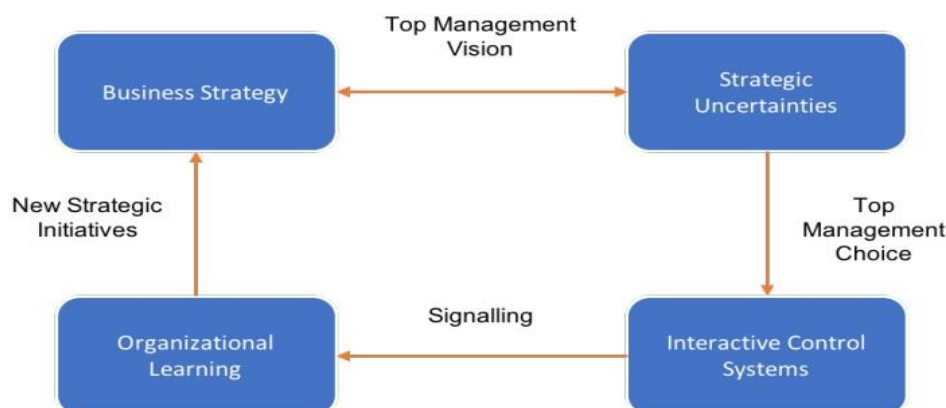
Management must adapt its strategy and control mechanisms to changing circumstances in an uncertain environment. Managers can see and react to significant changes in the environment by using interactive control systems.

According to Simons, interactive control systems are formal information systems that managers use to involve themselves consistently and directly in subordinates' decision-making processes.

Management involvement encourages debate and constant challenge, which necessitates subordinates at all levels of the organization paying close attention to the control system on a regular basis.

An interactive control system can be used to report, monitor, and confirm decisions by gathering information and directing attention to strategic uncertainty.

Below is the circular process in which the interactive control system is involved.



Source: [Microsoft Word - Rapport för publicering.docx \(diva-portal.org\)](#)

Moreover, according to Simons, interactive control systems have four particular characteristics:

1. they focus on constantly changing information that senior managers have identified as potentially strategic;
2. the information is significant enough to require frequent and regular attention from operational managers at all levels of the organization;
3. the data generated by the interactive system are better interpreted and discussed in face-to-face meetings of superiors, subordinates, and peers;
4. the interactive control system is a catalyst for continuous debate about the underlying data, assumptions, and action plans.

2. INTERNAL CONTROL: APPLICATION OF 4 LEVERS OF CONTROL TO SPOTIFY STRUCTURE

As can be seen, Spotify's organizational system is highly decentralized and broken down into small, agile, autonomous organizational units that maximize productivity by adapting to each other.

The watchword at Spotify is “be autonomous, but don’t suboptimize”. A common analogy at this peculiar organizational structure is a jazz band: in fact, each squad plays its instrument, but each also listens to the others and focuses on the overall piece to make great music.

The company's business strategy certainly involves all Simon’s levers of control, given the size, extent of the company and type of service they offer, but as it usually happens, it favours some of them more than others.

BELIEF CONTROL SYSTEM

Spotify aims to conduct itself as "passionate, innovative, sincere, collaborative, and playful", which are Spotify’s core values. The company sees these as the guiding principles that keep everything within the management standards. They help to ensure that the mission and vision statements are achieved, ensuring that everyone is focused on the company's aims and objectives.

Spotify recognizes that people perform best when they are doing what they enjoy the most. In fact, in the presence of the first and second values, this is precisely what stimulates creativity, which leads to new designs and methods, as well as by avoiding boredom and laxity by creating a culture of acceptable playfulness.

Spotify's corporate culture contributes to its success, and this is also a reflection of the company's emphasis on truthfulness and mutual respect, and in general a high percentage of employees are satisfied to work for the company.

The concept of the business promotes autonomy in order to encourage innovation and creativity. Spotify's management trusts employees with a management of objectives, to let them finish their projects on their own time. They decentralize decision-making, allowing teams or squads to develop their own frameworks or methods.

The company prefers to trust and assist its employees rather than control them. They feel that employees have the company's best interests at heart, which allows them to innovate more freely.

For the reasons listed above, a belief control system fits perfectly with the Spotify model, as well as the interactive one.

BOUNDARY CONTROL SYSTEM

It seems that this control lever occupies the smallest share among the types of control in Spotify. Given the strong autonomy of Spotify's organisational units, each team can self-correct its performance as they have a wide autonomy and a wide scope of action, always respecting the parameters of efficiency and profitability in relation to plans and objectives and what the PO has established.

Based on the notion that motivation has the biggest impact on productivity, the company applies the following formula to guarantee high productivity:

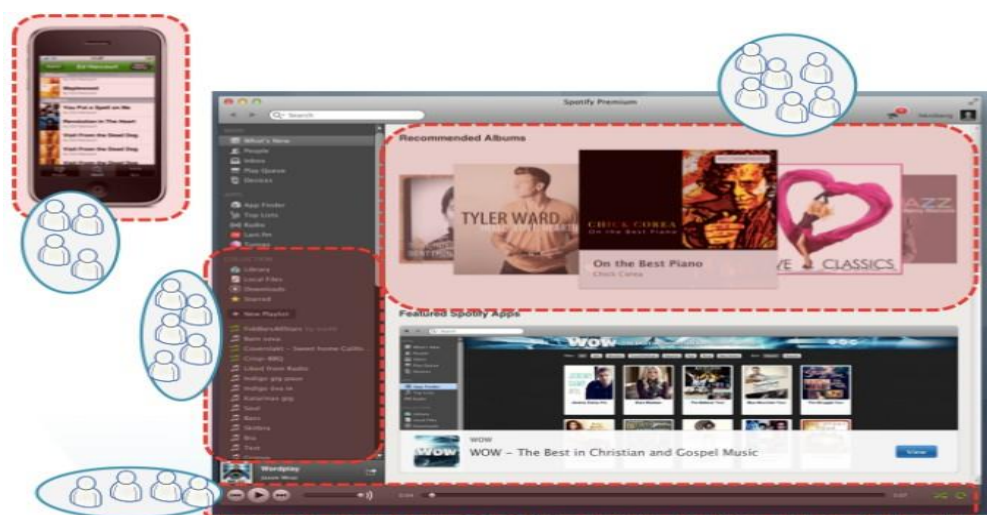
Productivity = Effort * Competence * Environment * Motivation

Then, rather than enforcing regulations, they encourage employees to succeed by finding ways on their own to keep them engaged. Mistakes are tolerated at Spotify and are part of the company's drive for innovation. They also encourage people to accept failure more readily.

Thus, in the case of Spotify, a boundary control system would be more efficiently exploited if used in combination with a belief control system, contrasting the minimum limits imposed by the first with the stimulus of the second one. Together, these systems transform limitless opportunity into a focused domain that employees are encouraged to exploit actively. In combination, they establish direction, motivate, and inspire, and protect against potentially damaging opportunistic behaviour.

DIAGNOSTIC CONTROL SYSTEM

According to the Matrix-Management model implemented, each organizational unit (squad) aims to self-control as they are made to feel like mini start-up companies. Each squad has all of the necessary skills and tools to design, develop, test, and release to production, as well as a long-term goal, such as, for example, refining the Android client, developing the Spotify radio experience, growing the backend infrastructure, or providing payment solutions, as it can be noticed in the picture below:



Source: [SpotifyScaling.pdf \(crisp.se\)](#)

The product owner is in charge of prioritizing the work that has to be done by the team, but not of how they execute it. He is theoretically the within group representative of this diagnostic control lever, as he monitors the profitability levels of the team and periodically reduces inefficiencies.

Therefore, to conclude, the diagnostic lever of control is highly applied and effective "within-groups", because it is the squads themselves that know and monitor their own level of productivity and efficiency regarding specific tasks, but it is very poorly applied "between-groups", precisely because, despite the degree of adaptations between the squads, the level of autonomy does not allow for control between the teams, while regarding the transversal groups within the tribes (chapters) and between the tribes (guilds), the level of control is more of an informal type. The combined use of diagnostic control by each squad inevitably generates a profit-maximizing network, due to the independence of skills and targets specific to each team.

INTERACTIVE CONTROL SYSTEM

As companies become larger, more decentralised and geographically dispersed, senior managers are no longer in constant contact with all employees who will identify and respond to emerging

problems and opportunities, as Spotify has cleverly understood in advance, providing the organisation with an agile and functional model.

In addition, given the dynamic and changing environment, with music tastes of customers that can change rapidly in a short period of time, the reactions of the teams should be very quick and responsive to any changes. For this reason, and because of the matrix-type management model combined with the tendency towards a management by objectives, it seems that this type of interactive control system is perfect for Spotify, since it reflects the business complexity and uncertainty the company faces.

However, in order to optimise coordination between organisational units, the guiding principles of communication and control are equally important. But in this case the problem does not arise.

The matrix management system presupposes a continuous flow of information in this highly interactive and decentralised decision-making system, in which each unit of the model has a specific role within-group and between-group, so that there is a continuous exchange of knowledge and control. Indeed, it would not make sense to have a company where each team is completely independent and there is no communication between groups.

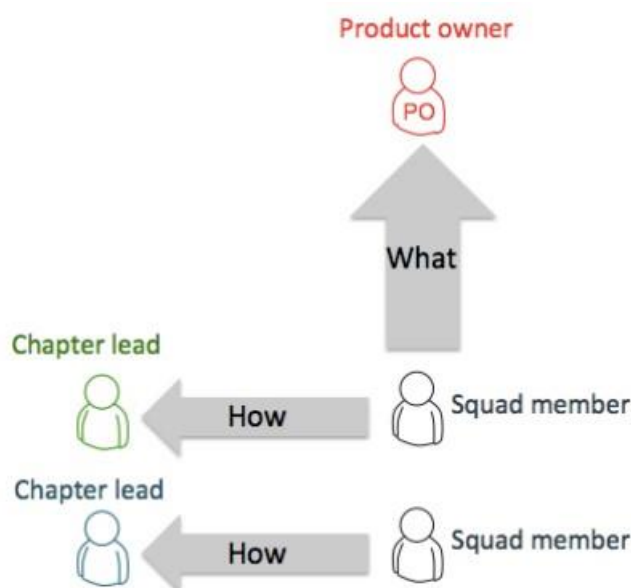
That is why guilds and chapters are so important: this is the glue that holds the company together and allows the achievement of certain economies of scale without giving up too much autonomy.

Each different chapter, such as the testing chapter, the web developer chapter, or the backend chapter, meets on a regular basis to discuss their areas of expertise and specific difficulties. The chapter lead serves as the line manager for his/her chapter members, with all of the usual tasks such as hiring, training, and establishing wages. Chapters are necessary for the within-tribe information flow.

A Guild is a more organic and broad-based "community of interest", a group of people who desire to share information, tools, code, and best practices, and so it cuts across the whole organization. Web technology guilds, tester guilds, agile coach guilds, and so on are only a few examples. Guilds are necessary for the between-tribe information flow.

The agile coach guild is another example that contributes to the flow of information in the organization. The coaches are dispersed throughout the business, but they constantly share knowledge and meet on a regular basis to cooperate on high-level organizational improvement topics that are tracked on an improvement board.

According to this structure, considering two dimensions of a matrix, i.e. the vertical dimension as "what" and the horizontal dimension as "how", each squad member can receive instructions on "what to construct next" by the Product Owner as well as "how to build it successfully" by the Chapters Leads, as it is represented in the picture below.



Source: [SpotifyScaling.pdf \(crisp.se\)](#)

With the level of independence and autonomy of Spotify's organisational structure, combined with the tendency towards a flat, cohesive type of hierarchical organisation, information flows seamlessly from senior managers to all organisational units, serving as a channel for continuous feedback and learning, as it asks why performance is or is not improving on this metric.

3. SPOTIFY BOARD OF DIRECTORS OVERVIEW

The Board of Directors of Spotify currently consists of eleven members, divided into Class A and Class B directors. The Board of Directors must have at least three members, according to the Spotify's Articles of Association.

The Board of Directors for the period ending on the date 31 December 2021 is composed as follows:

- Daniel Ek (A Director, Co-Founder, CEO and Chairman);
- Mr. Martin Lorentzon (A Director, Co-Founder);
- Mr. Shishir Samir Mehrotra (A Director);
- Ms. Padmasree Warrior (B Director);
- Mr. Christopher Marshall (B Director);
- Ms. Cristina Mayville Stenbeck (B Director);
- Mr. Barry McCarthy (B Director);
- Ms. Heidi O'Neill (B Director);
- Mr. Thomas Owen Staggs (B Director);
- Mr. Ted Sarandos (B Director); and
- Ms. Mona Sutphen (B Director).

In the case of Spotify, the effective method of board appointment is accomplished by the general shareholders' meeting, which nominates the directors and decides their respective terms. Under Luxembourg law, directors could also be re-elected, but the term of their office might not exceed six years.

In addition, the general meeting of shareholders may remove one or more directors at any time, with or without cause, by an easy majority of the votes expressed at a general meeting of shareholders.

Spotify's chairman (currently Daniel Ek, since 2008) is appointed by the board of directors from among its members. The board of directors may also appoint a secretary, who will not be a director and who are going to be accountable for keeping the minutes of the meetings of the board of directors and of the shareholders.

The board of directors shall meet at the call of the chairman upon the request of at least two directors. The chairman shall preside at meetings of the board of directors and, if requested, at general meetings of shareholders, except that in his or her absence the board of directors may appoint another director as chairman, as well as if the general meeting of shareholders may appoint another person as chairman, in either case temporarily by a majority vote of those present or represented at such meetings.

None of these directors are related to each other in any way: indeed, there are no family ties between any of the company's directors and its senior executives.

Spotify's board of directors has formed a remuneration committee, consisting of Mr. Marshall, Mr. Lorentzon and Mr. Mehrotra and chaired by Mr. Marshall. The following are the Responsibilities of Spotify's Remuneration Committee:

- creating and analyzing the company's overall compensation philosophy;
- deciding and retaining on a compensation consultant;
- evaluating and approving the CEO's and other executive officers' total compensation
- evaluating and recommending the salary to be provided to non-employee directors
- reviewing and making recommendations to the board of directors regarding incentive-compensation programs and equity-based plans; and
- any other items that our board of directors directly delegate to the Remuneration Committee from time to time.

Also, Spotify's board of directors has formed an Audit Committee, consisting of Mr. Marshall, Mr. Staggs and Ms. Warrior and chaired by Mr Staggs. The Audit Committee's members all fulfil the "independence" standards outlined in the NYSE's regulations and Rule 10A-3 under the Exchange Act.

The following are the Responsibilities of Spotify's Audit Committee:

- consulting with Spotify's independent registered public accounting firm on any substantial audit challenges or issues, as well as the company's reaction to any management letters issued by the independent registered public accounting firm;
- maintaining, compensating, evaluating, and supervising the work of the independent registered public accounting firm;
- selecting and eventually replacing the independent registered public accounting firm, subject to shareholder approval;
- meet with management and independent registered public accounting firm to discuss yearly audited financial statements and quarterly financial statements;
- review and reassess the adequacy of Audit Committee charter on a yearly basis;

- meet with management and, separately, with internal auditors and independent registered public accounting firm on a regular basis; and
- other matters specifically delegated to the audit committee by the board of directors from time to time;

With regard to the diversity of the board, here is a summary image as for 2021:

| Board of Directors | Total | Men | Women | Caucasian/White | African/American Black | Asian/Pacific Islander | Hispanic/Latinos | Others |
|--------------------|-------|-----|-------|-----------------|------------------------|------------------------|------------------|--------|
| Spotify | 11 | 7 | 4 | 3 | 0 | 2 | 6 | 0 |

Due to the strongly egalitarian Swedish roots of the two Spotify's Co-Founders (Mr. Ek and Mr. Lorentzon), it can be noticed a quite high presence of almost 40% women on the board and a substantial ethnic heterogeneity as regards the nationality of board members.

4. APPLICATION OF 4 LEVERS OF CONTROL TO TASKS/RESPONSIBILITIES OF THE BOARD OF DIRECTORS

4.1 DISCLAIMER

First of all, it is necessary to mention a fundamental disclaimer of the analysis that will follow.

The ideas in this section of this study are not indemonstrable: however, there has been little literature and no systematic research of how boards may use the tools of management control systems.

Indeed, Simons concentrates on (senior) managers and doesn't go into detail about how the board of directors may employ the levers of control both to monitor (or cooperate with) the CEO and, in general, to carry out its tasks and responsibilities.

Thus, for these reasons and because there are no studies on Simons' Levers of Control framework at the governance level, the connections and interactions that I will list may be speculations that might be too broad to examine in their current form.

Thus, more qualitative and quantitative studies are needed to delve more deeply into how accounting and control systems might be used in the board of directors context, as well as to assess the success of these systems in giving meaningful information to directors.

4.2 ANALYSIS

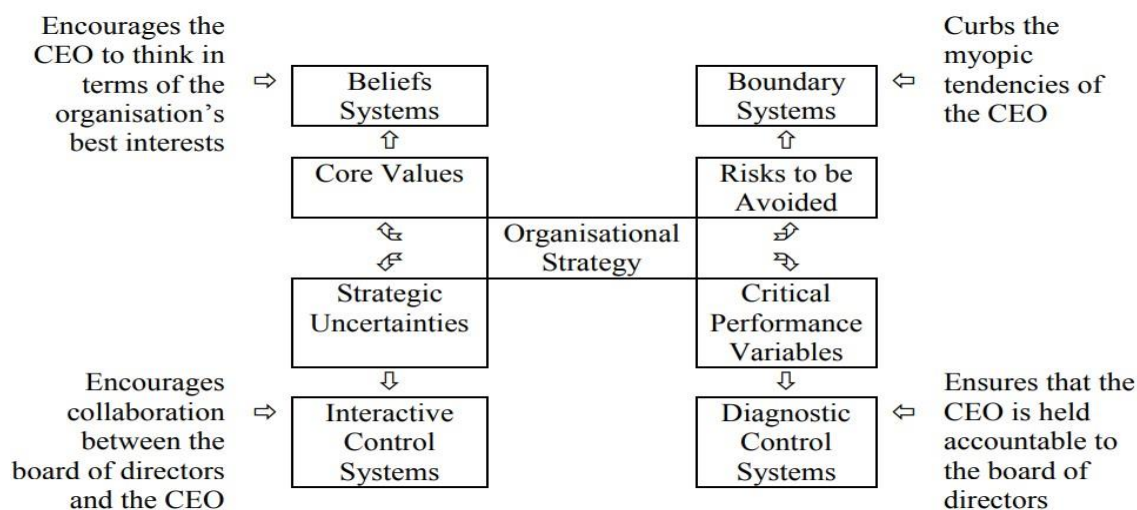
An analysis will now be provided on the connections and interactions that already exist or could exist between Spotify's board roles with Simons' levers of control, which can be used to either monitor (agency theory) or collaborate with (management theory) the CEO, as well as provide a framework for implementing the proper organisational strategy.

However, because CEO behaviour can be both agent and steward in a complex and dynamic social environment, typically neither agency nor stewardship theory has greater explanatory power, but depending on the specific business and business context, one may still be more representative than the other.

As a result, the board must employ control levers to moderate CEO actions, reducing agency expenditures while increasing organizational performance, and, in general, to better carry out its tasks and responsibilities.

The board of directors must work with the CEO to develop the organization's strategy (or, at the very least, review and approve the CEO's strategy), as well as monitor and advise on the strategy's implementation, and then evaluate the organization's and CEO's performance in relation to this intended strategy.

Below is a theoretical representation of how Simons' levers of control might be theoretically applied by the boards of directors to establish appropriate strategies.



Source: [LeversOfControlInTheBoardroom-Revised.doc \(canterbury.ac.nz\)](#)

BELIEF CONTROL SYSTEM

In addition to the analysis already provided at the aggregate level (Section 2), also in the case of the board of directors of Spotify, the Belief control system application is crucial to the functioning of the company: in fact, the strategic scope of the company and the desired systematic decentralization of the structure may want to communicate a proper dissemination and consistency of the mission statement, vision statement and core values of Spotify, which leads to increasing the company's long-term value and health in the best interests of its shareholders.

Moreover, the correct implementation of beliefs control systems is mainly assessed by how much the CEO himself believes in the mission, vision and core values on which the company is based, thus avoiding to incur in selfish choices because dictated by principles. In the case of Spotify, the personal views and musings of Spotify's CEO and co-founder, Daniel Ek, regarding the business and his consistency in this can be seen in the letter at the end of the Form F-1 for the US SEC in 2018, the year of Spotify's IPO, in which he announces how he's established and transformed the music industry forever and wants to continue on this.

BOUNDARY CONTROL SYSTEM

Although the boundary control system occupies a smaller portion than the other levers of control, as anticipated in the analysis already provided at the aggregate level (Section 2), given the strong decentralization of the business system and the wide flexibility and decision-making autonomy of each organizational unit (squads, tribes, chapters, guilds), at the level of the board of directors it still occupies considerable importance.

Actually, the level of restrictions and rules related to the business/work environment manifested by Spotify's boundary control system are loosening slightly due to the Covid-19 pandemic, according to which the board of directors has decided to provide more flexibility around time (management by objectives rather than traditional 9-17 workday) and locations, so employees can choose the country and city where they want to work, as well as to adopt a "Work from Anywhere" model, allowing employees to choose whether they want to be in the office full-time, be at home full-time, or a hybrid combination of the two.

However, the relevance of this lever of control is still substantial and it is firstly expressed by the implementation by Spotify's board of directors of a Codes of Conduct linked to the strong Value System already described with regard to the Belief control system, based on company policies and the 5 core values which everyone is expected to know and follow.

Indeed, among the duties of boards and matters presented exclusively to the board is to ensure that the policies and guidelines governing the ethical behaviour of the company and groups are implemented.

This code describes also the three main rules and how to make sure to follow them:

1. Do the right thing, always act honestly, with integrity and trustworthiness. Maintain high moral and ethical standards.
2. Be kind, treating people with dignity, courtesy and respect, regardless of who they are or where they come from.
3. Act honestly and not cheat. When conducting business, keep in mind the interests of all parties involved (stakeholders, performers, users, employees and the general public).

According to the requirements for the SEC and the NYSE, the Code has been adopted to encourage:

- confidentiality;
- protection of Spotify's legitimate business interests, including assets and corporate opportunities;
- prompt internal reporting
- observance of all relevant laws, rules, and requirements;
- full, fair, accurate, timely, and understandable disclosure;
- complete, fair, accurate, timely, and clear disclosure; and
- honest and ethical behavior, which includes fair dealing and ethical treatment of actual or apparent conflicts of interest.

All the individuals who are working internally for Spotify's (board members, officers, employees, consultants, and those acting on Spotify's behalf) are subject to this policy. Failure to adhere to the Code may result in disciplinary action or possibly termination of the employment contract.

DIAGNOSTIC CONTROL SYSTEM

With respect to the application of diagnostic control systems at the board level, the situation in the case of Spotify is certainly interesting to interpret. In fact, although Simons did not discuss how boards might use diagnostic control systems at all at the administrative level or to monitor CEO behaviour, it seems that among corporate boards they have now become very important.

In the case of Spotify, for example, among the Tasks of boards and issues presented exclusively to the board we find:

- ensuring that there are adequate methods in place to monitor and oversee the activities and financial status of the group in relation to its stated objectives;
- overseeing management succession planning and important financial matters, such as the adoption of annual forecasts and budget targets;
- financial reporting;
- financial and investment forecasts and strategic challenges are evaluated;
- market and finance issues are evaluated;
- establishing the company's annual and consolidated financial statements; and
- presenting the annual and consolidated financial statements to the company's auditors.

In addition, with an excellent combination of boundary and diagnostic control systems, Spotify's board has approved a complex enterprise risk management and risk advisory system, to identify opportunities or potential problems before they happen, with possible risk roadmaps, development of critical risk indicators and data analysis.

Finally, although it is (rightly) not public information, it is to be assumed that the boards have undertaken careful strategic mapping and planning, as well as the implementation of performance management system tools such as strategic balance scorecards, for example.

INTERACTIVE CONTROL SYSTEM

As with the Belief Control System, interactive control is the most important control lever at the board level of the Swedish streaming service company.

In Spotify's case, the boards implemented the innovative matrix-type organizational structure precisely to enable greater decentralization and more efficient information flow, as well as decision-making autonomy. As a result, Spotify's boards played a key role in formulating and monitoring organizational strategy.

At the same time, the boards also appointed the highest level of executives in the company to ensure that the flow of information from each related area was properly managed, and that appropriate opportunities from different markets, considering the dynamic business environment, are properly exploited.

Spotify's top tier executive managers as of 2021 are:

- Daniel EK (Chief Executive Officer)
- Paul Vogel (Chief Financial Officer)
- Katarina Berg (Chief Human Resources Officer)
- Alex Norström (Chief Freemium Business Officer)
- Gustav Söderström (Chief Research & Development Officer)
- Dawn Ostroff (Chief Content & Advertising Business Officer)

5. STEWARDSHIP THEORY TO THE SPOTIFY CASE

In a decentralized, bottom-up business context such as Spotify's, pro-organizational behaviour is encouraged by the strong influence of belief and interactive control systems, although it is the correct combination with the diagnostic and boundary control system that ensures the optimal balance, both at the corporate level and for the board of directors.

Therefore, for this strong influence exercised by Interactive and Belief levers of control on Spotify's board and organizational structure, it is noteworthy that in this specific case stewardship theory is much more appropriate for defining the company in terms of corporate governance than agency theory.

The core values are properly spread throughout the business system and the corporate culture and the rules dictated by the Codes of Conduct indicate a system built on trust, integrity and honesty, as a consequence of the decentralization desired by the organizational model.

Applying Stewardship Theory to the Spotify case, which is very reminiscent of the "Theory Y" theorized by Douglas McGregor (1960) in his studies, the fact that not too much emphasis on monitoring is necessary, which leads to minimize monitoring costs, is due to a participative environment and healthy working relationships between members of Squads, Tribes, Chapters and Guilds, which can only constitute settings that are first of all professional, but also familiar after some time.

Moreover, given that even members of the same Squads may periodically change to other Squads, interacting with so many people, with more or less formal relationships, sharing different skills and knowledge to achieve common goals, can increase the individual employee's knowledge network and avoid unhealthy relationships or stale group situations.

6. CONCLUSIONS

In conclusion, these four levers of control collectively set in motion powerful and mutually reinforcing forces. As Spotify has grown and become more complex, managers will inevitably have to deal with increased opportunities and competitive forces and decreased time and attention. By using the levers of control effectively, Senior managers and the Board of Directors can ensure that the benefits of innovation and creativity are not achieved at the expense of control.

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