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Measures under Pressure

- Applicable Types of Performance Measurements for Strategy Implementation at KappAhl and Skandia AFS

Johan Bengtsson and Jörg Jung

ABSTRACT

In today's business environment concepts such as stakeholder value and service management have become extremely important to satisfy employees, customers and shareholders. This thesis focuses on how service companies can use different performance measurements for management control purposes to identify what types of measures are most applicable for strategy implementation. The research gets investigated from several different perspectives: consultants, academics, and case companies. The theoretical framework is adopted as a model for combining concepts of performance- and service management, while the empirical study encompasses KappAhl and Skandia AFS performance measurement systems. The emphasis is put on different types of performance measurements from a matrix point of view, which besides the three research perspectives explores the best practice (theory), the actual use (empirical) and applicability (analysis) in order to obtain high quality outcome. The basis for monitoring performance in the case companies has been based upon the Balanced Scorecard concept as being the most well-known performance measurement system. This thesis identifies not only what variables create real shareholder value, but also what types of measures deliver sustained future success to service organisations in general.

Key Words: Strategy implementation, management control, performance measurement, service management, measurement systems and types, stakeholder value, balanced scorecard

"If you want something to be done, measure it. If you cannot define it, you cannot measure it. If you cannot measure it, you cannot manage it. If you cannot manage it, you cannot improve it"

[KPMG]

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1. Introduction

Highly competitive market conditions and growing globalisation are business trends among others that have imposed new demands on business, where customers demand broader product lines, higher quality, more reliable delivery and lower prices. As a consequence, companies have increased their investment in R&D, new technology and new processes (Bromwhich and Bhimani, 1994). With these changes in the business environment, there has also been a growing interest in changing and improving management control systems. Traditional methods of management control have been under great critique by many academics and practitioners. Companies have been criticized for the ways they plan their operations and monitor performance.

The "relevance lost debate" by Johnson and Kaplan (1987) started the critique that traditional cost accounting systems and financial measures produce information that is too distorted, too aggregated, and too late to be useful in reducing cost or improving productivity and to be relevant for manager's planning and control decisions. For decades, companies have measured performance by financial indicators. This may have been adequate in the industrial age, but in the current information and knowledge intensive milieu, the value chain includes other perspectives such as service, customisation and time. In today's fast changing environment, financial statements are neither adequate to measure competitiveness nor a guide for future performance. Vliet (1997) argues that financial measures lead to short-term decision making, over investments in easily valued assets and under investments in intangible assets such as process innovation, employee skills and customer satisfaction. Today, organizations operate in turbulent environments and executives need more sophisticated feedback on performance.

The field of performance measurement has always been interesting in order to monitor strategic direction. Management control is one of the main priorities for executives, because they need sophisticated feedback on decision-making. Management insecurity is one of the main forces that drive measurement systems. Feedback is needed in order to examine the changing environment and to adjust strategic decisions. In the hustle for competitive advantage, every executive is searching for the adequate performance measurements that guide the way into the future.

1.1 Service Development

According to Looy, Dierdonck and Gemmel (1998), our economy can be basically divided into three sectors. The primary includes farming, forestry and fishing while the secondary is characterised by the industrial sector, which has dominated during the last decades. The tertiary sector is a synonym for the service sector that continuously increased in importance during the second half of our century. Today our economy has shifted towards an information and service focus. Historically, in the 19th century, the agricultural sector was the dominant one in the Swedish economy with the main population employed to “produce” foodstoffs. In the farming society, money was invested in soil, which by that time was the most powerful resource to own . As a result of the industrial revolution, people moved to the cities to work in factories, in which they “produced” physical products. In this industrial society, investment was made in machines and factories. When technology started to carry through the same workload quicker and more cost efficiently, the human resources were not demanded in the production process to the same extent. Consequently, the human factor in the 70’s moved into offices to start “producing” paper work. Today in the 90’s, information and other intangible assets have become powerful resources in the business environment. In the capital society, money is invested in human capital. Today, customers and selling activities are valuable resources to invest in. (Dahlbom, 1999)

Pine and Gilmore (1998) assert the next step in their so-called “progression of economic value”. They argue that as services are becoming commodities, experiences have emerged as a next step. Leading-edge companies will find that the next competitive background lies in producing experiences. It is no longer the service alone that creates customer satisfaction and in turn retention and loyalty, but rather the experience connected with the service. The idea is to engage customers in a way that creates a memorable event. While prior economic offerings – such as products and services – are external to the buyer, experiences are inherently personal, embedded in the customer's emotional, physical, intellectual, or even spiritual level.

1.2 Problem Statement

The predicament is how companies are able to monitor if a chosen strategic direction is appropriate and if it is possible to be measured at all. We want to investigate what types of performance measurement systems are used in practice to monitor strategy implementation and if they differ from theory? Our main interest lies in the problem of which types of performance measurements service companies use to monitor strategy implementation and which are the most applicable ones?

1.3 Purpose

The purpose of this thesis is to enhance our knowledge and understanding of performance measurement types, applicable for strategy implementation at service companies. Our interest of research is to focus on different steps from strategy and vision to measurements.

1.4 Personal Intention

The reason behind our choice of research area is the complex and challenging combination of different management concepts. Our interest unites concepts such as strategy implementation, service management, stakeholder approach, organisational learning, and management control. Moreover, the service concept increases its importance in the market, though it is not enough to manufacture and sell products, but to satisfy expectations and sell experiences. We believe in the increased importance of monitoring businesses from non-traditional perspectives in order to reach sustainable competitive advantage. For us, gaining knowledge in this area is terribly attractive, because we perceive them to be the most critical areas managers might face and essential for leading companies.

1.5 Delimitation

The basic premise of our research is to focus on two different industries intensively in order to compare and connect the findings to a more general sample (a holistic approach). The case companies are considered as being successful Swedish representatives of service industry, but operating internationally. Both companies have changed from being traditional to become users of more sophisticated methods to adjust and monitor new environments. Moreover, we decided to focus on types of measurements that should be a result of strategy implementation. Our investigations are carried through with a helicopter view, focusing on the executive level where decisions and measures are designed. Furthermore, we will not explore the field of measurements on the operational level, but will look at how strategy and measurements are correlated.

1.6 Methodology

Our decision is, in order to question the status quo, to use an innovative approach. In this section we will give a short introduction to the research perspective but the interesting and important theories of how to investigate and carry out proper research will be included in the specific chapters. We are well aware of the fact that to introduce you to our learning process is very difficult, but at least we will try.

1.6.1 Research Perspective

Yin (1994) is one of the most well known authors in the field of how to design and conduct case studies for research purposes. Case studies are in general terms an exploratory tool, but some famous case studies have proven that they can be descriptive as well as explanatory (Yin, 1994). Our research approach will mainly be of an exploratory kind, but we are trying to implement some descriptive and explanatory elements as well. We studied his book very carefully before starting to investigate our case companies and designing the research method. But we felt that a very important aspect was missing. Due to the fact that we will graduate in our Master of Science in International Management, the management perspective needed deeper attention. A book by Easterby-Smith, Thorpe and Lowe (1991) quenched our thirst for knowledge in this area of management research. We believe that one of the most dangerous traps in thesis writing is to put too much emphasis on this method part. Quite frequently we have experienced that theses tend to stop after explaining how proper data was gathered, interviews conducted, and reliability and validity requirements met, but few take the newly acquired knowledge one step further. Our main purpose is to use the newly acquired knowledge for analysis purposes and put it into the literature content to make a fruitful contribution to our field of interest. As mentioned before, deeper introduction into the research perspective and methods will be included if necessary in each section.

1.6.2 Research Approach

To fulfil our deep investigation, we find it essential to first see what types of performance measurements should be used according to the theory. Secondly, we want to compare which types of measurements are actually used by the two case companies according to the empirical study. Finally, our analysis should identify the most applicable types of performance measurements to monitor strategy implementation. As we see it, 3 determinants meet in continuous interaction in the marketplace: *companies*, *academics and consulting companies*.

Research Matrix:

	Theory	**KappAhl**	**Skandia AFS**	**Academics**	**Consultants**	**Previous Research**
PM best (Theory)						
PM used (Empirical)						
PM most applicable (Analysis)						

PM= Performance Measurement

FIGURE 1: DETERMINANTS OF RESEARCH ; OWN ELABORATION

A likely cycle starts with companies getting studied by academics. The findings of any new innovative model or philosophy then get published in well known special Journals and Magazines or books. After acknowledging new models or revolutionary ideas, consulting companies string their package for selling new products back to the companies. After implementation, academics start the cycle over again by inquiring into the new approaches. Or, when companies have a problem, consulting companies recommend solutions to the specific company. After that, academics try to accumulate the new approaches. Due to that simple but yet important aspect, we decided to explore all of the three determinants in combination with the deep literature studies.

1.6.3 Research Parties

KappAhl and *Skandia AFS* are successful service companies and have been implementing new performance measurement systems during the 90's. We chose *KPMG Consulting*, simply because it helped KappAhl to implement the Balanced Scorecard (BSC) as well as the fact that KPMG was a part of the research project that developed the original BSC. Furthermore, *Cepro Consulting*, because of Nils-Göran Olve, a guru in performance management, the author of two astonishing books, and our discussion partner during our thesis work. Olve has recently launched two books in the field of performance measurement where he investigated both case companies. The framework Olve presents lies as a foundation for our research. Finally, we discussed with Martin Sande, at *Sande Consulting*, familiar with both case companies and our research area. Furthermore, we interviewed *academic researchers* chosen for their specific professional fields.

1.6.4 Thesis Process

The thesis process has been a very stimulating one, yet extremely valuable and sometimes quite painful. The main direction of the thesis has been changed at least three times. In the initial phase, our stubborn attitude sometimes inhibited the learning process. Fortunately, after deep discussions we broadened our view and were finally able to adapt to changing situations. For us, this thesis should not only be a piece of work produced in order to graduate. Initially, the overall goal was not our performance itself but rather the continued learning process after finishing all necessary exams and papers. From the beginning we were lacking the system thinking perspective. We were unable to combine different concepts to one research question. We believed that the BSC alone would be enough to describe the research area. It took us some time to realise that this concept is just a tiny part surrounded by much more important overall concepts. Finally we came to a broader definition of performance measurement combined with the service concept. Later, we investigated the idea with the three research determinants, followed by smaller changes of direction. An ongoing process over time led us through this development, which probably was the most time consuming part of the thesis writing. The more we investigated, the more questions and perspectives were brought up for discussion.

2. Theoretical Framework

As we see it, “performance measurement” is a part of the whole organization related to various concepts. It is nothing that could be easily isolated. Therefore, we have to conduct a holistically designed case study in our choice of literature (Yin, 1994). So what is needed is a system perspective view on the overall concept. For example, the two main areas we investigate are *performance management* combined with *service management strategies*. Within these two areas, various other concepts are relevant. Even though the theories are of holistic nature, we still want to avoid the typical traps of this kind of case study. Hence, all related concepts must have a strong correlation to the main concept of performance measurement. We will illustrate a biased view on different concepts towards our main research question. First, we will introduce the concept of performance management that will lead directly into the second field of service management. Moreover, in the third part of this chapter we will provide an overview of different performance measurement models. Finally, the latest research in this area leads directly into the empirical study and analysis.

2.1 Performance Management

Performance management is defined as what “organizations, teams, managers, team leaders and individuals do or could do better to manage their performance in order to achieve success” (Armstrong and Baron, 1998). It is a strategic and integrated approach to deliver sustained future success to organizations. Performance management is concerned with creating a culture in which organizational and individual learning and development are a continuous process. Lynch and Cross (1991) define performance measurement as “feedback on activities that motivate behaviour leading to continuous improvement in customer satisfaction, flexibility, and productivity”. It is not an employee evaluation. The most popular phrases concerning performance are “What you measure is what you get” and “What gets measured gets done”. The basic objective behind measurements is simply to improve current performance. To be able to do so, specific standards or benchmarks are important aspects. Measurements are the root for providing and generating feedback, they identify where things are going well or not and provide a foundation for future change. Problems in measuring performance necessarily occur when evaluating the organisational success (Bruns, 1992).

2.1.1 Measurement Approaches

Armstrong and Baron (1998) argue that what gets measured is often what is easy and possible to measure. And in some cases, what is meaningful is not measurable. Levinson (1970) claimed already long ago that the more emphasis relies on quantification, the more likely subtle and non-measurable elements will be sacrificed. That would imply that quality decreases. But, indeed, all jobs produce results and these results are measurable. Smith (1994) divides the measurements into four basic types: *financial quantitative, financial qualitative, non-financial quantitative, and non-financial qualitative*. What is necessary is to be clear about what is important and relevant before defining what measures should be used. Armstrong and Baron (1998) continue to claim that what to measure ultimately depends on what stakeholders and customers believe to be important. Measurements provide the link between customer-oriented strategies and goals and action. Furthermore, Hope (1998) asserts that businesses should be value-driven, not cost-driven. It is more important to understand what creates value than what causes costs. A value driven approach creates appropriate measures aligned to the business strategy.

2.1.1.1 Basis for Measurements

To understand what measurement is all about, some kind of basic introduction is essential. The basis for measurements can be defined in different ways according to different authors. Oakland (1993) suggests that appropriate performance measurements as a basis:

- Ensures customer requirements have been met
- Provides standards for establishing comparisons
- Provides visibility and provides a "scorecard" for people to monitor their own performance levels
- Highlights quality problems and determines which areas require priority attention
- Gives an indication of the costs of poor quality
- Justifies the use of resources
- Provides feedback for driving the improvement effort

Thor (1995) has advanced three principles governing the development of performance measures as means of increasing organisational effectiveness:

- What to measure is ultimately determined by what the customer considers important.
- The customer's needs are translated into strategic priorities and a strategic plan indicating what should be measured.
- Supplying improvement teams with measured results of key strategic priorities contributes to further improvement by providing both team motivation and information on what works and does not work

It is often argued that most performance indicators paint a picture of the past, but if measurement is to be useful in performance management it has to be forward looking and concerned with performance improvement. Consequently, any organization needs a range of indicators to measure performance and make adjustments about effectiveness (Williams, 1998). Thus, we would expect to see measures of outcome, output, throughput, internal functioning, etc., including the five main areas suggested by Walters (1995):

- Contribution to the achievement of strategic objectives
- Measures of quality
- Measures of quantity and volume
- Measures of efficiency and value for money
- Measures of external and internal customer satisfaction

2.1.1.2 Measurement Classification

Armstrong and Baron (1998) distinguish between two general types of measures namely *output* and *input measures*. While output measures in general deliver service and quality to internal and external customers, input measures are characterized by what employees bring to their roles in the shape of knowledge, skills and competencies. Various types of measures exist, selected on different criteria like being related, relevant, significant, comprehensive, precise, verifiable, measurable etc. Kane (1996) sums up a kind of classification for measures:

Finance	- income, shareholder value, added value, rates of return, costs
Output	- units produced or processed, throughput, new accounts
Impact	- quality and level of standard, behaviour, completion of work
Reaction	- judgement by others, colleagues, internal / external customers
Time	- speed, achievements, time to market, delivery times

To achieve competitive advantage in a market place where virtually all players are comparable on price, customer service, and innovation, it is indispensable to make better decisions faster than competitors. A focused set of performance measures, derived from linking measures to strategy and decision-making should make the difference (Axson, 1999). The author continues by claiming that too few organisations report on the basis of *leading / lagging* and *predictive / competitive measures*. Instead of trying to balance all measurements, Axson (1999) votes for a biased view depending on the priorities of a particular industry. Each performance measurement system must be tailored to specific approaches. The Business Logics Model developed by Swedish researcher and consultant Dr Eric Giertz (his book

"*Measuring Success: Operations Development in Practice*" will be published later this year 1999 by Celemi) takes it one step further. His performance measurement tool helps managers to identify and implement the performance metrics that are most relevant to their specific operations (Barchan, 1999). On the basis of this model, management will be able to prioritise the most effective actions for short-term results to use these indicators to guide and generate continuous improvement in the long run. Frost (1999) agrees that the best performance measures are certainly not those that follow a popular model, but those that are designed to fit the business and which are engineered to specific criteria. Moreover, Boyett and Conn (1995) defined four ways in which measures could be expressed: *counts, ratios, percentage and financial impact*.

Bredrup (1994) defines performance by three dimensions in a business context: *efficiency, effectiveness and changeability*. The integration of these dimensions will ultimately decide the competitiveness of a company.

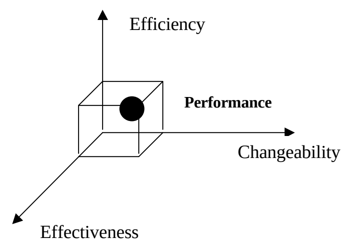

FIGURE 2: DIMENSIONS OF PERFORMANCE; ADOPTED FROM ROLSTADÅS (1995:P.85)

Dynamic global competition, product proliferation, shorter product life cycles, and advanced product and process technologies have forever changed the formula for success in 90s management thinking. The MIT Commission has identified several "best practices" for successful firms (Lynch and Cross, 1995):

- Simultaneous improvement in quality, cost and speed
- Competitive benchmarking
- Close ties with customers and suppliers
- More functional integration instead of stratification
- Training and continuous learning

Furthermore, Olve, Roy and Wetter (1999b) present some certain criteria usable to distinguish what kind of measurements should be used such as:

- Measurements should be clear and well defined everywhere in the company
- The measurements used should, when they are used together, provide a sufficient picture of characteristics within the business that are defined in the corporate strategy and critical success factors
- The relations between measurements in the different perspectives shall be clear
- The measurements shall be usable to provide goals that the management finds realistic
- Measuring must be done in a easy way, and the measurements shall be able to handle different systems (IT systems)

2.1.1.3 Basic Types of Measures

Anything that is important to at least one important group of stakeholders should, according to Risher and Fay (1995), be measured somewhere. Basically, the authors developed three key groupings of measurement types that should cover most aspects of measurement: *productivity, quality, and innovation.*

Productivity measures are characterised by outcome measures that are a result of different inputs required to produce the output. The output is more clearly understood in manufacturing terms, but is more difficult to illustrate in service businesses. A clear distinction between output and outcome is desirable. Many processes cannot be judged at the time of output delivery. What is more important to measure is if there is any outcome as well. Output must lead towards outcomes. Otherwise the productivity measures fail.

Quality measures are fundamentally the prevention and elimination of waste, where waste is broadly defined as anything that does not create stakeholder value. Quality improvement and waste reduction are the usual types of this measurement for its main stakeholders - the customer. Specific examples could be lead times, time to market, inventories etc.

Innovation is an elusive concept. It is usually associated with counting “special” results, above and beyond what could be normally expected. Employee activities and behaviour could describe a typical type. Teamwork is another interesting approach to measure in various ways. Process and development suggestions as well as job sharing and decision making also characterise this perspective.

2.1.2 Measurement Correlations

As measures are usually not developed independently some correlations between different measures are quite obvious. No single measure can exist alone without affecting other measures. To identify areas that affect others is the basic logic behind measurement. Three very essential approaches will be discussed: *performance measures* and *outcome drivers*, *primary* vs. *secondary objectives*, and *the cause-and-effect relationship*.

2.1.2.1 Performance Drivers and Outcome Measures

According to Olve, Roy and Wetter (1999b), it is essential to distinguish and to balance between measurements that describe what companies *do* (performance drivers) and measurements that tell companies what they have *done* (outcomes measures). “Drivers” and “Outcome” build up a chain in which the first “outcome” can in turn drive the next level of the chain. These chains of cause and effect can be very difficult to find and identify, because they are influenced by external circumstances that are intricate to control, but indispensable for corporate success.

2.1.2.2 Primary vs. Secondary Objectives

Atkinson et al (1997) claim “employees plan, design, implement, and operate the processes that make and deliver the company’s products to its customer”. Consequently, the authors argue for a more adequate distinction in primary and secondary objectives. *Primary objectives* are those that show the results while *secondary objectives* are the drivers behind them. It is a quite similar approach to the performance drivers of Olve, Roy and Wetter (1999a). To manage results of primary objectives, the company must focus on the secondary objectives that create those results. In contrast to the secondary objectives, which are supposed to help the organisation to achieve its primary targets, the organisation’s owners design primary objectives. For example, customer satisfaction, a secondary objective, is deemed important because it leads to increased shareholder wealth, a primary objective.

2.1.2.3 Cause – Effect - Relationship

The great challenge in performance measurement is to find clear *cause-and-effect relationships* and to create a balance between the different measures in the selected perspectives (Olve, Roy and Wetter, 1999a). The measures in the selected perspectives must fit and support the comprehensive vision and the overall strategy. All measurements have a strong correlation to each other throughout the different perspectives. The following example illustrates some possible relationships, which could be adjusted to any other scenario of cause-and-effect relationships.

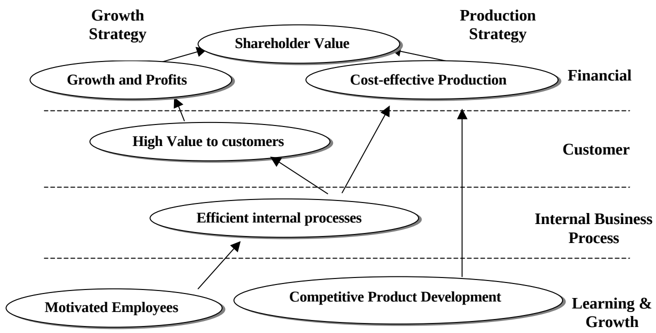

FIGURE 3: CAUSE–AND-EFFECT RELATIONSHIP, ADOPTED FROM OLVE, ROY AND WETTER (1999A:P.71)

Olve, Roy and Wetter (1999a) found in their research of several companies, both possibilities. Most companies used a cascading downstream approach breaking the corporate vision down into the different levels while some started at the bottom to build the scorecard up.

2.1.3 Strategic Impact on Performance

Since we are talking about performance measurements from a systems perspective, a close connection to strategy is essential. It is vital to view different perspectives of strategy and how they could be controlled and related to the concept of performance measurement.

2.1.3.1 Generic perspectives on strategy

Over the years, academics have had many ideas on what strategy really is. Whittington (1993) presents four approaches; *Classical*, *Systemic*, *Evolutionary* and finally the *Processual* approach. The four approaches differ fundamentally along two dimensions; the *outcomes* and the *processes* by which the strategy is made.

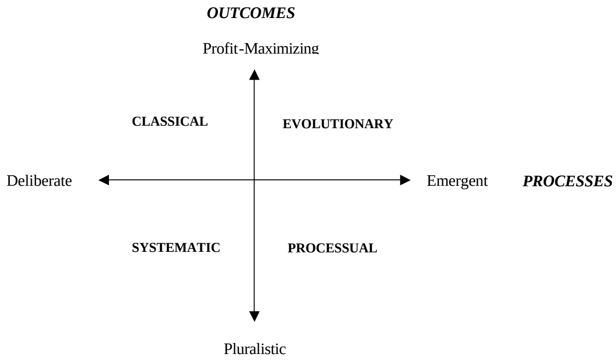

FIGURE 4: GENERIC STRATEGIES, ADOPTED FROM WHITTINGTON (1993)

Classical perspective. Authors such as Igor Ansoff and Michael Porter support this approach to strategy by claiming that strategy is a rational process of deliberate calculation and analysis, designed to maximize long-term advantage. Careful planning is the key to mastering internal and external environments and to coping with competition. Strategy matters in that rational analysis and objective decisions make the difference between long-run success and failure.

Systematic perspective. Objectives and strategy practices depend on the particular social system in which strategy-making takes place. The Systematic strategies often deviate from the profit-maximizing norm quite deliberately, thus their social backgrounds give them other interests than profit. Firms differ according to the social and economic systems in which they are embedded. The strategy reflects the particular social systems in which companies participate, defining for them the interest in which they act and the rules by which they survive.

Evolutionary perspective. Rather than relying on managers, the Evolutionists expect the markets to secure planning methods, but stress competitive processes of natural selection. They argue that whatever methods managers adopt, it will be only the best that survive. Moreover, environmental fit is more likely to be the result of change and good fortune, even failure, than the outcome of conscious strategic choice. The only competitive advantage a business might have in the market is relative efficiency. Since sophisticated strategies only deliver a temporary advantage, competitors will be quick to imitate and erode any early benefit.

Processual perspective. This perspective generally shares the Evolutionary scepticism about rational strategy making, but is less confident about markets ensuring profit-maximizing outcomes. Organizations and markets are complicated phenomena, from which strategies emerge with much confusion and in small steps. Consequently, it is no idea to strive after the unachievable ideal, but it is better to accept and work with the world as it is. People are unable to consider more than a handful of factors at the same time, and therefore they cannot be as rational as the Classical planning approaches to strategy suggest. Furthermore, a strategy is a way in which managers try to simplify and order a world that is too complex and chaotic for them to comprehend.

2.1.3.2 Strategic Control

The basic root behind all measurements is the assumption of control mechanisms. Questions such as “are we moving in the right direction” and “how are we performing” typically characterise the control of strategies. Three fundamental perspectives provide the basics for designing strategy control systems – *strategic control*, *operational control*, and *total quality / continuous improvement*. In contrast to post-action control, strategic control is designed to meet top management’s needs, track the strategy as it is being implemented, to detect underlying problems, and to make the necessary adjustments. (Pierce and Robinson, 1997)

The traditional means of operational control systems such as budgets, schedules and management by objectives are getting more and more replaced by critical success factors. The idea behind that is to identify performance standards associated with allocation and use of all the firm's resources (Byars, 1987). A critical concern is the identification and evaluation of performance deviations. The important point here is the need to monitor progress against standards and identify the causes of deviation in order to adjust to the new situation. (Pierce and Robinson, 1997)

Continuous improvement has emerged over the last decades. Around an intensive focus on customer satisfaction, employees across all levels in an organisation define customer value, identify processes to influence customer value, and seek continuously to enhance quality, efficiency, and responsiveness with which processes, products, and services are created and supplied. (Pierce and Robinson, 1997)

2.1.3.3 Strategic Concept of Performance

Bredrup (1995) understands performance management as comprising three main processes – *planning*, *improving* and *reviewing*. These three processes could be applied to the management of performance at whatever level of analysis – organisation wide, business unit, department, team, individual, etc. (Mabey and Salaman, 1995). But Bredrup's schematic representation of this model shows rather clearly the organisational perspective. Thus, in this model performance planning is concerned with such activities as formulating the organisation's vision and strategy and defining what is meant by performance. Performance improvement takes a process perspective, that includes such activities as business process re-engineering, continuous process improvement, benchmarking, and total quality management. One of the reasons why this model is of particular interest is because it incorporates many management ideas, philosophies, practices, etc. that have emerged over the last two decades (Williams, 1998).

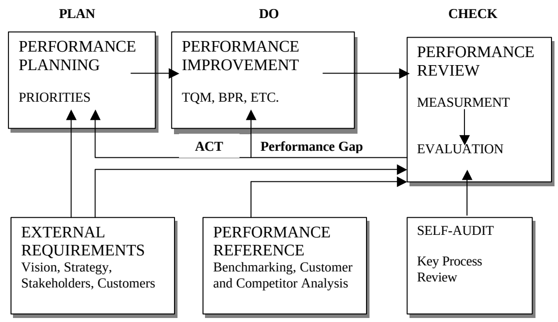

FIGURE 5: PERFORMANCE MANAGEMENT; ADOPTED FROM WILLIAMS (1998:P.12)

2.2 Service Management

Lovelock (1992) presents two major shifts of service management thinking compared to traditional manufacturing management: Firstly, a shift from the *internal consequences* of performance to *external consequences*. And secondly, the focus changed from structure to process. Traditionally, management philosophies of manufacturing industries have proclaimed economies of scale and productivity of capital and labour as a means of delivering sustained corporate success. Consequently, internal efficiency of the business is the main focus of management.

On the contrary, in managing service business, the complicated characteristics of services (inseparability of production and consumption and the role of customers as co-producers) make the external efficiency of the business (customer satisfaction within the operations of the organisation) a crucial point of management. Internal efficiency, as for example cost efficiency, is still important, but customer satisfaction and external efficiency mostly have first priority. Lovelock (1992) presents a definition of service management, which is also supported by Grönroos (1990).

- Understanding the utility of value customers receive by consuming or using the offerings of the organisation and how services alone or together with physical goods or other kinds of tangibles contribute to this utility, that is, to understand how total quality is perceived in customer relationships and how it changes over time
- Understanding how the organisation (personnel, technology & physical resources, systems, and customers) will be able to produce and deliver this utility or quality
- Understanding how the organisation should be developed and managed so that the intended utility or quality is achieved
- Make the organisation function so that this utility or quality is achieved and the objectives of the parties involved (the organisation, the customers, other partners, the society, etc.) are met

Albrecht (1986) provides a shorter description of service management stating that "Service management is a total organisational approach that makes quality of service, as perceived by the customer, the number one driving force for the operation of the business". Schneider and Rentsch (1987) compress the definition by claiming that firms that apply service management principles consider "service as *the* organisational imperative". Finally, Normann (1992) gives another approach to service management as he claims that service is a social process and management is the ability to guide these processes. Consequently, service organizations are more sensitive to the management quality that any other type of organization.

2.2.1 The character of a service

By tradition, banks, insurance companies, hotels, restaurants and most public agencies are included in the service sector (Gummesson, 1993). However, service operations are also highly dependant on physical products. These include buildings, machines and other capital goods and also consumer goods. Levitt (1972) claims that purveyors of service, for their part, think that they and their problems are fundamentally different from other business and their problems. They feel that service is people-intensive, while the rest of the economy is capital-intensive. There are only industries whose service components are greater or less than those of other industries. With this statement, Levitt (1972) clearly states, "*Everybody* is in service".

According to Gummesson (1993), a large number of typologies to determine the differences between various services and between goods and services can be found in the literature. However, the author argues that they are often characterised by good logic but may have a limited empirical and operational connection. Their contribution is primarily to show that services have many dimensions and cannot be described by means of simple definitions.

2.2.2 Service Management System

According to Lovelock (1992), any service business can be thought of as a system comprising service operations, where inputs are processed and the elements of the service product are created. Service delivery, the final "assembly", of these elements takes place and the product is delivered to the customer. Parts of this system are visible (or otherwise apparent) to customers, while other parts are hidden from the view in what is sometimes referred to as the *technical core*. Some texts refer to "front office" and " back office" as the visible and invisible parts of the operation. Moreover, the visible components of the service operations system can be divided into those relating to the service personnel and those relating to the physical facilities and equipment. What goes on in the back office is of little interest to the customers. However, customers evaluate the production with reference to those elements that they actually experience in the course of service delivery and on the perceived service outcome. Consequently, if employees in the back office fail to perform their support tasks properly, the impact will be apparent to customers.

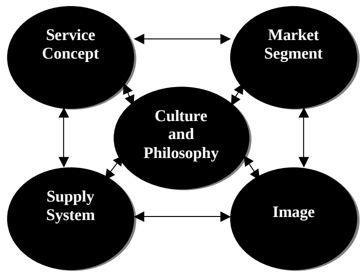

FIGURE 6: SERVICE MANAGEMENT SYSTEM, ADOPTED FROM NORMANN (1992:P.65)

Normann (1992) has defined the service management system as a strategic concept defined by the following five parts:

1. **The market segment** is aimed at the specific type of customer (**core customer**) for whom the whole service system is build.
2. **The service concept** consists of the advantages as are offered to the customer (physical, psychological or emotional). Some are more imperative than others and are referred to as **core service** while others are peripheries. Some can be measured and specified while others might be of utmost importance but impossible to define.
3. **Service supply system,** which can be compared to a manufacturing company’s production and distribution systems, but differently

constructed. It consists of three sub components. ***Employees:*** Service organizations are extremely employee intensive and successful organizations use highly innovative ways to find, develop and to focus human resources. ***Customers*** play an interesting and complex role in a service-organization. Not only does the customer receive and consume the service but also takes part in production and supply processes. Customers must be selected as carefully as employees. ***Technology and physical support****:* As service organizations are highly human intensive they also require a high degree of capital and equipment.

4. **Image** is here considered as an information tool through which management can influence employees, customers and other resources whose actions and opinions are essential for market positioning and cost efficiency. In the long run however, the image depends on what the company *really* offers and who the customer *really* is.
5. **Culture and Philosophy** is covered by the overall principals from which the social process leads to the delivery of services and comparative advantages to customers, which are controlled, maintained and developed. At the point when a superior service system and an applicable service concept have been created, no other component is more decisive for the service organization's long-term efficiency than its culture and philosophy.

2.2.3 Stakeholder Approach

According to Rolstadås (1995), measurement as a basis is a non-value-adding activity. However, the interest of the various stakeholders in development and improvement of competitiveness ensures that performance measurement belongs to the value creating process. Stakeholders vary according to their different importance. Bounds et al. (1994), for example, present a strategic management model driven solely by customers needs. Important though the customer is, there is today the idea that a successful organisation should seek to meet the interests of several stakeholders. Illustrative of this view is the work of Kotter and Heskett (1992), as they view *customers*, *shareholders* and *employees* as key stakeholders. An efficient performance measurement system has to be maintained continuously to sustain capability in a rapidly changing environment. Reports for owners, top management, customers and suppliers are an important task in the communication with the stakeholders for increasing their knowledge. By defining performance on the basis of the stakeholder model and the vision and strategy, a direct link to competitiveness is achieved (Rolstadås, 1995).

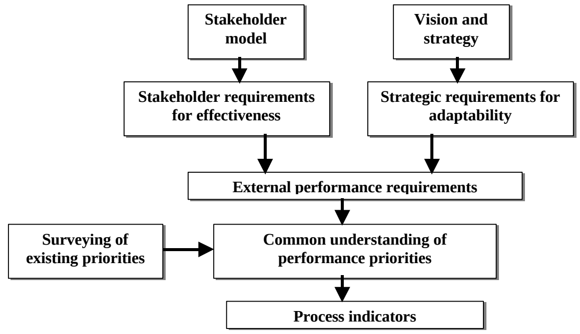

FIGURE 7: STAKEHOLDER PERFORMANCE APPROACH; ADOPTED FROM ROLSTADÅS (1995: P.110)

This model integrates existing external requirements with future requirements. Efficiency and effectiveness fulfill existing requirements while future actions are covered by adaptability. The impact of all stakeholders is very important for a company's success. To measure success, a proper performance system is inevitable. That makes the strong correlation between stakeholders and performance management. As we can sum up, the analysis of stakeholders' needs and interests is of particular importance for performance management as different stakeholders have different views of the nature of performance and of standards of performance that are expected (Williams, 1998).

2.2.4 Customer Satisfaction

The link between customer satisfaction and service quality is a very important one. The level of customer satisfaction is the result of a customer's comparison of expected and perceived service quality (Looy, Dierdonck and Gemmel, 1998). This leads to the conclusion that customer satisfaction is a subjective concept that is hard to measure due to the personal perceptions and expectations of each individual. Dutka (1995) argues that the gap between customer perception and expectation must be eliminated to create real customer satisfaction and achieve enduring retention and growth. Another problem is the definition of the customer chain (Kim and Mauborgne, 1999). Most companies are looking for the target customer when in reality, it is a whole chain of customers. The distinctions of buyers, users, initiators, influencers etc must be taken into consideration as well, which makes it even more difficult to find adequate measurements. The principle guiding solution is to find out who has the strongest influence on the actual buying decision which varies from situation to situation (Looy, Dierdonck and Gemmel, 1998).

The authors continue that *overall satisfaction, loyalty* and *referral* measures are the most important aspects to be measured. Overall satisfaction can be divided into *relationship* and *transaction satisfaction* measures with strong correlation between them. Transaction satisfaction refers to the most recent interaction with the service whereas relationship satisfaction covers the overall picture of the service. Anderson, Fornell and Lehmann (1994) developed the Swedish Customer Satisfaction Barometer, which monitors both types of satisfaction in several Swedish industries. Loyalty and referrals result basically because customer satisfaction affects customer loyalty and this loyalty may eventually result in referrals to other new customers. The findings of the authors conclude and support a positive impact of quality on customer satisfaction and, in turn, profitability.

The value creating processes plays another central role in performance and service management. Normann and Ramirez (1994) modified the original value chain created by the famous Michael Porter to the changed business environment. Now the value chain is seen as a value constellation process where actors come together to co-produce value. The ultimate goal is value creation in all senses of the end customer. But the customer is not interested in the value creation process. What counts for the customers is only the value that the end service or product creates. To create competitive advantage, the value perceived must be better than that of any other competitor.

2.2.5 Moments of Truth

Jan Carlzon, former CEO of SAS, coined the phrase "moments of truth". A moment of truth is any point at which a customer comes in contact with a business - experience can be favourable or unfavourable (Normann, 1992). According to Lynch and Cross (1991), it is important to make a distinction between primary and secondary points of contact. The *primary points of contact,* are those moments of truth directly related to the consumption of the product or service. The *secondary points of contact* are those moments of truth not directly related to the consumption of the product or service. For example, calling a company with a question or complaint is secondary to the actual delivery of the product or service. For the purpose of performance measurement, it is important to note the point at which there is contact with the customer. These moments of truth will determine customer satisfaction (or dissatisfaction). Only then it is possible to identify the specific attributes of a company's performance, which will make or break the opportunities provided by the moments of truth. Understanding the attributes of performance, which are important to the customer, can go a long way towards instituting an effective performance measurement system. Carlzon (1987)

2.2.6 Organisational Learning

A quantum leap forward in organizational learning was achieved with the publishing of Peter Senge's (1990) book "*The Fifth Discipline*". Learning in an organization may be thought of as a system or, perhaps more precisely, a flow process that often needs to be unblocked or released. People who examined organizational learning would have to take into consideration the basic ideas of system thinking, shared vision, team learning and mental models (Fulmer and Keys, 1998). Fulmer, Gibbs and Keys (1998) determine the second generation of learning organisations. They identify six second-generation learning tools as the best practice: *dialogue, scenario planning, the merlin exercise, action planning, practice fields*, and *knowledge management and mapping*. All of them should transform the organization into a flexible, dynamic process able to change over time.

2.2.6.1 Positive Feedback Loops

According to Armstrong and Baron (1998) the latest development concerning feedback in performance management is "360-degree feedback". A 360-degree feedback is defined by the interaction between performance feedback of individuals or groups derived from a number of stakeholders (Ward, 1997). For example, a Strategic Business Unit (SBU) could get feedback concerning their development and performance improvements by peers, managers, internal and external customers, clients and/or suppliers. Feedback is the most essential success factor for any performance and is continuously practised by this model.

Lynch and Cross (1995) argued that the new yardsticks for performance management must be *customer-focused, flexible* and *dynamic*. But as strategies and customers change, so must the yardsticks in order to tailor each specific measurement system to the changing needs of the customers. To be able to adjust to continuous development, the right information must be provided at the right time. Providing this information and adjusting the goals through the feedback process is called "feedback loops" (Lynch and

Cross, 1995). These loops continuously run through all different levels as an ongoing process to provide feedback as a complete control loop.

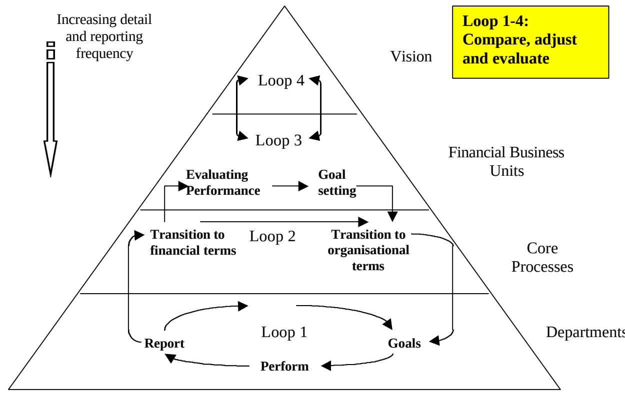

FIGURE 8: FEEDBACK LOOPS, ADOPTED FROM LYNCH AND CROSS (1995: P.176)

2.2.6.2 Double-Loop Learning

The term "double-loop learning" is not a recent one. Chris Argyris had already published his idea in a book from 1977 (Abernathy, 1999). Argyris (1991) distinguishes between learning that challenges the status quo – double-loop learning – and learning that is routine (single-loop learning). Double-loop learning is necessary to continuously adjust the strategy to permanently changing environments by practising an open dialogue with managers and examining the underlying structure of thinking and decision-making. Double-loop learning identifies clearly the causal processes embedded in established claims (Abernathy, 1999). Moreover, Argyris (1998) states that the ultimate goal is performance. Outstanding performance can only be reached by constantly questioning the established patterns and change if necessary. To put double-loop learning in a performance measurement perspective, feedback on performance should be generated in order to make sure that the company is progressing in the right direction.

2.3 Performance Measurement Models

In this chapter we discuss the main points concerning performance measurement models. These models are basically designed to measure the business performance and to link measures to the company's overall strategy.

2.3.1 Balanced Scorecard (BSC)

The balanced scorecard (BSC) was originally developed by Kaplan and Norton (1992, 1993, 1996a, 1996b, 1996c, 1996d, 1996e, 1999) as a framework to help managers translate their organisation's mission, goal and strategy into a comprehensive set of performance measures aimed at achieving competitive success. Thus, the BSC is primarily a mechanism for strategy implementation. Four perspectives are included and organised around the BSC:

- How do customers see us? (Customer perspective)
- What must we excel at? (Internal perspective)
- Can we continue to improve and create value? (Innovation and learning perspective)
- How do we look to shareholders? (Financial perspective)

These four perspectives provide an integrated balance between measures of current, short-term operating performance, but are also the drivers for future competitive performance and growth. The key lies in linking the different measures together properly in a cause-and-effect interrelationship aimed at achieving a single integrated strategy. The BSC-framework provides balance between quantitative outcome measures and more subjective, non-financial measures as the drivers of performance. Moreover, it represents a balance between external measures for shareholders and customers, and internal measures of critical business process, innovation, and learning and growth.

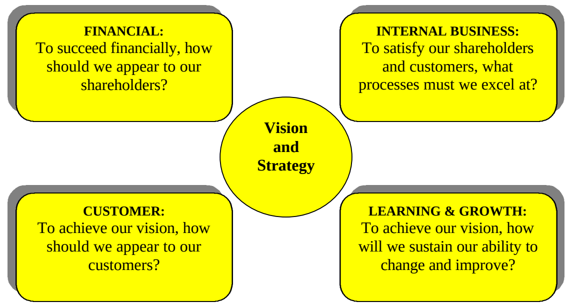

FIGURE 9: BALANCED SCORECARD; ADOPTED FROM KAPLAN & NORTON (1996B)

We do not want to start philosophising about what came first "the egg or the hen". The only discrepancy in Maisel's (1992) BSC is instead of a "learning and growth perspective", the author uses a "human-resource perspective", which measures *innovation* as well as *factors of education and training*, *product development*, *core competencies*, and *corporate culture*. Thus the difference between Kaplan and Norton's BSC is minimal. Maisel's reasoning for using a separate employee perspective is, that management should be attentive to, and should measure, the effectiveness of an organisation and its people.

2.3.2 Performance Pyramid (PP)

McNair et al (1990) presented a model, which is referred to as the Performance Pyramid (PP). The basic assumption is that of customer-oriented principles combined with financial and non-financial figures. The PP shows a company at four different levels and provides a structure of two-way communication. The PP links a firm's strategy and operations together by translating objectives from the top down based on customer priorities and measuring from the bottom up.

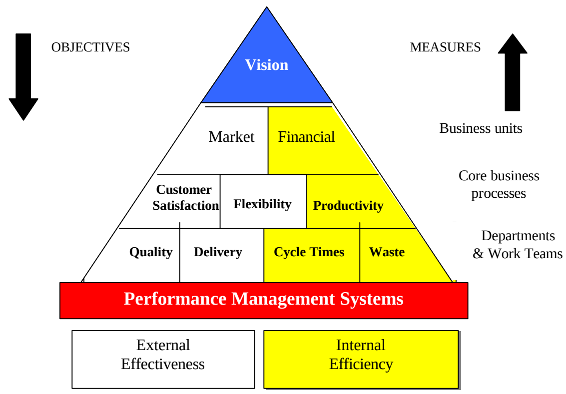

FIGURE 10: PERFORMANCE PYRAMID; ADOPTED FROM LYNCH & CROSS (1995: P.65/67)

The Performance Pyramid System (PPS) distinguishes between several types and levels of measurement (Lynch and Cross, 1995). From an external view, customers and shareholders determine what is important to measure while the internal view focuses on employees, processes etc. The PPS contains four levels of objectives that address both external effectiveness and internal efficiency in an organisation. The development of a company's PP starts with the determination of an overall corporate vision, which is then translated into individual business units. In order to identify the key objectives in the second level, *market* and *financial* measures, key measures of *customer satisfaction*, *flexibility* and *productivity* are derived. They are in turn converted into specific operational measures, which are the base of the pyramid: *quality*, *delivery*, *cycle time* and *waste* (Judson, 1990). Successful companies have been basically competing on the three fronts of their core businesses: *customer satisfaction*, *flexibility* and *productivity* (Lynch and Cross, 1995). Customer satisfaction gets the most attention. Flexibility is certainly seen as a major competitive advantage while productivity increases external effectiveness and internal efficiency.

2.3.3 EPPM and EFQM

The European Foundation for The Quality Management Model (EFQM) underlyies the European Quality Award, which is awarded by the European Foundation of Quality Management. Originally this model was build upon a kind of checklist for a quality award, but its philosophy was translated into a model as well. The philosophy of EFQM is as follows (Looy, Dierdonck and Gemmel, 1998: p.365): *"Customer satisfaction, people satisfaction and impact on society are achieved through leadership driving policy and strategy, people management, resources and processes, leading ultimately to excellence in business results."*

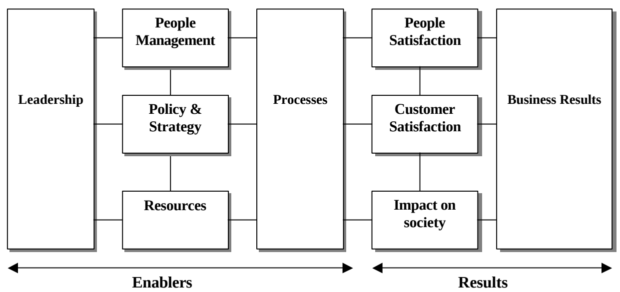

FIGURE 11: EFQM MODEL; ADOPTED FROM LOOY, DIERDONCK & GEMMEL (1998: P.278)

The EFQM model is balanced in the sense that it not only focuses on financial performance, but on various types. They include business results for *shareholders, customer satisfaction, people satisfaction* and *impact on society*. Furthermore, this model is proactive, because it defines five enablers of the above results: *leadership, people management, policy & strategy, resources* and *processes*. Adams and Roberts (1993) provide another approach, which they call Effective Progress and Performance Measurement (EPPM). According to the authors, it is especially important to measure what the company does in four areas:

- External measures - serving customers and markets
- Internal measures - improving effectiveness and efficiency
- Top-down measures - breaking down strategy and speeding change progress
- Bottom-up measures - empowering ownership and enhancing freedom of action

The authors argue that the purpose of a measurement system is not only to implement vision and strategy, but also to foster a culture of constant change.

2.3.4 Performance Measurement System for Services

To ensure that an organization moves in the right direction of the proposed goals, a performance measurement and reporting system is inevitable. Especially with the famous phrase "You get what you measure". The alignment of performance measures with the service concept is extremely important in service organizations because of the danger of losing focus (Looy, Dierdonck and Gemmel, 1998). Therefore, the performance measurement system must be integrated with the definition of the service concept as the starting point. To make sure that this system moves in the right direction, a more balanced view of performance is of great importance. Consider, a service key strategy that builds on quality and customer satisfaction, but the performance report focuses on costs. Looy, Dierdonck and Gemmel (1998) developed a special BSC for service companies, because they argue that a good performance measurement system must be linked to the service concept and needs to be balanced.

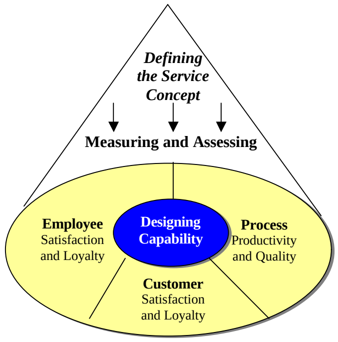

FIGURE 12: BSC FOR SERVICES; ADOPTED FROM LOOY, DIERDONCK & GEMMEL (1998: P.366)

Four areas characterise this model with the service concept at the top: *organisation capability*, *employee satisfaction*, *service processes,* and *customer satisfaction*. Of course they stand in a permanent correlation such as cause-and-effect relationships. Designing capabilities are the foundation of this model and are a synonym for skills or resources. Employee satisfaction is an absolute must, because they are once more first in the line of fire and meet the customers at the moments of truth (Carlzon, 1987). Employees perform activities, which constitute the service processes they perform within. Customer satisfaction can be seen as a result of the former focus areas, but needs equal attention.

Fitzgerald et al (1991) present an integrated system of service and performance measurements, which they call the Performance Measurement System for Service Industries (PMSSI). The authors argue that this model is the result of the lack of integration between financial and non-financial measures based on causal relationships between those measures. Their model encourages the focusing on results, *competitiveness* and *financial performance*, and the determinants of the results namely *quality*, *flexibility*, *resource utilization* and *innovation*. The criteria for the dimensions incorporate both financial and non-financial, as well as external and internal measures of performance. The first dimension, *results*, reflects the success of the chosen strategy. Determining the key drivers of success as competitiveness and financial performance is the reason for the second dimension (Laitinen, 1996). Fitzgerald et al (1991) argue that in most service companies, data exists but is hardly integrated into any system to support the monitoring and development of the business strategy. The PMSSI can make trade offs within the different categories and dimensions visible.

	DIMENSION OF PERFORMANCE	TYPES OF MEASURES
RESULTS	Competitiveness	Relative market share and position Sales growth Measures of customer base
	Financial Performance	Profitability, Liquidity Capital structure
DETERMINANTS	Quality of service	Reliability,Responsiveness, Aesthetics / Appearance, Cleanliness / Tidiness, Comfort, Friendliness, Communication, Courtesy, Competence, Access, Availability, Security
	Flexibility	Volume flexibility Delivery speed flexibility Specification flexibility
	Resource utilisation	Productivity Efficiency
	Innovation	Performance of the innovation process Performance of individual innovations

FIGURE 13: PMSSI; ADOPTED FROM LAITINEN (1996: P.19)

2.3.5 "Economic Value" Measures

The increased emphasis on both financial and non-financial measures is consistent with two trends that have dominated recent performance measurement discussion. Firstly, the addition of new financial measures that are claimed to overcome some of the limitations of traditional financial performance measures and second increased focus on non-financial "forward looking" measures such as customer satisfaction, employee satisfaction and deflect rates (Ittner and Larcker, 1998). This section will focus on the illustration of the first trend. The authors continue to declare that while traditional accounting measures such as "earning per share" and "return on" ratios are the most common performance measures, they have been criticised for not taking the cost of capital into consideration. Economic value measures are promoted to overcome these limitations. The most well known measures of this kind are the Economic Value Added (EVA) and Cash Flow Return on Investment (CFROI). From a managerial point of view, the key question is whether these measures could be useful for internal decision-making, performance measurement or compensation purposes in order to improve organisational performance.

2.4 Previous research

The background to Kald and Nilsson's (1999) study, "Performance measurement at Nordic companies", was of considerable interest in how to improve performance measurement. According to the authors, the knowledge about the methods, which companies in the Nordic countries have chosen to monitor performance, is limited. Therefore the purpose of the study was to improve the awareness of how systems of performance measurement have been designed and used at companies in the Nordic countries. The study was conducted on a broad scale of well-known major Nordic corporate groups.

The research supports the idea that Nordic companies meet many criteria for modern, well functioning management control at the time of globalisation and increasing competition. The study also indicates that measures are relatively well developed, combining both financial and non-financial. Moreover, the study provides evidence of a strong connection between measures used and different planning routines, such as strategic planning and the budget. The primary finding of the research is that performance measurement is principally used to support decision-making. Furthermore, its use in formulating and implementing strategies indicates that the criticism of traditional management control has been taken seriously and undoubtedly affected the development of planning and performance monitoring systems at Nordic companies.

We find it suitable to use their survey though it covers 200 companies or totally 800 businesses. To carry out such research is beyond our financial limitations. We are well aware that their research does not exclusively focus on service industries (50%) but corporate groups in all industries, whose shares were among the 100 most frequently traded on the stock exchange of the country in question. However, we strongly believe this research provides us with unique data contributing greatly to the quality of our empirical data.

3. Empirical study

Yin (1994) stresses that to increase the quality of a case study, three principles should be followed: *multiple sources of evidence, a case study database,* and *a chain of evidence*. We increase our quality by explicitly linking multiple resources within the chain of evidence. We used many sources for empirical research such as documentation, archival records, former research, official publications, seminars and interviews – not forgetting the Internet as an important information system. This directly created a case study database for further investigation. As a result we were able to link the questions asked with the data collected and the conclusions that we will draw, providing a chain of evidence.

In this chapter we will illustrate the two specific measurement systems of KappAhl and Skandia AFS. Both developed through a certain tailored version of the original BSC. As we have mentioned earlier, our prime objective is not to carry out an evaluation of the BSC, as such, but to identify what types of performance measurements are applicable for strategy implementation in the service industry. Material and information collected from interviews and discussions with people involved in our research project is presented with an objective view, as it is not our purpose to bring in own opinions in this chapter.

Before the interviews took place we made sure we had deep theoretical knowledge in the area of performance measurement, which enabled us to apply a more flexible approach during the interviews. We used an open interview technique, as we considered this to be the most valuable and applicable of approaches to gather the *primary data* necessary to carry through the analysis. This means that we mainly used the focused interview type (Merton et al., 1990). By choosing this technique, we set up interviews for a specific time period (this is inevitable due to the managers' lack of time), but still remained open-ended with the questionnaires. The *secondary data* was collected from official reports and literature written with reference to the companies and previous research in the area. Regrettably, due to distance barriers, availability and financial resources, some interviews could not take place face-to-face, but via telephone and e-mail.

3.1 KappAhl

KappAhl, one of the largest Swedish retail-clothing chains, was established in 1954 and quickly became one of the country's most successful chains. The KappAhl organisation is concentrated at the Gothenburg based parent company KappAhl AB, with its 5 subsidiaries (Denmark, Norway, Finland, Poland, and Hong Kong). The group has a service office from which all centralised purchases and design work are made. The Headquarters run all administrative matters, and the executive management board is located within the same building. Each country has its own service office to manage local information requests (KappAhl).

When KappAhl in 1990 was acquired by KF (Swedish Cooperative Wholesale Society), the success years were over. Despite a series of management changes, it proved difficult to re-establish profitability. In the autumn of 1995, a new CEO for KappAhl was appointed, namely Thommy Nilsson. He and the new management group reorganised the company focusing on the development of the BSC as a major restructuring process. Among other things, the new CEO reduced the number of employees, at the head office, by 25 percent and renamed the same "service office". KappAhl had faced difficulties restoring profitability and the company needed a new core and profile to underline its strength – that of *"a service company for the general public, but with an up-to-date image"*. (Olve, Roy and Wetter, 1999a) With sales of more than 2.5 billion SEK and a market share of almost 5 percent, the company is today one of the most successful retailers in the Nordic area. (KappAhl)

3.1.1 The measurement system

The intention behind the BSC implementation at KappAhl was to create a strong engagement in the entire organisation. Critical success factors were identified at every level of the company. A project group was set up in order to develop the BSC for KappAhl's specific needs. The task was to continue the process in order to:

- Provide guidance for a relatively decentralised organisation towards the comprehensive vision
- Supply tools that would indicate direction and speed
- Signal that the methods to be used for reaching the goals should be determined locally
- Indicate a broader focus than just monetary values
- Provide earlier warnings than conventional accounts

The choice of perspectives should be controlled primarily by business logic, with a clear interrelationship among the different perspectives, after the comprehensive vision and the business concept were established. In contrast to the original concept of the BSC, KappAhl added a fifth perspective, "employee or human perspective". Consequently, the scorecard for KappAhl included five perspectives with the following formulated strategic goals (Olve, Roy and Wetter, 1999a):

- Finance : high earnings
- Customer : increased market share and delighted customers
- Employees : satisfied employees
- Process : on time; short process times
- Development : innovation force; learning organisation

KappAhl's specific scorecard had been developed to include *success factors*, *measures* and *goals*. The basic elements and result of the project group are presented in the following figure.

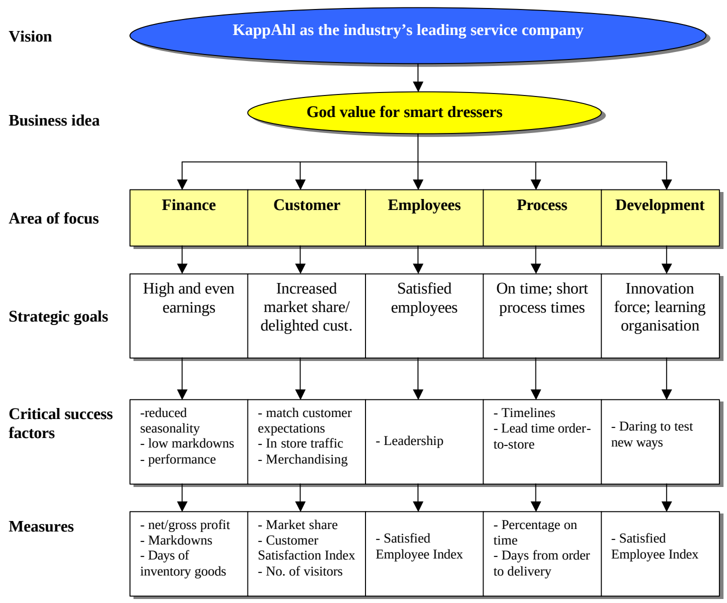

FIGURE 14: KAPPAHL’S BSC; ADOPTED FROM OLVE, ROY & WETTER (1999A: P. 75)

The process also led to the realisation that everyone in the organisation did not need to understand *every* overall strategic goal, instead concentrating on the few important ones each employee could *directly* affect. At the same time, it was important to see the whole picture. The development of KappAhl’s scorecard was very carefully planned. Critical measures were well defined and goals were set at the appropriate level. Moreover, measures should not conflict with each other. For instance, maximising the percentage of “closed sales” was found inconsistent with the same for “average amount of sale”. Furthermore, the company also attempted to show how performance drivers and outcome measures for different parts of the organisation were related to the business of the company as a whole. (Olve, Roy and Wetter, 1999a). The process of implementing the new system took almost three years and in the winter of 97/98 the concept was ready to be launched at all stores. (KappAhl).

The BSC is regarded primarily as a translation tool to make financial figures comprehensible at all levels of the organization, as communication is the most important factor for success. KappAhl’s strong position in the market is especially built upon a unique marketing strategy in which large resources are invested. As a result, it is essential for KappAhl to continuously measure its specific and unique image in the market as well as customer perceptions concerning price and quality. KappAhl is currently following a *push* strategy, which means that they proceed, according to their market predictions, the goods through the supply chain to the end consumer. A critical point in the supply chain is that KappAhl might lose profitability as regards the timing to the market. An excess supply of old clothes forces KappAhl to mark down prices at the same time as the latest fashion in clothing enter the stores too late and consequently lose alternative sales. (KappAhl)

3.1.2 Types of measurements

According to (Olve, Roy and Wetter, 1999a), the measures actually adopted by KappAhl did not really reflect all the points of strategies and success factors, on the contrary they had the advantage of being *tangible* and *clear*. For example the measures used in the financial focus were “profit”, “markdown percentage” and “gross profit per square meter". For each measure, a method of measurement was specified, to assure that the data required would in fact be available. In developing measures, KappAhl did not seek identical ones for all levels in the organisation. Rather what was considered important was the consistency among measures at different levels. For example, some measures considered as performance drivers were pushed quite far down the organisational levels. In this situation Kappahl distinguishes between performance drivers and outcome measures. While outcome measures are easier to measure, performance drivers enlighten the outcome. (KappAhl)

Apart from usual measures such as “sales”, KappAhl also follows up “customer- and employee satisfaction indexes”. At the local stores, measures such as “total number of visitors” and “average time spent on customer relations” are measured. KappAhl has reached a more legible focus and strives for values that do not only relate to monetary terms. The dialogue with the local stores leads to involvement and guides operation towards common goals. Moreover, all employees have the possibility to speak up regarding their suggestions about improvement (KappAhl).

KappAhl continuously tries to identify the adequate performance drivers, which correlate best with their core activities. This is of course a long and cost consuming process, but extremely essential in order to be able to identify the most valuable measures in the cause and effect relation. Within its measurement system, KappAhl applies a great number of different measures (See Appendix 1). The company continuously evaluates its consistency, after which the most valid variables are identified. KappAhl uses two major performance measurement tools: *Radar* and *Kund-Barometer* (KappAhl).

The Radar is mainly a method of tracking company image. The method puts KappAhl into a competitive comparison to its competitors. This is a measure of how the image of KappAhl is positioned and how it develops over time, based on customers´ perceptions. The Kund-Barometer is a customer satisfaction measurement method. The objective is to match customers´ expectations with the help of customer satisfaction index. The index only presents the highest score available and uses the complete customer base shopping in the stores. Consequently, the index does not separate customer segments or even identify core customers (KappAhl).

Referring back to the supply chain, this has today become a critical component of KappAhl´s success factors. Much of the success is realted back to *lead time* and *cost efficiency*. Furthermore, the supply chain mechanism is very much embedded within the BSC in, for example, *processes*, *development*, and *customers*. *Timing* in the supply chain is one of the most important critical factors to be measured, though the overall aim is to cut back on *lead times*. Moreover, the importance of finding measurements within the supply chain that matches end goals is important. The supply chain includes a large spectrum of different types of measures, for instance *soft, intangible, non-financial, tangible, hard,* and *financial*. Finally, it is difficult to answer what type of measurement is *the* most valuable for *future* success. Whilst financial ratios determine how the company has performed in the past, being able to measure intangible measures such as attitudes, quality and image will unquestionably deliver sustained future success. (KappAhl)

3.2 Skandia AFS

Skandia, an international financial services and insurance group, was established in Sweden in 1855. The company operates in 24 countries worldwide, with its head office in Stockholm, Sweden. In 1998, Skandia had 596 billion SEK in assets under management with sales totalling 90 billion SEK. Skandia has three business units: *Long-Term Savings, Asset Management,* and *Property & Casualty Insurance* (The Property & Casual Insurance has merged with Norwegian Storebrand). Skandia is the fourth largest unit linked company in the world, and subsidiaries are working independently from the headquarters and are tied together through a big network of knowledge sharing units (Skandia). Skandia has become well know for what it has done with the BSC, but particularly the development of the concept of intellectual capital has received considerable publicity even outside Sweden. In a series of supplements ("Visualising Intellectual Capital in Skandia") to its annual reports from 1994 onwards, Skandia has presented its intellectual capital as a justification for the premium added to its traditional balance sheet. One of the reasons behind the development of the supplements was that less than 10% of a company's stock price movement was attributable to financial information from annual reports. The rest was attributable to information from other sources (Skandia). In these publications, statistics for various Skandia units are presented in the form of scorecards, which are referred to collectively as the *Skandia Navigator*. The Navigator is mostly a result of the intellectual capital, focusing on different perspectives within the company, to highlight the focus on the control processes (Olve, Roy and Wetter, 1999a).

Today, Skandia Assurance and Financial Services (AFS) comprise 26 different companies in 20 countries. These companies have been built from the ground rather than through acquisitions. Each local office operates as an independent subsidiary. The Skandia AFS organization is structured as a global federation of local companies tied together by a common mission, networking and knowledge base, with cross-boarder operations and sales functions. The global information network and focus on intellectual capital allows all offices to work closely together. In each local market, Skandia AFS forms strategic partnerships with expert sales people and fund managers, also referred to as “specialists in cooperation”. This allows Skandia AFS to focus on its core activities: *customer service*, *product development*, *technology development*, *sales support* and *administration*. (Skandia AFS)

Skandia AFS’s vision is “ to contribute, to enhance and secure prosperity and quality of life into old age and other long-term needs by providing customized, flexible and innovative savings solutions with high market related returns at world competitive prices ”. The long-term overall strategy is to provide "Security for Generations and create shareholder value “. (Skandia AFS)

3.2.1 The Measurement System

Skandia AFS began its work with intellectual capital even before the BSC became a recognised model. As the term intellectual capital suggests, the original purpose was to describe assets not shown in the balance sheet rather than to keep score in various parts of Skandia AFS. The intellectual capital is often referred to as "packaged useful knowledge" (Steward, 1997, p.67), and is assumed to be the reason why a company is valued at more than the sum of the "hard" assets in its balance sheet, even if these have been written up to their current market value. The intellectual capital is the root for processes and activities within Skandia AFS and thus *the* factor to deliver sustained success (Skandia AFS).

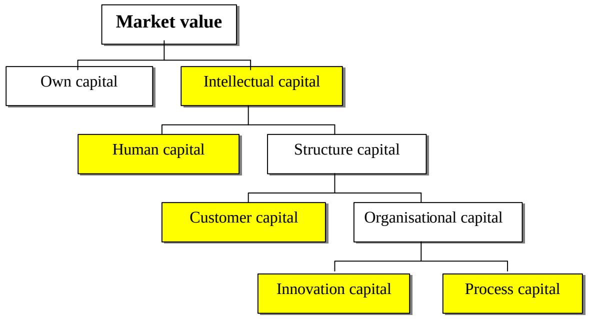

FIGURE 15: IC AS A PART OF CORPORATE MARKET VALUE; ADOPTED FROM SKANDIA AFS

Human capital is the employees´ knowledge, experiences, relations towards customers and capability to share knowledge with other employees. Consequently, hiring and developing the right kind of employees can increase the human capital. However, human capital is highly volatile and to secure stability, it must be met by tying accumulated competence and capability to the company in a more lasting way. **Structure capital**, could be customer capital, information systems, organizational processes, product solutions, culture, leadership etc. The development of structural capital has external aspects such as investing in customer's image of the company, e.g. by making the company known to more customers, by presenting them with a more favourable image, or in some other way making them more inclined to support the company. **Customer capital** is defined as “the value of the customer base, customer relations and customer potential”. Furthermore, the **organisational capital** is systemised and packaged competence as well as systems to maintain a company’s innovative power respective value creating working process. **Innovation capital** is the renewal power expressed in commercial rights, intellectual properties and other immaterial assets. Finally, **process capital** is the collected value of the value creating processes (See Appendix 2). (Skandia AFS)

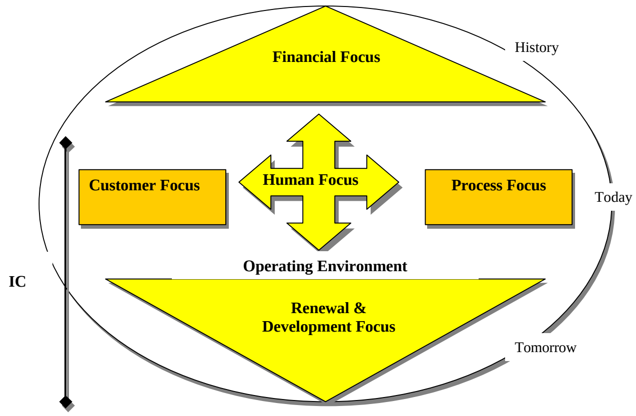

FIGURE 15: SKANDIA’S NAVIGATOR; ADOPTED FROM OLVE, ROY & WETTER (1999A: P.95)

Skandia AFS added a fifth focus – “human resources” - to the original four perspectives the BSC, because the company wanted to stress the interaction between this perspective and the others. Skandia AFS argues that employees produce results with the “competence for customer focus” as well as potential for process development. From 1995 onwards, the Navigator has been used in Skandia AFS´s internal business planning. Moreover, Skandia AFS views the

BSC concept as a mixture of internal management control and as a complement to its financial reporting to external stakeholders. A company's balance sheet cannot fully explain its value, particularly if the latter consists largely of intangible assets. Market value consists of the five different perspectives embedded in the Navigator. (Skandia AFS)

Human resource capital is considered to have a multiplier effect on *process* and *development capital*. Without the former, the latter has little value. This indicates that different measures can be combined in an overall index. Skandia AFS attempts to combine features of strategic and operational focus as the BSC is divided into sectors of "yesterday-today-tomorrow", as well as the fact that Skandia AFS regards the financial focus as a review of the history and the other areas of focus as indicators of how well they are preparing for the future. (Olve, Roy and Wetter, 1999a)

Finally, Skandia AFS has continued to develop the Navigator, and top-management groups use the Navigator to monitor progress on a quarterly basis. There is a general trend towards an external environment focus (currently included in the renewal & development perspective). This development might call for a further extension of a future Navigator in a separate perspective. (Skandia AFS)

3.2.2 Types of Measurements

To distinguish between the BSC and the Navigator, Skandia AFS argues that the original BSC shows the status here and now and hence places less focus on the human and renewal & development-approaches. However, the Navigator reflects upon *position, bearing* and *speed*. The Navigator is thereby regarded as a dynamic navigation instrument (Skandia AFS). The original BSC was quite static, like the scores in a football game, but the models do not indicate how the game is proceeding over time. Skandia AFS basically uses three major methods to *identify*, *measure*, and *develop* the intellectual capital:

The value scheme — a simplified statistical diagram that shows the operations' value-creating building parts. **The process model** — a dynamic model in which the respective operation's vision is broken down into a number of success factors. Coupled to these are a number of indicators that are then arranged under the Navigator's various components. In the Navigator these indicators are tied together into five focuses, which represent the value-creating aspects of the operation: *financial focus*, *customer focus*, *process focus*, *human focus*, and *renewal and development focus*. This gives a balanced total picture of the operations. **The Intellectual Capital (IC) index** – is a dynamic graphic diagram based on a view of the various IC indicators' *relevance, robustness, and relative weight*, condensed into a total picture.

The basic notion of measurements is that there is no single type of measurement that is more central than others. Everything depends on what perspective and situation is focused on. The logic Skandia AFS uses is to break down business concepts into success factors, as these success factors identify specific indicators for the chosen perspectives. Measurements that present drivers of the business are the most important in addition to measurements, which are related to success factors. In order for the Navigator to work effectively, indicators must be easy to *define*, *measure*, *understand* and *communicate* (See Appendix 3). By using the indicators in the Navigator, a more effective organization including motivated employees is created. (Skandia AFS)

Measurements are the result of working with process models and success factors. Some of the measurements are comparable between companies while others are adjusted to a local level. For example, types of measures include "RoE", "P/E ratios" and "Earnings", which are measures that Skandia AFS uses as competitive benchmarks between companies (Skandia AFS). The basic idea is that every employee in the company should act as a controller. Many of the success factors are more *qualitative* than *quantitative* in character and thus cannot be measured or specified by indicators in a Navigator. This does not mean that they are less important. Albeit, it is important to keep down the number of measurements per perspective . But these measures must be altered as environmental conditions change. When external factors change, internal processes change, and consequently goals and measurements. The evaluation of the measurements should be integrated in the daily work at every level and should not be considered as a separate function. Additionally, Skandia AFS uses “early warning measurements” in order to guide internal processes into the set direction (Skandia AFS).

Skandia’s AFS customer capital is based on three principles – *customer base, customer relationships, and customer potential*. Customer capital measures the present value of customer relationships. Thus the value does not arise from the individual components but from their interaction. Skandia AFS measures its customer relationships, because the size and structure of the customer base is crucial to Skandia AFS’s future value. Every customer contact is an investment for Skandia AFS in a value creating relationship (Skandia AFS). Customer relationships are visualised by using various indicators, which together form a pattern. These indicators measure the number of relationships, the nature of them and their duration, their role in the value-creating process, customer support systems, and value appreciations. A major objective is to create long-term sustainable growth in shareholder value, which includes development of intellectual capital. The human focus is described with the help of a survey conducted by SIFO (Swedish Institute of Public Opinion Research). This survey measures an empowerment index, which monitors the employees’ motivation support within the organization, awareness of quality demand, responsibility vs. authority, and competence (Skandia AFS will not use SIFO in the future) . (Skandia AFS).

3.3 Consultants View

In this section we present the consultants’ points of view on performance measurement and related concepts. The cause-and-effect relationship is necessary to know the causes and not only to see the effects after they have already appeared, as they cannot be changed afterwards. Without knowing the cause of the outcome, it is unfeasible to change any effect. This relationship between causes and effects is indispensable in its nature and extremely important for any performance measurement analysis. Furthermore, an up- and downstream relationship could be visualised. A metaphor could explain this as “water flowing down a river”. The performance measurement process should include both. The vision and strategy is flowing down streams while feedback must be generated at all levels (Sande Consulting).

Moreover, it is crucial to visualise measures to make them comprehensive in a kind of “learning cycle”. The learning takes place when a company acts on outcomes of measurements. Either the outcome satisfies the control system or it requires an adjustment and change towards new measures. The next loop visualises the new or old measures. If the old measures still hold true, the company should keep them, or otherwise adjust the measures. It is a continuous learning cycle, which leads towards the statement that “strategy is a value creating hypothesis”. Consequently, it is essential to define this value creating hypothesis, for whom value is created, and if the company really creates value (Sande Consulting).

The major strength of the BSC is that the concept is so easy and simple to both understand and use and can be applied to any company in any situation. This is inevitable, because the acceptance of the BSC throughout the entire organisation is vital. All levels of an organisation must understand and agree on the implementation. But the overall responsibility lies with the top management. The BSC is so basic that once implemented, the concept will not have any need of change as such. But small parts will always be in need of adjustment, because when the environment changes, so does the scorecard. Nevertheless, there is always a specific focus within the scorecard depending on the strategy. But this focus must be balanced towards other perspectives (KPMG). Furthermore, the BSC is a concept that combines common sense with all interest groups. The BSC allows the basic framework to be complemented with additional models to modify specific areas and needs. Moreover, the *types* of measurements used within the BSC do not play a significant role. What is perceived as being important is the fact that every company has to make sure what the purpose of the BSC is, for example, *employee motivation, management information and control, or shareholder information*. The statement “What gets measured gets done” still holds, so “If you want something to be done, measure it. If you cannot define it, you cannot measure it. If you cannot measure it, you cannot manage it. If you cannot manage it, you cannot improve it”. The premise of the BSC is to decide what data should be gained from the measurement system. If the purpose is set, the measurements will be designed to tailor the desired outcome (KPMG).

Additionally, the use of the BSC differs radically between the service sector, public and manufacturing sector. In the service sector a distinction between *needs* and *expectations* for customer satisfaction has to be made. A company must find out what customer satisfaction really means to them. In the public sector, needs are satisfied while service companies also ought to satisfy customer expectations. Moreover, a segmentation of the core customers is essential in order to identify the right variables for measurement. Quality plays an extremely important role in service companies, and indicators of quality that identify areas of focus and areas of less interest must be clear. Quality should not be expressed in numbers but rather in finding indicators for improvement, as quality is a business philosophy that should manage operations towards higher customer value and/or improved cost efficiency, which leads to increased profitability (KPMG).

Previous research (Kald and Nilsson, 1999) has articulated that there is a need to extend the scope of performance measurement *vertically* both upward (to meet capital market requirements) and *downward* (measures relevant to operations) as well as *horizontally* (to design measures that support process orientation). However, in practice there is a tendency to make much more partial analyses. The important part is to trigger discussion about intentions and performance in the areas which are deemed important. Even fairly "weak" measures, indicators, proxy measures etc., can be used for this (Cepro Consulting).

There are usually quite a lot of measures, which already exist concerning how markets and competitors develop in the marketing department. Sometimes of course, a company has to question the CSI (Customer Satisfaction Index) measures because they concern "wrong" populations. Therefore, a company should care more about whether the most important customers are satisfied. Sometimes it is hard to find first-class measures for a company's relative position in the market, as there are no statistics concerning competitors. But there has been little evidence that this should be a major problem. Measurement after all is more a means than an end. By communicating measures (targets or actual) a company gets employees to discuss and gradually commit themselves to a shared view of the logic behind the business, and what they should do themselves in order to further the success of it (Cepro Consulting).

3.4 Experts View

We have chosen to present some secondary data in the area of performance measurements collected from research carried out in Sweden during this year (1999). The research provides us with high quality, detailed data, collected from a great number of companies.

3.4.1 Previous research

Nilsson and Trossmark (1999), argue that the true potential of the BSC is rarely fully used. Instead of highlighting the overall picture and facilitating changes strategically, many scorecards contribute in practice to preserve traditional budget thinking. Although a great number of companies have started to implement the BSC, few have made use of its full potential and this has lead to misinterpretation about the scorecard's potential. Lindvall (1999) believes that companies have not had the time necessary to fully develop the BSC. Furthermore, management has not got the true insight about the objective of the BSC. Subsequently, the scorecard is treated as a collection of key ratios and not the extensive scorecard it really is (Lindvall, 1999).

Nilsson and Trossmark (1999) stress the fact that companies rarely follow up areas that tend to influence future competitive power such as product and competence development. It is also censorious that numerous companies have not developed measurements that reflect how markets and competitors develop. In too many cases, the BSC is biased and strongly focused on the internal business. Thus the scorecard becomes non-balanced and planning & follow-up activities become a management concern. According to Nilsson and Trossmark (1999), there is an obvious need to develop measurements that encourage entrepreneurship and innovations. Consequently, the measurements cannot focus solely upon short-term goals but must also promote long-term development at both the strategic and operational level. Too frequently, the management level is responsible for environmental analysis and business development. As a result, companies avoid the most important resource to successful renewal - their own employees. The authors suggest two major improvements for measurement systems. Firstly, companies who have realized that the employees are the most valuable resource, allow employees´ *creativity* and learning to constitute the driving force behind all developments. Secondly, the scorecard must become *intelligent*, which means that entrepreneurial thinking is stimulated and impulses to development are caught up and refined (Nilsson and Trossmark, 1999).

Kald and Nilsson (1999) have found that increasing competition has forced companies to measure performance differently which to a higher extent focuses on measures directly related to operations and to areas of strategic importance. Measures that reflect *profitability*, *cost effectiveness*, and *distribution of sales* (which relates directly to profitability) play a significant role in the performance of the business. These types of measures are relevant to identify possible needs for changes in strategy and to facilitate implementation of a business strategy, which has already been adopted. Measures reflecting on management of external relations – that is *reliability of* *delivery*, *market position*, and *customer satisfaction* – also play a relatively important role.

Finally, measures *least* used by companies reflect *employee satisfaction & attitudes, product development, competence, the environmental profile,* and *process development*. Since all these types of measurement concern future development and also long-term success, it is hard to believe that these are low priority areas. More surprisingly, measures that reflect value for shareholders are among the least important to measure (Kald and Nilsson, 1999).

3.4.2 Academics

The preference of academics selection is directly influenced by our research question. Since many research areas are related to the thesis, we searched for deep insights in a wider perspective by interviewing academics specialised in different fields such as: *financial and management accounting, management control,* and *strategy*.

3.4.2.1 Strategic Control

Management control should be seen as ongoing processes to monitor visions and future goals. Therefore it is important to discuss changes over time and development for future direction (emergent strategies) instead of control. The objective with strategic control, is to set rough directions, since the more detailed the information becomes, the more complicated the changes are. Therefore, more informal ways of changing and adapting to the environment is preferable. Furthermore, there is an ongoing conflict between long-term vision and short-term action. Albeit, evaluation of performance is not usually what the control system claims it should be. (Lecturer, Business Administration / Strategy, HGU).

Financial accounting outcomes such as balance sheets and annual reports will always endure because of legal reasons and external requirements (shareholders / stock market), but are not as useful for internal use in the control system. The reason of a firm's existence is to increase the shareholder long-term value and therefore financial goals are the most important to measure (Assistant Professor, Accounting and Finance, HGU). The BSC is a tool to increase the shareholder's wealth, because every action taken within the company must in the end create shareholder value. Consequently, customer satisfaction is of no use, if it does not create shareholder value. The BSC is one of the most misinterpreted control models. This concept is nothing else than a tool to implement strategies, and flexible strategies cannot be combined with static control models. The BSC is another philosophy to illustrate the reality in just the same way as other control models do, and is therefore a product highly demanded by market. The BSC will probably fade away in the future just as other management philosophies have, because there is no general solution to control challenges that one single model could solve. Finally, lack of evidence for a positive correlation between organisational models and success is evident (Assistant Professor, Accounting and Finance, HGU).

It is unfeasible in the long run to only maximise the requirements of one interest group. Instead, an intermediate way to satisfy different stakeholders´ needs, that have a tendency to vary over time, is desirable. To clarify this trend, the labour unions in the 70's had a strong influence while today's stock market is powerful. Basically, financial measures show how the company has performed historically, but have no relevance for future strategic decisions (Assoc. Professor, Business Administration / Management, HGU).

Western countries are obsessed with measuring, and the market economy demands that only the most profitable companies survive. As a result, shareholder value is the most important measure in the long run. However, there is an ongoing discussion whether or not it is feasible to apply shareholder measures to the operational level. Management control systems are greatly decisive for the shareholder view, but to achieve that shareholder objective, it is important to focus on a broader (stakeholder) perspective such as customers, employees and processes. Additionally, it does not matter what kind of model is used. The essential goal is to recognise the problem of management control systems. Interestingly, sometimes consultancies might tend to sell solutions without having a real problem identified. The point is that most systems look nice and are easy to manipulate, but the company distances itself from real figures and problems (Assistant Master, Accounting & Finance, HGU).

Performance measures depend heavily on who the interest groups are and whom the information is for. Subsequently, what is central to report is what the milieu requires. A company has to follow the stream of information demands. Research has proven that a very small amount of the data available to the company is actually used. The uncertainty towards the types of measures that are really appropriate has led towards the design of large performance measurement systems. There is a tendency of over measuring. The so called “evaluator trap” explains the outcomes in situations of under-performance. The natural reaction is to identify and measure the causes of the dilemma. However, this will almost certainly lead towards the increased cost of the strategic control (system), which in turn decreases profitability (Professor, Business Administration and Accounting, HGU).

3.4.2.2 Performance Measures

Performance measures need to focus on effects and behaviour, which financial measures fail to do. Therefore, performance measures should be pushed down the organization. Effects and visualization of measurements take place on the operational level. The operational level must lead directly to financial measures, because that is what matters to management and shareholders. The bottom line measures have to lead towards overall goals and not only towards translation into financial terms. Employees at specific levels need to comprehend their tailored measures in order to contribute to overall goals and to understand what behaviour affects the goals (Assistant Master, Accounting & Finance, HGU).

Measuring values is more imperative than cost. When a company makes investments, it must be capable of measuring effects in terms of value. Merely, measuring cost does not say anything about the performance on the market. But the real dilemma lies with how far measures can be used. Normally, there is a limit to using exact measures. Companies seek to identify proper measures in order to form a picture of the true results. These outcomes should guide the company into a unpredictable and changing milieu. To recapitulate, companies try to control an uncontrollable process (Lecturer, Business Administration / Strategy, HGU).

The "measurement paradox" entails that large companies become obsessed with measurement in order to satisfy control requirements. Small growing companies, however, learn to solve problems through informal discussions and are subsequently more flexible to strategy changes. But as soon as they grow and become larger they also become aware of the need for tighter control and therefore the increased number of measurements. However, too many measures create severe obstacles towards flexible change. What managers are trying to do is to find a rational solution to a chaotic reality. However, the reality is usually completely different from the planned models. More non-formalized and non-standardized measurements are indispensable to prepare for smooth and quick changes as well as to adapt to the learning process (Lecturer, Business Administration / Strategy, HGU).

In the service industry, the customer determines measurements and customer expectations are vital variables to measure. A service company has to ask itself: “Do our customers appreciate our efforts?” The most important information measurements bring to the service company are indicators about what factors are essential to the creation of customer value. Nevertheless, variables are not fixed; they tend to change constantly and are above all unpredictable. The importance of measuring *competence* and *development* could be used to identify critical areas that must be improved to deliver sustained future success. Service companies are highly sensitive to *image* and *core service failures*. For that reason, measurement practice tends to pay attention to well performing areas rather than failure factors. There is a distinction between short- and long-term customer satisfaction. What is essential for the company is customer satisfaction in the long run, as customers cannot be told what good quality and image is - they need to experience it. Finally, a fixed performance measurement system is very difficult to implement and change, because it builds upon quantitative information. Hence, there is a major conflict, because the system cannot live up to the qualitative measures (Assoc. Professor, Business Administration / Management, HGU).

4. Analysis

After the theoretical framework and presentation of the empirical research, we are now entering the analysis chapter, where we want to judge and analyse the data discovered. According to Yin (1994), two criteria for judging the quality of any research are *validity* and *reliability*. Validity means that we need to establish a causal relationship between the analysis and the empirical data, as well as establishing correct operational measures for the concept being studied. We selected the specific topics before we started the research and they were clear from the very beginning. Furthermore, we will base the analysis on the knowledge gained and the literature to achieve a clear link between them.

The second criterion is *reliability*, which implies that operations of this study can be repeated with the same results. If later investigators follow exactly the same procedures as described now and conduct the same case studies, the later investigators should arrive at the same findings and conclusions (Yin, 1994: p.36). This is definitely the case in our research. However, we find it quite peculiar that other researchers to accomplish exactly the same final results as we do. The reason is simply that we want to make fruitful contributions to this field of research, which means a high degree of own thoughts and judgements. This should be realistic for others to achieve as well but cannot be repeated in the exact way. Of course, the investigation of the empirical study can be done by anybody else, but how the researcher interprets and evaluates the data is very subjective. We do not want to fall in the trap of just explaining things rather than really analysing and discussing the knowledge gained.

Easterby-Smith, Thorpe and Lowe (1991) add a third criterion: *generalisability*. That means the observed patterns in a sample should also be presented in the wider population from which the sample is drawn. This point is not so easy fulfilled, as our research mainly relies upon two companies from different sectors in the service industry. Since this research is so complex in its structure, it is particularly challenging to try to find a standardised solution to be implemented in a more general context. We strongly believe that a deep form of literature research together with adetailed empirical research, and our matrix approach, the findings should be able to meet these requirements.

Furthermore, Easterby-Smith, Thorpe and Lowe (1991) point out the importance of dissertations on the master level. Especially at this level, the thesis normally includes theoretical ideas, based on literature and some form of data collected. But the collection of the data is not enough. What is expected is to show maturity and ability to use the information gained and evaluate the knowledge, which is exactly our main emphasis in this section. This idea is the reason why we have chosen the unique research determinants approach. We will combine all the perspectives from previous research, theory, academics, consulting, and business into one single investigation concerning our two specific case companies. Our aim is to identify a flow from implementing a new strategy to the use of the performance measurement system, which will identify applicable types of performance measurements used by the specific company. This classification of performance measurements will give us an answer for how strategy implementation, performance measurement, and different types of measures are correlated. Particularly these outcomes will make the data comparable and will constitute a strong link to the industry in general.

4.1 Framework of Investigations

In this chapter we will analyse the investigations in the area of the literature, the academics and research approaches, as well as the impact from the consultants' point of view. These different approaches will provide the framework, on which we base our findings from the specific case companies. The idea is to start the analysis by describing the strategic changes in both companies, which is the starting point for strategy implementation. After this we investigate how the implementation of the strategy is controlled and measured. Then, we identify, in both cases, the types of measurements that best monitor the chosen strategy implementation. Finally, we compare the result and relate it back to the service industry, from which the sample was taken.

4.1.1 The Use of Performance Measurement Systems

The "relevance lost debate" initiated the discussion about traditional management control in general and performance measurement in particular. The main point of discussion was whether financial measures are adequate in measuring the performance of the company. The new suggestion was to combine financial with non-financial measures, because financial measures were too late, too distorted, and too aggregated. Furthermore, management control should be connected to the company's strategy and vision. These discussions led to the publishing of several new performance measurement systems such as the performance pyramid, PMSSI, the BSC, and EPPM (literature perspective/view). The framework for all of these models is basically the same. All of them concentrate on the balance between financial and non-financial measurements. Moreover, they all take strategy and vision as the starting point and combine external and internal aspects. Finally, the time perspective took place in terms of leading and lagging indicators. It is quite astonishing that similar ideas arise almost at the same point of time even though distance and acknowledgement do not take place with the different researchers (academic perspective/view). There is a obvious time lag between the original idea and the acceptance through the official publication in official magazines and journals. When they finally do get published it is probably the most famous such as Harvard Business Review that get the most attention.

Today, facts prove that the BSC is the most accepted and used performance model in use, mainly for the reason that it is easy and simple to apply and comprehend. Additionally, the BSC concept is applicable almost to any company in any situation (consultant perspective/view). Both KappAhl and Skandia AFS, introduced a modified BSC approach as their performance measurement system. Both companies have added a fifth perspective – “the human or employee perspective”. While KappAhl still focus on its BSC, Skandia AFS named its approach the “Skandia Navigator”. The latest contributions in the area of new performance models are the approaches of the EFQM and a unique BSC tailored for services (literature perspective/view). For us, these concepts just add small adjustments to the same concept rather than launching innovative ideas.

4.1.2 Types of Performance Measurement

The measurements within the different perspectives must not lead to sub-optimisation, but should support the overall vision and strategy (research perspective/view). The big challenge is to find evident links and to create a balance between different measurements in the chosen perspectives. A discussion is essential to decide whether it is possible to obtain balance between the different measurements, so short term improvements do not conflict with long term goals (academic perspective/view). In light of the debate on balanced control, it is interesting to survey the degree to which performance measurement actually includes measures that reflect *external relations, the efficiency of internal processes, innovation and renewal, etc*. (academic and consultant perspective/view). Interestingly, what gets measured is often what is easy and possible to measure and in some cases, what is meaningful to measure is not measurable (literature perspective/view). The important part is to trigger discussion about intentions and performance in the areas, which are deemed important. Even fairly "weak" measures, indicators, proxy measures etc., can be used for this. Measurement after all is more a means than an end (consultant perspective/view).

4.2 KappAhl

The investigation of KappAhl is divided into different sections in order to allow the reader to follow the argumentation. First of all we will describe the new strategic process chosen by KappAhl. An analysis of the performance measurement system and the identification of types of performance measures actually used will directly follow this. Finally, we will link the connection of the different measurement types back to the strategic perspective.

4.2.1 The strategy process

After some demanding years, a new CEO took over at KappAhl in 1995. To save KappAhl from losses, a completely new vision and strategy was indispensable. We can interpret this process to Normann's (1992) strategic service concept. The first part of the *market segment* is equal to the design of the new target group at KappAhl – that of " a company creating good value for smart dressers ". That is how KappAhl identified the core market segment, which they wanted to serve. The second part of designing the *service concept* is to identify the core service as having good quality for human prices offered at a wide range of local stores. By choosing this approach, employees, customers and supply chains are put in main focus, which can be understood as equivalent to the original idea of *service supply systems*. Furthermore, the *image* of KappAhl takes a central role and was completely re-established. KappAhl completely changed its face towards the new customer segment. Finally, the new CEO himself stood for the new *culture and philosophy*. As we see it, the link between the strategic service concept and the new strategy of KappAhl is quite evident. The new vision of the company was stated as "KappAhl being the industry's leading service company". For us, this vision has a strong correlation to the design of the new image and culture.

4.2.2 Performance measurement system

The BSC at KappAhl is top management responsibility. It is a communication tool for top management to implement strategies and control the process. The belief that performance measurement should be designed to suit the needs of top management is a common normative viewpoint, which as we have seen is also widespread in practice (academic and research perspective/view). When the new CEO took over, the new strategic direction of KappAhl was carefully planned. KappAhl's choice of a push strategy was carefully prepared to master the internal and external environment. Much focus was placed on the design of the new strategy and a clear vision was also stated. From a consultant's viewpoint there is no use in implementing any scorecard before the strategy is absolutely clear. This is the paramount focus and has top priority.

The BSC at KappAhl was decided on as a suitable tool for measuring performance. Questions such as "Are we moving into the right direction?" and "How are we performing?" typically characterize the control of strategies (literature perspective/view). As we see it, the BSC was a control tool for commanding the re-structuring process and was not the primary reason for delivering organisation success. In general terms, what is most important is what basic purpose underlines the implementation of the BSC. This could be anything such as employee motivation, re-organization tool, management control, or shareholder information (consultant perspective/view). We see the BSC as a helpful instrument for management to implement new strategies and visions, which is supported by the academics view. More notably as we argue, what most characterises the BSC is above all its efficiency to provide quick results, and to focus resources on common objectives, which are other strong arguments for the BSC to be an extremely attractive management instrument, particularly when facing financial pressure.

To be able to communicate the overall goal, the KappAhl management made use of the BSC to visualize for everyone in the company their part of the re-structuring process. We believe that the additional fifth perspective was added to KappAhl's specific BSC just to demonstrate the importance of the employees, since without employee's acceptance and commitment, the new management would not be able to carry through the necessary changes within the defined timeframe. By communicating measures (targets or actual) a company gets employees to discuss and gradually commit themselves to a shared view of the logic behind the business, and what they should do themselves in order to further the success of it (consultant perspective/view). Suddenly, the employee perspective has acquired the central role in the BSC. Especially, because all KappAhl employees were asked to make suggestions for improvement in their specific area, the whole company was involved into the change process.

4.2.3 Types of performance measurements

Examples of measures include “markdowns”, “days of inventory goods”, “number of visitors”, “satisfied employees and customers indexes”, and “days from order to delivery”. These kinds of measurements represent types that are easy to measure and simply structured (consultant perspective/view). We see, KappAhl following a clear structure by deciding to keep measures as simple as possible with direct links to the specific perspectives. KappAhl continually tries to identify the adequate performance drivers, which correlate best with their core activities. From an academic’s or researcher’s perspective/view this is one of the most crucial relationships between measures. But most measures do not reflect the overall game plan (strategy). Those measures that typically do, are fragmented and isolated by functional specialty (BSC). Even when these measures are aligned with the company’s strategy, the performance information to the management is still fragmented (research perspective/view). As we see it, the cause-and-effect relationship between performance drivers and outcome measures is apparent, but KappAhl uses mostly a vertical approach. In practice, there is a tendency to use much more partial analysis (consultant perspective/view).

Measurements of attitudes are the key to long-term success, but have proved to be the most difficult to identify/monitor. Accordingly, KappAhl uses “employee satisfaction” as a measurement in two perspectives – employee and development. We distinguish two major advantages. Firstly, it positions the employee in main focus and secondly employee satisfaction is easy to measure and to improve. KappAhl puts a lot of emphasis on *profitability measures* combined with *satisfaction measures*. KappAhl measures what creates value for shareholders rather than measures for direct shareholder value in itself, as exemplified in the example of the process and finance perspective, which represents profitability measures that directly create value for shareholders. The shareholder focus is the most important aspect for performance measurements (consultant perspective/view), while a more biased approach towards shareholders within the stakeholder model is crucial as well (academic perspective/view).

As we see it, KappAhl also follows this guideline by focusing a great deal on market share, customer satisfaction, but also the supply chain. The supply chain dominates three perspectives of the performance measurement system: *customer*, *process*, and *development*. This focus is typical, because from a consultant's perspective KappAhl is still a manufacturer and not a typical service company. Especially for manufacturing companies supply chain efficiency is essential. The timing within the supply chain is one of the most critical factors to be monitored, since the overall objective is to reduce lead-time. Again, this highlights the eagerness to focus on measures that are easy to control but also manifests the objective searching for profitability measures that in the end create shareholder value.

4.2.4 Connection to strategy

To pinpoint essential types of measures for its strategy implementation, KappAhl has emphasized measurements that reflect *profitability* and *satisfaction* measures. This confirms previous research claiming these types of measures are among the most frequently used in practice (research perspective/view). Lots of emphasis was also put on measures that could identify KappAhl's new image and those that mirror employee satisfaction. Not surprisingly, these areas of success should be the most critical to monitor during the restructuring process such as KappAhl's strategy implementation. Despite the fact that it is indispensable that every employee is committed to put effort into the process, profitability measures are concerned and the process is within budget. These facts prove why the employee perspective receives so much attention through the BSC and stands for a major type of measurement within the performance measurement system. Furthermore, the new image was paramount for the new direction of KappAhl. This explains why KappAhl puts so much emphasis on customer satisfaction indexes. Finally, the supply chain within KappAhl is crucial for business success, which makes it one of the main types of measurements. We believe that KappAhl really managed to create those types of measures that best reflected their new-implemented strategy. However, the main reason for KappAhl's success has nothing to do with the BSC but is rather a sophisticated strategy. Referring back to our main argument, the BSC is solely a management tool to implement strategy, measure success and to motivate employees. Even though, in the case of KappAhl the strategy implementation was exceptionally successful.

4.3 Skandia AFS

This chapter has the same structure as 4.2, in order to compare both companies in a final analysis.

4.3.1 The Strategy Process

The reorganization started in the 80s to change the way Skandia AFS (at this time a traditional insurance company) viewed and measured its value. The former chairman, Björn Wolrath and Jan Carendi, who became CEO at Skandia AFS in 1991, led the strategy process. The process was initiated by the idea that traditional management theory no longer matched the development of service companies and especially not knowledge intensive companies. The two noticed the fact that a company’s competitive power was less dependent upon traditional assets such as buildings, equipment and inventory. Instead, new factors, as for example individual talents, collaborating market relations and abilities to handle torrents of competence were considered to determine a company’s future success.

Making an interpretation of Normann's (1992) strategic service concept, within *the market segment*, there is a trend that fewer pensions and other financial assets are being passed down from one generation to the next, driven by the overall aging of the populations. This creates an increased demand for private savings solutions. Skandia AFS´s core *service concept* is to contribute, enhance and secure prosperity and quality of life into old age and other long-term needs. This is achieved by providing customized, flexible and innovative savings solutions with high market related returns at world competitive prices. For Skandia AFS´s *Service supply system*, the imaginary organization whose operations are dependent upon collaboration with other actors (strategic partnership with local experts) means that the organization is actually greater than the sum of its parts. This implies that the company gains competitive market power with a low number of employees and infrastructure investments.

Intellectual capital has received lots of publicity around the world and is an important component for Skandia AFS's corporate *image*. It is not only a method for external use but also to meet stakeholder requirements as well as being a marketing tool that creates goodwill and thus attracts skilful workers. Everyone in the organization should share the same values and attitudes, which then makes it easier to strive towards a common goal. *Culture and philosophy* are other cornerstones for Skandia AFS as it is argued that the best way to satisfy customers is by having satisfied employees. A *high trust value* means, “Everyone expects you to do the job you were hired to do”. This is the term used to define the attitude toward employees, as the company considers the people to be the most valuable asset of the organization (the uniqueness of this statement is of course questioned).

4.3.2 Performance Measurement System

As we see it, one of the strengths with Skandia AFS´s measurement system, is its ability to focus on one part of the value chain, concentrating only on those areas where Skandia AFS has core competences. All other responsibilities are outsourced to specialists. The Navigator is designed to provide a balanced picture of financial and intellectual capital. From a management perspective, this process highlights indicators and intellectual capital ratios that describe Skandia AFS´s strategic development and value creation. The cause and effect relationship is clearly defined as it reflects not only upon current situation analysis but also on direction and speed (consultant perspective/view).

Moreover, the Navigator is built with a top to bottom architecture and vice versa. Strategic direction is clarified from the top management in the organization, while the identification of indicators originates from bottom up in the operative activities. The essence of getting acceptance at all levels of the company is one of the main critical factors to a successful BSC implementation (academic and consultant perspectives/view). Together with the imaginary structure with the collaborative knowledge network, we view the measurement model as a cross-functional approach as it focuses every dimension of the organization, both vertically and horizontally and intra companies.

Every unit at Skandia AFS designs its own Navigator approach and tailor the specific measures to their specific situation as long as it is aligned to the over all strategic goals. Accordingly, the Navigator takes a system perspective view and does not isolate measures in their functional specialty – in contrast to KappAhl who applied a vertical approach. The reason behind this is that Skandia AFS undertakes the intellectual capital as a base for its entire performance measurement system.

Types of measurements that monitor *competence* and *development* are essential for service companies, in general, to be competitive and create customer value (academic perspective/view). As we have learned from previous research, future competitive power such as competence tends to be a low priority area to monitor at Nordic companies (research perspective/view). Still, as we have found in our research, Skandia AFS gives the impression of fulfilling these requirements, predominantly in the area of competence monitoring.

The Navigator guides the types of measurements, links them together in a logical way by category and then ties these categories together into a unified whole. Nevertheless this is not enough; the Navigator must further align all of the measurement data to create fewer overall figures, which is sometimes not easily achievable. We argue that the value creating models such as the value scheme, the process model and the IC index, all live up to the obligation of “strategy as a value creating hypothesis”. Not only do they define for whom the value is created but most importantly answer the question of whether the company really creates value. Moreover, The Navigator emphasises changes over time and future direction and not only control, which gives the entire system a flexible approach (academic perspective). Finally, it provides evidence that the Navigator provides a basic framework that could be combined with additional model-specific areas (consultant perspective/view).

4.3.3 Types of Performance Measurements

When the Navigator was developed, a great number of measurements were investigated. Later, the types were reduced in order to identify the most valuable to the processes – KappAhl followed the same procedure. Today, Skandia AFS puts a lot of emphasis on the *renewal & development* focus in order to guide the company into future directions. As we see it, what types of measurements are most applicable is not as apparent at Skandia AFS as in the case of KappAhl, for the reason that each unit uses tailored approaches to achieve desired results (it is therefore difficult to grasp the whole picture). There are general guidelines of measures, but the specific design is end user responsibility. However, the characteristics of the types of measurements actually implemented are flexibility to environmental changes and easy to implement (academic perspective/view). Contrary, to our previous argument, there might be a long-term risk with too fragmented measures. In response to that, Skandia AFS claims that this could be a threat, but it is not applicable to them, since they use competitive benchmark measures (Skandia AFS). Our reaction to that is the challenge to consider measurement standards in the local markets; as "local" measures might be interpreted in different ways.

The challenges with the customer capital measurements are to find those measurements that best capture effective company-customer relations. These measures typically include “customer type”, “customer duration”, “customer role", "customer support", and "customer success". Customer value and satisfaction are essential to monitor, though, as we interpret it, the Navigator is a tool for increasing shareholder value. Subsequently, every decision within the Skandia AFS must lead to increased shareholder wealth through long-term satisfied customers (academic perspective/view). The bottom line is that overall measures must be comprehended by the specific end user (consultant perspective/view).

As we have argued throughout the analysis of Skandia AFS, general types of measurements are arduous to identify, as the usual statement we have met during interviews is that "everything depends upon specific situations and perspectives". That is an accepted response since all subsidiaries operate in different countries, cultures and leader styles etc. Therefore it is crucial to apply tailor made measures for each specific situation. Skandia AFS argues that the most applicable measures to monitor successful strategy implementation are those that reflect "market shares", "sales measures", but also "number of wholesalers" and "financial planners and performance funds". As previous research suggests, this confirms the willingness of companies to focus on profitability measures, and conceivably also our argument that the Navigator is solely a tool to increase shareholder wealth.

4.3.4 Connection to Strategy

As we have pinpointed, successful strategic measures must reflect future and human resource factors. Yet, and directly as a result of the latter, the customer perspective is also a key issue. For Skandia AFS, strengthening customer relationships is paramount. Consequently, if Skandia AFS invests in the human and future perspectives, satisfied customers will become a likely result as we value high quality measurements as outcomes of a well-defined process.

As far as we are concerned, a high degree of internal processes and strategic actions taken within Skandia AFS rely heavily upon intellectual capital as such, hence intellectual capital is *THE* measurement type for strategy implementation. However, most importantly, intellectual capital is more than simply a measurement system. It creates a specific image for the entire company and unites the mutual vision of Skandia AFS. For us, intellectual capital is the means for implementing the strategy itself. Firstly, it motivates employees to a very high extent in terms of change incentives and personal satisfaction, which is exactly what Skandia AFS must do in order to acclimatize itself to its competitive milieu and its specific organisational structure (“specialists in cooperation”). That leads us to the primary objective – *highly motivated, skilful and satisfied employees*.

Furthermore, the second aim is to create customer value and satisfaction *through* intellectual capital and motivated employees. In the service industry, customer value is the supreme factor for delivering company success (consultant perspective/view). Skandia AFS especially highlights its employees as the most important resource for creating customer value. Lastly, we see the very end of the value creating chain (through intellectual capital, employee satisfaction and customer value) as the establishment of shareholder wealth. After all, Skandia AFS´s long-term strategy is to create shareholder value. Accordingly every measurement leads undoubtedly to shareholder value (and management careers).

4.4 A Model Applicable to the General Service Industry

After having studied and analysed all research determinants we would like to summarise our own evaluations and judgements. The following model is a summary of our point of view on performance measurement. We want to apply our main findings to the general sample by designing a model over the vital types of measurements strongly connected to the value creating processes (through strategy implementation) particular suitable for service organisations.

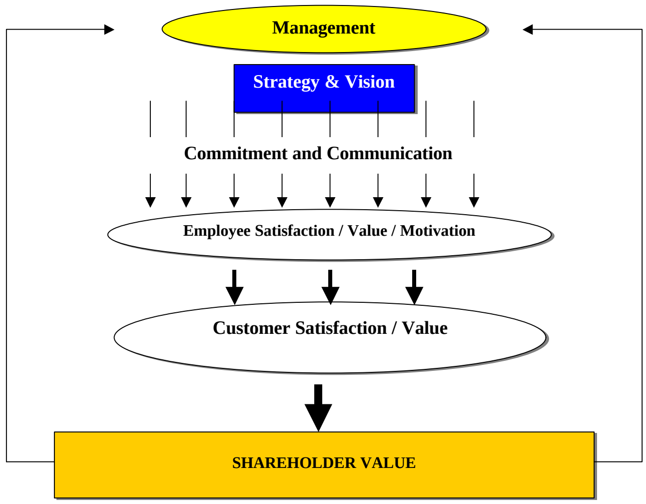

FIGURE 15: PERFORMANCE MEASUREMENT MODEL; OWN ELABORATION

Our overall argument has been that the goal with every decision made within a service company, with the help of a performance measurement system, is to create *shareholder value*. Measurements are after all more a means than an end. Most academics and consultants as well as research share this view. However, what we find highly remarkable is the fact that the types of measurements tend not to reflect measures, which show what creates value for shareholders rather than value for shareholders in itself. The primary intention behind the use of performance measurement systems (BSC and Navigator) has been to monitor strategy and vision implementation. From investigating the two service companies we can identify two major areas of focus for performance measurement that deliver sustained future success to service organisations: *employees and customers*. We have found a strong correlation between employee satisfaction / motivation and customer value. Despite the old-fashioned statement of Skandia AFS, it is still true that ”The best way to satisfy customers is to have satisfied employees”. KappAhl also emphasised the areas of employee motivation and personal commitment to facilitate necessary strategic changes. A common denominator is therefore, in both cases, identified as being intangible measurements reflecting human resources; a starting point for the creation of customer value.

The second step in our interpretation is the strong correlation between customer satisfaction and shareholder value. With this we stress that every action taken within a service company must lead to shareholder value, hence if customer satisfaction does not create that kind of value, it is worthless and should be abandoned. What is important to keep in mind is to satisfy the right *kind* of customers and monitor with the right *type* of measurements, in order to meet customer expectations and optimally to exceed their needs. A customer satisfaction index should concern the “right” population, because the company should care more about its most important customers’ satisfaction. Today a service company sells entire experiences that are valued highly by its customers, who of course pay more, and subsequently leads to higher shareholder value. *Customer experience* is a factor of high importance in the link to the image of the service company. In spite of this, the framework for customer satisfaction is a satisfied and skilful employee. That leads to a direct linkage between shareholder value and employee motivation and satisfaction. Employee satisfaction is based on the specific culture of the company, which must lead towards the desired image. That means that employees and customers share the same kind of values. To sum up, *culture* and *image* are two extremely important areas for service companies to monitor and improve in order to deliver sustained future success.

4.5 Critical Approaches to Performance Measurements

In this section we want to present some major arguments of criticism towards performance measurements in general but to KappAhl and Skandia AFS in particular, concerning strategy implementation.

4.5.1 The BSC as a Product

The success of a strategy implementation does not necessarily depend on the performance measurement system as such or how to actually monitor operations. Instead we have identified single executives to be the main reasons for success. At Skandia AFS and KappAhl they have created strong corporate culture and vision, which is the only true basis for long term success. The reason behind the use of Navigator/BSC was instead to create strong *personal commitment* and *communication channels* inside the company to achieve successful strategic objectives. Undoubtedly, we cannot neglect the fact that the Navigator/BSC was somehow used as a strong management control tool, for personal interests.

The BSC is a tool for *strategy implement*ation and *employee motivation*. It is a consultant *product*. The BSC is easy to sell, because of its simplicity and comprehensibility. This is a suitable combination for executives (under pressure from stakeholders) who are willing to invest significant sums of money to achieve quick results to move the organisation in the desired strategic direction (after all, executives do consider their own results and careers). Consequently, the BSC is top management responsibility. The model as such is not guiding the company into the future rather than monitoring present operations and strategy implementation, set by the executive level. It is operating within a predetermined framework, and in that sense, the BSC is static and not suitable for flexible strategy approaches.

As the analysis has suggested Skandia AFS rely heavily on its "product" the intellectual capital, to implement strategic changes. Intellectual capital as a measurement can be challenged, as the formula today does not contain any uniqueness along with the fact that the concept is maturing. If intellectual capital really is a true way to measure and deliver business success, why have so few companies implemented the idea?

A critical risk might be a kind of "blindness" towards intellectual capital, and in the long run inhibiting changes and making the entire organisation inflexible towards strategic movements. The final point of reflection is the true understanding of the Navigator. Does every employee at all levels comprehend the measurement system? Probably not, because it is a model to control employees.

4.5.2 Failure Approach as a Success Formula

The BSC is fundamentally a SUCCESS model. The BSC provides visualised and simplified pictures of a complex reality by concentrating on the contemporary strengths and success areas to improve.

However, the BSC tends to neglect weak areas, which are crucial for future strategic direction and development. The long-term objective for organisations is in addition to fulfilling shareholders requirements to be competitive in the long run. There is a potential risk in neglecting weaknesses, because at some point an organisation will realise that these are strategically important as well, but then it is too late for modifications. Hence, there is a likely risk that weak areas might diminish success. To be responsive to potential risks and opportunities, we vote for stronger attention to types of measures that reflect failure areas.

KappAhl follows the common approach of focusing on success areas rather than analysing failure. For instance, measures within the customer satisfaction indexes only take into account the most satisfied numbers. Moreover, these measures basically judge cumulated figures instead of separating customer segments. Neither core customers nor defecting customers are taken into consideration. We suggest that KappAhl apply a combined measurement system. This system might include critical success factors (core customers) and failure analysis (defecting customers) and most essentially *defecting core customers*. Defecting customers are critical to monitor, as they provide the service company with valuable information about market performance.

However, there are threats with failure measures, since failure is often considered to have a negative impact on personal motivation and value creation. It entails a mature organisation in combination with strong leadership. Therefore we suggest a smooth mixture between success and failure measures. It is essential to be acquainted with the causes of former crises before identifying what will deliver future success. *SWOT* measures as well as *competitive measures* are essential for any scorecard implementation. These analyses provide answers to the current situation of the company and advise on future guidelines. Only after having identified the weaknesses as well as the strengths combined with opportunities and threats in relation to external competition, can a proper strategic direction be identified. The BSC fails in practice, because of its internal character.

4.5.3 Means Towards Financial Ends

Financial measurements are truly important, not only due to legal aspects and external interests but also to monitor internal profitability. However we cast doubt on the strong attention financial measures still receive in both KappAhl and Skandia AFS through the performance models. The "relevance lost debate" somehow judged the financial perspective as being solely a provider of past actions through accounts of figures from prior periods that cannot be changed or influenced. There are always lessons to learn from history as long as one acts rationally. However, companies are not rational in this aspect and as the environment continuously changes it is impossible to apply financial measures to present situations, as success cannot be copied. Financial measures are the outcome and the end of the entire performance measurement system. The word "Measure" is wrong in this setting. What really is imperative to measure is firstly the perspective of *employees* that secondly leads to *customer satisfaction/value*. These measures indicate how the company progresses and adapts to changing conditions in a feedback loop relationship. That will offer internal evidence if employees feel comfortable with the new strategic direction and can contribute to future success. Customer measures provide external answers on how customers appreciate the efforts of the company, which are directly related to the final outcome of the performance measurement system, namely shareholder value. These two measurement types are the means towards the financial end.

In addition, process measurements should receive a great deal of interest as well. This perspective should include measures concerning, *total quality*, *supply chain*, *process innovation*, *R&D*, *lean production*, etc. whatever suits the specific service company best. KappAhl's performance areas could be divided into one *logistical* and one *service* oriented. Production and Transportation processes focus mainly on financial measures and depend upon efficient supply chain management and proficiency measurements in order to fulfil the overall objective of reducing lead-time. This function produces the real *quality*. Within Sales and Retail employees take a centre role in living up to customers' expectations on quality and service. Intangible measures such as *attitudes*, *motivation* and *satisfaction* are essential. As a result, the supply chain is basic for the company's success, but the service part of the company must live up to the image and quality as well. We vote for two different scorecards: one for the logistic function and one for the service function that provide a more biased approach to the entire service organisation.

5. Further Reflections

To continue our innovative thesis approach we do not want to start claiming phrases about further research that just reformulates our research question with small modifications in terms of different delimitation. Throughout the analysis we found three very interesting aspects/approaches that were not covered in this thesis, but should be investigated further and which attract considerable attention. These aspects include *catalytic mechanisms, failure analysis, and Hawthorn effects*.

5.1 Catalytic Mechanisms

According to Collins (1999), the answer for managerial control systems is very basic. He developed the term “Catalytic Mechanisms” that are the crucial link between objectives and performance. These mechanisms translate every “big, hairy, audacious goal” into action. To say it in short, it is an instrument for vision and strategy implementation. This simple yet powerful managerial tool helps organizations turn goals into results. Catalytic mechanisms share five distinct characteristics:

- Produces desired results in unpredictable ways
- Distributes power for the benefit of the overall system, often to the great discomfort of those who traditionally hold power
- Has sharp teeth
- Attracts the right people and ejects viruses
- Produces an ongoing effect

When executives identify a confident organizational goal, the first thing they usually do is design a excess of systems, control, procedures, and practices that seem likely to make it happen. That process is called "alignment". The great paradox is that by giving up control and decreasing predictability, a company increases its probability of attaining extraordinary results. But no executive or manager would ever give up control. The key to success lies in new ways of achieving targets using unpredictable ways. That can only be reached by giving up control. But by giving up control, managers make themselves useless in the organization. The catalytic mechanism tilts the balance of power away from inertia towards change. It challenges the default tendency of bureaucracies to choose inaction over action, status quo over change, and idiotic rules over common sense. What is meant by the first two mechanisms is solely that a company will never achieve outstanding performance without trying new ways. The winners are not the ones that follow the herd. The most successful entrepreneurs set trends instead of following.

The fact is that executives spend hours drafting, redrafting, and redrafting yet again statements of core values, missions, and visions. This is a very useful process, but statements themselves will not accomplish anything. By contrast, a catalytic mechanism pits a process in place that all but guarantees that the vision will be fulfilled. That means it has sharp teeth to achieve the goals. A lot of traditional controls are designed to get employees to act the “right” way and to do the “right” things, even if they are not so inclined. But great organizations have figured something really important out: the old adage “people are your most important asset” is wrong; the right quotation is “the right people are your most important asset”. The right people are those who would exhibit the desired behavior anyway, as a natural extension of their character and attitude, regardless of any control and incentive system. The real challenge is to find people who already share your core values and to create catalytic mechanisms that so strongly reinforce those values that people who do not share them either never get hired or find the door very soon. Events are not enough to achieve the desired outcomes. Instead ongoing processes are needed. An inspiring speech to the troops, an electrifying off-site meeting, a euphoria-producing buzzword, a new initiative or strategic imperative, an impending crisis – all of them are events and most are useful. But there will be no effect if no ongoing process is started. Instead of just adding catalytic mechanisms, the whole system must be removed by; create and do not copy; allow your mechanisms to evolve over time, and build an integrated set.

5.2 Failure Analysis

According to Reichheld (1996), the lifeblood of adaptive change is employee learning, and most useful and instructive learning grows from the recognition and analysis of failure. A first step in getting people in an organization to focus on failure analysis (customer defections, etc.) requires overcoming the preoccupation with success. Of course, success has lessons to teach. But businesspeople today are obsessed with success and sometimes more obsessed with other people's success than with their own. Benchmarking has become a enthusiastic search for the world's lowest cost, highest volumes, and fastest growth. Consultants and executives search for approaches that have led to big profits in one situation so they can apply them in others. This so-called best practice is by research proved to create less value than one might expect. Why is that? When systems are working well, its success rests on a long chain of subtle interactions, and it is not easy to determine which links in the chain are most important. Even if the critical links were identifiable, their relative importance would shift as the world around the system changed. So even if it was possible to point to the critical links and more or less reproduce them, it would still not be possible to reproduce all the relationships or the external environment in which they operate.

Warren Buffett, one of the world's most successful business men (in monetary terms) claims that he has more to gain by studying business failures than business success. "In my business we try to study where people go astray and why things do not work. We try to avoid mistakes. If my job were to pick a group of ten stocks in the Dow-Jones average that would outperform the average itself, I would probably not start by picking the ten best. Instead, I would try to pick the 10 or 15 worst performers and take them out of the sample and work with the residual. It is an inversion process. (Richman, 1996)

Of course it is hard for companies to use failure analyses. Psychologically and culturally, it is difficult and sometimes threatening to look at failure too closely. Ambitious managers want to link their careers to successes, because failures are usually examined for the purpose of assigning blame rather than detecting and get rid of the systematic causes of poor performance.

5.3 Hawthorn Effects

Itter and Larcker (1998) vote for the possibility that any performance consequences might simply be due to a “Hawthorn Effect”, with specific measures having minimal importance. The authors provide a broad overview of potential research opportunities related to economic value measures, non-financial performance measures and the BSC, and performance measurement initiatives in government agencies that characterize the recent innovations in performance measurement trends. The ultimate question is whether there is anything fundamentally superior about these measurement practices that produce desirable changes in managerial behavior. Perhaps the same (or better) results could be obtained with other performance metrics, as long as senior-level managers champion the performance measurement choice. We have identified the loop/chain from implementing a new strategy, measuring performance, and connecting the outcome back to the strategic direction. Our case companies used a modified BSC concept to support the strategy implementation. It could be interesting which other concepts besides the BSC could fulfill the same desired results.

Machiavelli (16^{th} century) claimed that no prince (manager) should believe in solely secure decision making. Rather than believing in secure decisions, these must be questioned, because it lies in the nature of things that you cannot avoid one problem without struggling into another problem. The wisdom of decision-making lies in identifying all problems and choosing the one that implies the minimum risk and translating it into positive issues.

“ Invert, always invert, in mathematics and physics, and it is a very good idea in business, too. Start out with failure, and then engineer its removal”
[Albert Einstein]

APPENDIX 1: Examples of Measures at KappAhl

(Adopted from Olve, Roy and Wetter, 1999a)

FINANCIAL PERSPECTIVE

1. Total cost ($)
2. Revenues/total assets (%)
3. Return on investment (%)
4. Revenues/employee ($)
5. Profits/total assets (%)
6. Market value ($)
7. Return on net assets (%)
8. Profit margin (%)
9. Cash flow ($)

CUSTOMER PERSPECTIVE

1. Number of customers (No.)
2. Annual sales/customer ($)
3. Average time spent on customer relations (No.)
4. Customer/employee (No. or %)
5. Customer loyalty index (%)
6. Customer visits to the company (No.)
7. Number of complaints (No.)
8. Brand image index (%)
9. Service expense/customer/year ($)
10. Customer rating (%)

PROCESS PERSPECTIVE

1. On time delivery (%)
2. Average lead time (No.)
3. Inventory turnover (No.)
4. Environmental impact of product use (No.)
5. Cost of administrative error/management revenues (%)
6. Contracts filed without error (No.)
7. Lead time, product and development (No.)
8. Administrative expense/total revenues (%)
9. Average time for decision making (No.)
10. Improvement in productivity (%)

RENEWAL AND DEVELOPMENT PERSPECTIVE

1. R&D expense ($)
2. Hours, R&D (%)
3. Investment in training/customer (No.)
4. Investment in development of new markets ($)
5. Patents pending (No.)
6. Competence development expense/employee ($)
7. Satisfied employee index (No.)
8. Marketing expense/customer ($)
9. Non-product-related expense/customer/year ($)
10. Employee’s view (empowerment index) (No.)

HUMAN-RESOURCES PERSPECTIVE

1. Leadership index (No.)
2. Motivation index (No.)
3. Number of employees (No.)
4. Employee turnover (%)
5. Time in training (days/year) (No.)
6. Share of employees with university degrees (%)
7. Percentage of full-time permanent employees (%)
8. Number of full-time permanent employees (%)
9. Number of applicants for employment at the company (No.)
10. Empowerment index (No.), number of managers (No.)

APPENDIX 2: Intellectual Capital Measures at Skandia

(Adopted from Buren, 1999)

HUMAN CAPITAL

1. Organisational learning
2. Effectiveness of learning transfer in key areas
3. Management credibility
4. Employee wages and salaries
5. Educational levels – percentage of college graduates
6. Employee empowerment
7. Management experience
8. Time in training
9. Percentage of employees with X+ years of service
10. Empowered teams

INNOVATION CAPITAL

1. Number of copyrights and trademarks
2. Number of patents used effectively
3. Planned obsolescence
4. New opportunities exploited
5. New markets development investment
6. R&D productivity
7. Sales from products released in past five years
8. Research leadership
9. Net present value (NPV) of patents
10. Effectiveness of feedback mechanism

PROCESS CAPITAL

1. Strategy execution
2. Quality f decisions
3. Percent of revenues invested in knowledge management
4. Percent of company effectively engaged with customers
5. IT access per employee
6. Strategy innovativeness
7. Cycle Times
8. IT investment per employee
9. Process Quality
10. Time-to-market

CUSTOMER CAPITAL

1. Market growth
2. Customer needs met
3. Marketing effectiveness
4. Annual sales per customer
5. Market share
6. Average customer size (in dollars)
7. Five largest customers as percentage of revenues
8. Days spent visiting customers
9. Support expense per customer
10. Image-enhancing customer as percentage of revenues

APPENDIX 3: Skandia Navigator measurements

(Adopted from Olve, Roy and Wetter, 1999a)

Financial focus:

- Return on capital employed (%)
- Operating result (SEK 1 million)
- Value added/employee (SEK 000s)
- Change in company's IT literacy (%)

Customer focus:

- Number of contracts
- Savings/contract (SEK 000s)
- Surrender ratio (%)
- Point of sale

Human Focus:

- **Number of employees, full-time**
- **Number of managers**
- **Of whom women**
- **Training expense/employee** (SEK 000s)

Process Focus:

- Number of contracts/employee
- Administration expenses/gross premiums written (%)
- IT /administration expense (%)

Renewal & Development Focus:

- Share of gross premiums written from new launches (%)
- Increase in net premiums written (%)
- Development/ administration expense (%)
- Share of staff under 40 years

APPENDIX 4: Interview Guide/Discussion topics

Consulting Perspective/view

- We have looked into types of measurements that can provide a strong connection between strategic planning and performance monitoring. As far as we are concerned there is a need to extend the scope of performance measurement, vertically, both upward (to meet capital market requirements) and downward as well as horizontally (to design measures that support process orientation). Comments!

- As we have acknowledged, the most important measures used are measures that reflect profitability, cost effectiveness and distribution of sales. However, we question which part the interaction between customers and employees takes and how culture and values could be monitored. It seems like that the BSC neglects measures of this type. How important is the core customer?

- What we have seen is that companies still focus on internal processes. How can the balanced scorecard become more customer and market oriented (how markets and competitors develop)?

- As we have seen both in literature and practice, the BSC is always used for specific purposes in each company (for example employee motivation, a tool for re-structuring processes, management information or maybe shareholder value). We believe that the BSC is not the general measurement tool to make sure that companies can adopt quickly to changing needs and measure accurate data. For us, the purpose of the BSC gets set before and then the desired outcomes get measured. So the original statement: "You get what you measure" should be understood as: "Decide what you want and measure it, so it can be done!" Comments!

Company Perspective/view

- For you as a Controller, what should a sophisticated performance measurement system provide you with?
- We don't believe that intellectual capital is responsible for Skandia AFS's /KappAhl's entire success rather than a clever strategy implementation in collaboration with a committed management Comments!
- From your point of view, what types of variables/factors have been most applicable to monitor Skandia AFS's/KappAhl's strategy implementation?
- As we see it, there might be a long-term risk to use too fragmented measures, because they fail to benchmark performance between companies and also lack the focus towards a common vision. Comments!
- How big is the impact of intangible measurements for management control today? How has the role of financial measures changed?
- Is it the vital types of measurements within the Navigator that create success or is it the concept as such that matters?
- How do you measure customer satisfaction and customer value?
- What are the most important areas to monitor in order to deliver sustained future success?
- What are the alternatives to measurement?
- What does the statement "What you measure is what you get" mean to you?

Academic Perspective/view

- Why do firms exist and who are the interest groups that are most important for service industry?
- How are performance measurement systems conducted and who's responsibility is it?
- How does financial accounting and measurements correlate?
- What kinds of strategic control systems do exist and which are the most applicable and most used in practice?
- What are the alternatives to performance measurements?
- How are strategy and performance measurements connected?
- What kinds of service strategies do exist, are most applicable and are most used in practice?
- What is value and how can it be measured?
- What is the importance of the customer and shareholders?
- What is the difference between external and internal control / measurement systems?
- To what extent are strategies flexible to changing business environments and how does that align with measurement and control mechanisms?
- What is the purpose of performance measurements and the BSC?
- Why is the BSC so popular?
- What other performance measurement systems do exist and what is the most applicable for service industry?
- What is the difference between service industry and manufactures?
- How do consultants and academics treat knowledge and what are the major differences?
- Which role does performance measurement take within the organisation?

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Interviews and meetings

Peter Karlsson	KappAhl	Controller	02 sep 1999 Göteborg
Hakan Westin	KappAhl	Fin.Director	16 dec 1999 Göteborg
Marianne Ax	Skandia	Controller	§ ¶
Lotta Leuckfeld	Skandia	Controller	§
Leif Edvinsson	Skandia	Director	12 apr1999 *
Ingemar Claesson	HGUS	Cons./Lect.	¤
Olov Olson	HGUS	Professor	03 sep 1999 Göteborg
Björn Alarik	HGUS	Lecturer	01 sep 1999 Göteborg
Christian Ax	HGUS	Ass. Prof	02 sep 1999 Göteborg
Torbjörn Stjernberg	HGUS	Professor	02 sep 1999 Göteborg
Axel Targama	HGUS	Assoc. Prof.	03 sep 1999 Göteborg
Johan Åkesson	HGUS	Ass. Master	03 sep 1999 Göteborg
Bo Dahlbom	GU	Professor	20 sep 1999 Göteborg
Nils-Göran Olve	Cepro	Prof/Cons	§
Martin Sande	Sande Cons.	Consultant	26 may1999 Göteborg
Sven-Martin Åkesson	KPMG	Consultant	13 sep 1999 Göteborg

* seminar § e-mail ¶ telephone ¤ tutor