Strategy and Performance Measurement

How do managers react if there is tension between strategy and performance measurement

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Preface
The last hurdle in finishing my study Management Sciences was a research leading to a thesis proofing that the theory has been understood. Next to a full working week it has been quite a challenge to full fill these requirements and I think my family will be very grateful to hear it has been done and that I can give them so much more of my time.

I would like to thank the organization which provided me the opportunity to do my research, supporting me and for all the contributions they have given me.

At the final chapter after the main question is answered and an advice is given there is also a paragraph with a reflection to my research. For those who are especially interested in that part I took that paragraph into this preface (see below).

The main question is about tensions by measuring the implementation of Strategy through a performance measurement system and how managers cope with this. In the conclusions mentioned above I said that the management of this organization prefers to change the performance measurement in order to get straight answers to the question where and how to change the Strategic perspective. In Chapter 4 the real tension revealed was that there is a lack of translating Strategy into day to day actions to let the co-workers know what their contribution to Strategy really is. During the interviews I investigated how managers react if there are tensions between Strategy and Performance Measurement. The results show that tensions are there but the mitigating actions are not applicable to this organization. The real tension is mainly in not aligning Strategy and performance measurement as the Strategy is not explicitly translated into actions and therefore not really measured as such.

I found it a real challenge to make this explicit and to find a way to build up the research. By breaking it down to the pieces of Strategy and performance measurement and then building it up through the alignment between these two it became more clear.

Although the questions have been sent upfront every interview has been different and that made it also a challenge to wrap it up again into similar templates to keep the consistency. One of the first things I learned was to let go my own expectations because if you do not do that the conclusions are made too soon and too easily with the danger of being biased by me. Next to that is interesting to see how each interview has its own structure leading to even other questions which I did not add to the interviews as I did not want to change the design during the research (test of reliability). In the preparation all interviews where the same, the outcome was not and I think it went well as the interviews where very structured as well as the wrap up. There were serious questions on the added value of the present BSC. Besides that the Strategy was expected to be known and measured through other means than the BSC. I think some work has to be done on translating the Strategy to the work floor and critical success factors, as mentioned in my advice to the organization.
Summary

Almost every organization has some kind of a Strategy and uses some kind of Performance Measurement. Although having a Strategy and a Performance Measurement System (PMS) is no reason to survive and reach the optimal performance. In a cover article of the Fortune (June 1999) of failures of organizations the conclusion was that focus on strategy and vision apparently led to the misplaced believe that the only thing management needed was having a good strategy. In approximately 70% of all cases the real problem is not the strategy itself but implementing the strategy. To know if a Strategy is implemented it has to be measured. By measuring this there might be tension as the outcomes might indicate that the Strategy is not implemented as desired and hence the results of the organization will also not be the desired outcomes. In this research the main question consists of the way Managers act in case there is tension between the Strategy and the Performance Measurement.

Strategy is the policy or way to achieve goals. Mintzberg supported 5 definitions of Strategy. These definitions are: a plan as a consciously intended course of actions), a ploy as a specific measure to achieve a specific goal), a pattern as a stream of actions emerging from realising strategy, a position as locating the organisation in its environment) or as a perspective (strategy as a shared perspective by members of an organisation). Designing the Strategy along one of the 5 definitions is important to improve the results. Implementing it as well is getting more attention and is believed to be even more important to improve the results of an organization than only designing it. Every organization is influenced by the external environment which can force an organization to change its Strategy. As the internal capacity to change is slower than the external changes there can be a mismatch between Strategy and performance measurement systems.

The objective of performance measurement systems in the process of measuring and reporting of defined indicators on order to improve performance. One way to improve performance is to implement the chosen Strategy and to follow this by the reporting and measurement systems. This means that the performance indicators used should be aligned with Strategy or support the Strategic initiatives of the organization. There are indicators needed to show past results and indicators who have predictive value based on future trends. The indicators of the past are the result or lagging indicators and the indicators for the future are performance or leading indicators. Performance indicators should be frequently measured non financials items which lead to action and show who is responsible for the outcomes.

The BSC as a Performance Measurement System seems to be an adequate tool to support this as it covers all the items in the internal and external Strategic context of an organization. On this card the Strategic initiatives and themes need to have indicators which show the progress on this item. As Strategy describes the way you want to perform your mission these indicators should also have some predictive elements. By showing the progress on these indicators tensions might appear if indicators are not (sufficiently) aligned with Strategy or if the indicators show whether or not the performance leads to the chosen Strategy.

The design and the execution of performance measurement needs management attention and should reflect their needs. The place on their agendas should indicate how important they think the results are. By showing the performance and by aligning the Performance Measurement Systems to Strategy or Strategic initiatives there might be tension. Not only on executing the Strategy or performance measurement but also on showing the progress of the
implementation. In a research of Johnston and Pongatichat (2008) the assumption was that managers would choose to change performance measurement as changing the Strategy was believed to be difficult. The outcome was even more surprisingly as the performance measurement was not changed either. Their conclusion was that managers seem to hide the tension between implementing Strategy and performance measurement. In the research of Johnston and Pongachit there are three ways to cope with these tensions. The first one is doing noting and just to ignore the tension, the second one is a pseudo alignment strategy in which they seem to take action and the third one is a distracting strategy in which they take the attention away from the tension.

Through this thesis research is done in an organization in the financial industry to investigate whether or not management perceives tension and how they cope with it.

As the implementation of Strategy is seen as highly critical it is also necessary to know if it is implemented and to know what will be one if this is not the case. The financial industry seems to be an interesting sector to make further research on this theme as their output consists of services and hence intangible assets which are closely tight with their Strategy. In order to do so a research is done at a medium sized organization within this financial industry. The main question in this thesis is:

How do managers react if there is tension between strategy and performance measurement (PM)?

The methodology of research is based on the guidelines in the book of Saunders, Lewis and Thornton (2009) “Research methods for Business Students”. The method of data collection is through an inductive approach to gather qualitative data (opinions of people) by case studies. The data is collected through interviews with participants involved in the process of Performance Measurement which is reflected in the use of a Balanced Score Card. A total of 7 cases has been made which are summarized on a case by case basis. The conclusions have been taken out of all cases leading to an answer to the main question and an advice to the organization.

Mission and vision are well known throughout the entire organization. The theoretical definition of Strategy in general is clear, if translated to the overall Group Strategy however it becomes less clear. If the Strategy is defined as a pattern (consistency in behavior) then the Strategy seems to be followed and executed due to the in depth knowledge of the Mission. Defined as a perspective then it reaches the mission and vision of the organization, an ingrained way of perceiving the world as personality is to the individual. Due to this in depth knowledge of Mission and Vision the answers to the questions can be the same despite the differences in culture. This raises the question however whether Mission and Vision are transposed to the definition of Strategy.

On a deeper level the overall Group Strategy is perceived to be too much as an operational plan and not as on guidance describing the road to travel. Despite this there is still a need for more detailed action plans and a need for the co-workers to know how they contribute to overall Strategy and performance of the organization.

The overall Strategy has not been changed for a long period, which is a well-made choice based on the principles of this organization. In local markets however a lot has changed which should be taken into account in the (local) Strategy and wrapped up in the overall
Strategy. If not there is a risk of a growing misalignment between the internal and external stakeholders leading to a possible loss of market share.

The present overall Group Strategy seems to be implemented through management by walking around with no specific indicators measuring implementation or progress made on Strategic themes. Strategy is reviewed by making some adjustments in the yearly work plans, the focus is based on the new budget whereas the overall Strategy is not adjusted.

The present BSC is not used for the defined objectives of a Performance Measurement system. It is too late in time with not enough detail for departments and no indicators for Strategic themes. It has become a compulsory tool needed to be realigned to its objectives. Almost every unit has its own tools to measure their own Strategy. Tension on the lower or local level has not been a part of the investigation. It will be valuable for the organization to investigate this as well and also how the different local performance measurement systems are aligned to the overall reporting and performance measurement systems which should be used to measure the implementation of Strategy. The indicators used do not support implementation of Strategy. They are mainly result indicators indicating past performance and hardly any predictive indicators for the future. There seems to be insufficient alignment between the indicators and Strategy and the BSC as it is now.

Tensions do exist but not because the Performance Measurement system shows that the Strategy is not met or implemented. The current Performance Measurement System and more in particular the BSC does not guarantee whether the organization is able to assess if the organization meets its Strategic goals. Targets are defined on a yearly bases following budget and based on a three year perspective. As market circumstances change the targets change also during this Strategic period. As the implementation of Strategy is not visibly measured by the BSC it is difficult to assess whether Managers use the mitigating tactics of doing nothing, pseudo alignment or distracting focus from the discussion. As Strategy is not translated into actions and there is no specific measurement through a PMS then there is tension. Strategy should be implemented and the performance indicators and the PMS should be aligned to Strategy. The missing part is how to do so and that is where the tension is about.

At the investigated organization the tensions are felt as part of live. It tells something of the organization, its customers and the way things are done. Strategy is not the first to be changed as the first question is why things are not working out. So make first a grounded analysis of what is not operated as planned, take measures and only if Strategy has proven to be unrealistic change it. Managers at this organization prefer to adapt the Performance Measurement system and based on the outcomes decide what has to be changed on Strategic level. During the interviews none of the mitigating strategies have been proven and consequently we can conclude that the described mitigating strategies (doing nothing, pseudo alignment or distracting focus) are not applicable for the Managers and management style of this organization.

So by using the BSC in the (ongoing) Strategic process the Strategy can be better analyzed with the feedback of the organization and make the Strategy more tangible. So perhaps the conclusion should be that if an organization wishes to implement its Strategy it should use the BSC to get a clear view on the Strategy and by doing so the Strategy might get implemented.
1 Introduction

1.1 History and backgrounds

At the end of last century the focus of management was primarily on the underlying technique or competences of performance measurements systems and developing strategies in order to lead organizations to better results. Neely e.a. (2000) outlines in their article “Performance measurement system design: developing and testing a process-based approach” that the process of implementing a Performance Measurement System (PMS) might be even more important than the design of a PMS itself. During the process attention is given to how measures are chosen and what the outcomes might mean. So by focusing on the process the organization learns to give meaning to the outcomes.

In a cover article of the Fortune (June 1999) of failures of organizations the conclusion was that focus on strategy and vision apparently led to the misplaced believe that the only thing management needed was having a good strategy. In approximately 70% of all cases the real problem is not the strategy itself but implementing the strategy. So the last decade focus is more on implementing the strategy as a way to achieve better performance. But if a large part of these implementations fail it raises the question why it is so difficult to get strategies implemented to support the performance. One of the answers is that the instruments to measure the strategy are not adjusted to the changing strategy (Kaplan, 2000). An investigation of the Brookings Institute of 1982 indicated that the book value of tangible assets was about 62% of the market value of a company. Ten years after this decreased to 38% and in more recent studies this percentage is estimated 10 – 15%. There is a shift from managing tangible assets to managing strategies of deploying intangible assets (e.g customer relations, innovation, capabilities of Staff) to create value. In the economy in which tangible assets were most important it was sufficient enough to measure investments and their returns by only financial measurements systems. In the present economy however as the recent studies implicate the focus is on intangible assets and the value creating capacities they have (Kaplan, 2000). This economy asks for measurements systems with which the value creating strategies can be measured. If these instruments are not available it is difficult for companies to manage what they cannot define or measure. Until the seventies large companies were mainly managed by large central departments which made it possible to implement Strategy by an extended culture of order and control. Nowadays companies work with smaller and more decentralized departments, closer to the customers. These companies realize that a competitive advantage is more based on sharing knowledge, capacities and relations of co-workers than on the large tangible investments in commodities and capital. To implement a strategy it is needed that all co-workers are aware of and acquainted with the strategy and knowledge of their contribution to strategy. The fast changes in the environment make it necessary that building and executing strategy is a continuous process in which everyone cooperates. This requires a specific language to make it possible to communicate on the strategy itself, on the implementation and to get feedback on the implementation and the strategy.

According to Elg and Kollberg (2012) an organization cannot be managed without a functioning reporting system. A reporting system or a performance measurement system is in their view a system that transforms data into useful information for decision making. Quality of the data has a great impact on the quality of the outcomes. Also the effort an organization makes towards its performance measurement system influences the outcomes. Elg and
Kollberg make a distinction between the organizational resources, technical resources and the (political) context within the organization. They describe 6 levels of activity, from active responsibility up to total inactivity. If a high quality of data and information is desired then the efforts and resources available on the performance measurement should support this. If high quality is needed and if management attention is present then it becomes interesting what they will do with the outcomes of the process as described by Neely. And more specific what actions will be taken if the outcome presents a direction which is not in line with the desired performance or Strategy.

According to Skinner (1971, p.66) operational measures and strategic objectives should be aligned. An organization he stated should not only be judged on efficiency and costs as other criteria could be more important given the particular strategic context of that organization.

There are some basic elements needed to control an organization and to make sure it reaches desired performance. These are the process of designing a performance measurement (Neely e.a. 2000), alignment of measures and strategic objectives (Skinner 1971) and a good reporting system backed by sufficient effort and resources (Elg and Kollberg 2012). In research of Johnston and Pongatchat (2008) the measuring of performance is seen as a critical activity to improve performance and ensure alignment with strategic objectives. By the alignment of PMS and strategy and also on the execution of it tensions might appear. If the implementation of, or executing the strategy is not supported by the PMS, how then to judge the strategy. To ensure the organizations is acting according to Strategy and as the article of Fortune indicates it is seen as important that Strategy is implemented some measurement is needed. By doing this in an efficient way and to make sure the conclusions are based on the underlying facts, alignment between Strategy and PMS is required. This however might lead to tensions which makes the question interesting what Management does with the outcome of Performance Measurement and implementing Strategy. Not so much literature however is available yet on the topic of tensions between (implementing) Strategy and PMS and how Management reacts on this. By doing this research I hope to add some value to this topic by answering the main question as described below. The financial industry seems to be an interesting sector to make further research on this theme as their output consists of services and hence intangible assets which are closely tight with their Strategy.

1.2 Main Question:
How do managers react if there is tension between strategy and performance measurement (PM)?

1.2.1 Subquestions:
- Do managers think that strategy and PM should be aligned and that PM should support implementing the Strategy?
- Is PM used to influence cooperative forces in the organization in order to implement strategy and what indicators are used?
- Can there be a tension between strategy and PM and what mitigating actions are taken?
- Is strategy aligned to PM or are the performance indicators aligned to strategy?
- Should PM act immediately on changes in the external environment of the organization, or is some time lag and or misalignment allowed?
In this research (by a case study at an organization in the financial industry with autonomous branches in different countries) an answer is searched on:

1. How is strategy implemented and measured
2. What objectives does the PMS have and does it support its objective
   a. Communication
   b. Implementing strategy
   c. Other
3. What performance indicators are used
   a. Do they support the objective of PM
   b. Do they support (implementation of) strategy
   c. Do they reflect a (financial) outcome
   d. How are they aligned to strategy
   e. How are they reviewed
4. Is there a tension between the strategy and the performance measurement
   a. At the implementation of Strategy
   b. At the execution of Strategy
   c. At the alignment of Strategy and PM
5. In which way do Managers cope with this tension, what actions do they take
   a. Alignment Strategy to PM
   b. Alignment PM to Strategy
   c. No alignment
   d. Change PM, change Strategy or neither of them and do something different
6. Has PM changed the organization
7. Are there effects caused by the PM which are not meant or lead to less performance
8. How does the external environment influence the performance and strategy

The data will be collected through interviews with participants involved in the process of Performance Measurement which is reflected in the use of a Balanced Score Card. A more detailed description of the methodology of research is given in chapter 3

1.3 Ethical issues:
A number of key ethical issues arise across the stages and duration of a research project. These relate to the:

- Privacy of possible and actual participants;
- Voluntary nature of participation and the right to withdraw partially or completely from the process;
- Maintenance of the confidentiality of data provided by individuals or identifiable participants and their anonymity;
- Reactions of participants to the way in how data is collected, including embarrassment, stress, discomfort, pain and harm
- Effects on participants on the way of how data is used analysed and reported, in particular the avoidance of embarrassment, stress, discomfort, pain and harm;
- Behaviour and objectivity of the researcher.

In the interview it will be made clear that the participants can withdraw from the research. Data and outcomes will be saved according to the guidelines of the organization in which the research has taken place and the Open University in Heerlen. One copy of the final research will be saved in Heerlen, one in the archives of the organization and one in my own archive.
1.4 Summary:
Almost every organization has some kind of a Strategy and uses some kind of Performance Measurement. Although having a Strategy and a Performance Measurement system is no reason to survive and reach the optimal performance. In a cover article of the Fortune (June 1999) of failures of organizations the conclusion was that focus on strategy and vision apparently led to the misplaced believe that the only thing management needed was having a good strategy. In approximately 70% of all cases the real problem is not the strategy itself but implementing the strategy. To know if a Strategy is implemented it has to be measured. By measuring this there might be tension as the outcomes might indicate that the Strategy is not implemented as desired and hence the results of the organization will also not be the desired outcomes. In this research the main question consists of the way Managers act in case there is tension between the Strategy and the Performance Measurement.
2 Theoretical framework

2.1 Introduction
The main question of this thesis refers to Strategy (paragraph 2.2), Performance Measurement (paragraph 2.3), tensions (paragraph 2.5) and the Balanced Score Card (paragraph 2.4). All these items need to be defined and theoretically underpinned. After the theoretic underpinning the relation with the main question will be made as well as the purpose of this research and its added value to existing theories. Finally paragraph 2.6 consists the purpose of this research.

2.2 Strategy and the environmental context
The first item to define is the Strategy itself (2.2.1), in paragraph 2.2.2 the link with the external environment will be made more explicit.

2.2.1 Strategy
Strategy is the policy or way to achieve goals. Kaplan and Norton (2001) define strategy of an organization as a unique and sustainable way of creating value. Mintzberg defines strategy as the objectives of top management which should lead to results fitting the mission and goals of the organization (news bulletin OU, 1999). Strategy has been defined by several authors. In this research the definitions of Kaplan and Norton and Mintzberg have been taken into consideration. Kaplan and Norton as they are also the founders of the Balanced Score Card and Mintzberg because his definitions are very well familiar within the economic world and he has broken down Strategy into 5 definitions which give the necessary detail to give a solid answer to the main question of this research. Therefore the definitions of Mintzberg will be used in this research (see question 1 of the interview questions).

The institute of Manufacturing of Cambridge University gives 5 definitions (or the 5 five P’s) of strategy of Mintzberg (1992) to manoeuvre through this difficult field.

The 5 P’s are:

- Plan:
  - Strategy is a plan - some sort of consciously intended course of action, a guideline (or set of guidelines) to deal with a situation. By this definition strategies have two essential characteristics: they are made in advance of the actions to which they apply, and they are developed consciously and purposefully

- Ploy:
  - As plan, a strategy can be a ploy too, really just a specific manoeuvre intended to outwit an opponent or competitor.

- Pattern:
  - If strategies can be intended (whether as general plans or specific ploys), they can also be realised. In other words, defining strategy as plan is not sufficient; we also need a definition that encompasses the resulting behaviour: Strategy is a pattern - specifically, a pattern in a stream of actions. Strategy is consistency in behaviour, whether or not intended. The definitions of strategy as plan and pattern can be quite independent of one another: plans may go unrealised, while patterns may appear without preconception.
  - Plans are intended strategy, whereas patterns are realised strategy; from this we can distinguish deliberate strategies, where intentions that existed previously were realised and emergent strategies where patterns developed in absence of intention.
Position:
- Strategy is a position - specifically a means of locating an organisation in an "environment". By this definition strategy becomes the mediating force, or "match", between organisation and environment, that is, between the internal and the external context.

Perspective:
- Strategy is a perspective - its content consisting not just of a chosen position, but of an ingrained way of perceiving the world. Strategy in this respect is to the organisation what personality is to the individual. What is of key importance is that strategy is a perspective shared by members of an organisation, through their intentions and / or by their actions. In effect, when we talk of strategy in this context, we are entering the realm of the collective mind - individuals united by common thinking and / or behaviour.

2.2.2 External environment
Nearly every organization has some kind of a Strategy and has regular contacts with the external environment. It is also the external environment who decides whether an organization is successful or not. It even might force an organization to change its strategy. According to Wouters and Sportel (2005) the objective of a PMS should be to support implementation and monitoring the strategic initiatives. The definition of performance measurement and choosing the targets are concrete objectives according to the strategic choices of an organization. The success of a PMS depends in this vision to: the extend in which an organization can adapt to changes in the (external) environment.

See the relationship between Strategy, external environment and the internal capacity to change in the table below.
according to Pongachitat and Johnston (2008), there can be a mismatch between strategy and performance measurement.

This raises the question whether or not performance measurement systems should follow the external changes immediately or that some misalignment or a small time lag is allowed. It was mentioned before that the focus of today’s economy is managing the intangible assets and their value creating capacities. Organizations work in smaller departments closer to the customers, which makes the changes in the external world more and faster visible. In order to keep the competitive edge they have it is needed to adapt continuously on the external world and keeping the alignment deterioration (Pongachitat, Johnston, 2008) as small as possible. So change is needed to survive and to make sure performance keeps on track the developing and implementation of Strategy seems to get a continuous process. Another issue in the field of the external environment is the culture of a nation. The way the external world changes and the impact this has on an organization, is not the same around the world. The influences and the impact of the different cultures are interesting as well. In this research study the cases are divided over 5 countries in Europe. It is worth investigating the influences of culture in the different continents of the world, this however is beyond the scope of this research study.

2.3 Performance measurement and its objective
Performance has several meanings. So the definition depends on the context in which it is used. Measurement indicates the way how organizations achieve on their performance and is seen as a critical activity for management in order to improve operations, report progress and (in the context of this thesis) ensure alignment with strategic objectives. A reporting system therefore is needed to manage and control an organisation. Given the numerous definitions of Performance Measurement a clear focus is needed. Performance measurement is the process of measuring and reporting on defined indicators in order to improve performance.

One of the most widely recognized performance measurement framework (Neely c.s. 2000) is the Balanced Score Card of Kaplan and Norton (Kaplan and Norton, 1996). Kaplan and Norton introduced the Balanced Score Card initially as a measurement system and not primarily intended to measure Strategy with it. The assumption Kaplan and Norton had with their Balanced Score Card was that companies who only focus on financial measurements were not making the right decisions. Financial measurement in their view is only looking backward, the consequences of past actions and activities. Only looking at financial measurements leads to behaviour in which long term value creating activities are sacrificed to short term financial results. On the Balanced Score Card there are still financial measurements but they are supported by measurements of future actions which are the forces behind future performance. This raises the question as to what are the right measurements for future performance. As financial measurements only leads to wrong decisions what then would support them to make the right decisions. The answers Kaplan and Norton found, was to measure the Strategy to support the decisions for improving performance. The Balanced Score Card has all the ingredients (or indicators) for supporting the measurement and implementation of Strategy as it takes into account markets and customers, internal processes and capacities of co-workers which are all relevant for the earlier mentioned continuous process of developing and implementing the Strategy.
A general assumption (Wouters and Sportel 2005) on performance measurement systems is that they regularly need to be evaluated to make sure they still support their objective. If they do not longer support their objective there will be a mismatch which can lead to a PMS which is no longer relevant or even contra productive. The objective can be only reporting on results (performance), but also to be used as a communication tool and a tool to support the implementation of the Strategy.

2.4 Relation BSC and (Key) Performance indicators

In order to measure the Strategy the BSC uses (key) performance and (key) result indicators. In the next paragraph the underlying theory of key performance and key result indicators are given and in paragraph 2.4.2 the relation with the previously defined BSC and the main question will be made.

2.4.1 Performance & Result Indicators

Performance measurement uses indicators showing the performance. It is necessary however to distinguish between indicators showing how things have been done and indicators showing what to do. David Parmenter (2010) clarifies in his book “Key Performance Indicators (KPI): Developing, Implementing and using winning KPI’s” the requirement of KPI’s. They should be non-financial, measured frequently, leading to action and making explicitly clear where the responsibility should be for that KPI. He states that an organization needs result indicators and performance indicators. The results indicators are usually lagging indicators as they show what has been done and the performance indicators usually leading indicators as they show what to do. The lagging indicators show what has been done but not how that can be improved. These lagging indicators or KRI’s are often been mistaken for KPI’s (Parmenter 2010). KRI’s or result indicators are indicators which are reviewed over a longer period of time (a month or even a quarter). KPI’s on the other hand are measured on a daily or weekly bases and are important to Management as its effects the success of an organization. If the success of an organization is to be translated as Strategy then the KPI’s seem very important to measure the implementation of Strategy whereas the KRI’s are showing the results of all work done. Both indicators therefore are necessary. The Net Profit for example or employee satisfaction are Key Result Indicators as they are the result of the organization’s activities. If an indicator is expressed in a currency sign it is already a result indicator. For KPI’s Parmenter gives 7 characteristics:

1. Non-Financial
2. Measured frequently
3. Direct attention of the CEO and senior Management
4. Clear indication of required actions
5. Measures are directly connected to the responsibility of a team or co-worker
6. Indicators have significant impact on Critical Success Factors and more than one BSC perspective
7. Encourage appropriate action (measures are tested and it is ensured that they have a positive impact for the organization and do not lead to dysfunctional behaviour)
Differences between KRIs’and KPI’s (Parmenter, 2010)

<table>
<thead>
<tr>
<th>KRI’s</th>
<th>KPI’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can be Financial and Non Financial (return on Equity, Customer Satisfaction)</td>
<td>Non Financial measures</td>
</tr>
<tr>
<td>Measured monthly or quarterly</td>
<td>Measured frequently (24/7, daily or weekly)</td>
</tr>
<tr>
<td>Shows summary of progress made</td>
<td>Acted upon by CEO and senior Management</td>
</tr>
<tr>
<td>Does not help Management as it does not show what to do</td>
<td>Everyone understands measure and knows what has to be done</td>
</tr>
<tr>
<td>Commonly the only person responsible is the CEO</td>
<td>Responsibility can be tied down to the individual or team</td>
</tr>
<tr>
<td>Designed to summarize activity within one CSF</td>
<td>Significant impact on CSF and more than one BSC perspective</td>
</tr>
<tr>
<td>Result of many activities managed through a variety of performance measures</td>
<td>Has a positive impact</td>
</tr>
<tr>
<td>Usually reported through trend graph covering past period</td>
<td>Usually reported by a way of internet screen indicating activity and person responsible</td>
</tr>
</tbody>
</table>

As financial indicators or measures can be seen as the result of activities or cooperative forces within an organization and referring to the past, they can be categorized as lagging indicators. To know how the financial results can be improved in the future there is also knowledge necessary on the leading indicators. These leading indicators are in general not financial with the focus on executing future activities supporting the Strategy. The result indicators make visible if the organization has been successful with the implementation, with the performance indicators the implementation itself is supported and hence measured.

As stated earlier the changing environment requires an increasing focus on Strategy and its implementation. The knowledge of co-workers, their capacities and relations are important factors for organizations nowadays in their fast changing environments. As co-workers need to know what their contribution is to the Strategy and how they can influence the Strategy they need to know also how to cooperate and what that means to the Strategy.

2.4.2 Relation with BSC and main question
In the process of defining the Key result and Performance indicators is it also necessary to put a limit on the number of indicators (Parmenter, 2010). Kaplan and Norton recommend no more than 20 KPI’s, Hope and Fraser (beyond Budgeting, 2003) suggested fewer than 10 KPI’s. The 10/80/10 rule seems to be a good guide.

<table>
<thead>
<tr>
<th>10/80/10 Rule for KRI / RI / PI / KPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key Result Indicators</td>
</tr>
<tr>
<td>Result Indicators</td>
</tr>
<tr>
<td>Performance Indicators</td>
</tr>
<tr>
<td>Key Performance Indicators</td>
</tr>
</tbody>
</table>

Although 80 RI’s & PI’s might seem inadequate first, by searching for indicators used in an organization investigation (Parmenter 2010) shows that separate teams are actually working with variations of the same indicator. By standardizing the indicators used less different
indicators seem necessary. After the process of designing the necessary indicators a system or reporting tool is needed to present the results. Parmenter distinguishes between the indicators used for governance and those used for management. The indicators for governance he stated are the KRI’s and should be presented on a dashboard. For the indicators used for management he stated, a BSC is needed. A Performance Measurement System who has both the lagging and leading indicators is the Balanced Score Card as introduced by Norton and Kaplan. In their book “The Strategy focused organization”, Kaplan & Norton (2001) they mention several ways to make Strategy clear and to break it down into smaller pieces and to translate it to the work floor. One of these ways is called Strategy maps with which they describe the different perspectives in smaller pieces to search the underlying critical success factors.

By choosing the right set of indicators it should be kept in mind the objective they should serve. The BSC is defined as a PMS to measure the implementation of the Strategy. The indicators used should support this goal. If the indicators do not support this than the BSC gives wrong signals versus the implementation of Strategy. In the next paragraph this will be identified as a potential tension The indicators should give a fair view on the Strategy, how it is implemented and whether or not the Organizations achieves its goals.

2.5 Performance and strategy

In order to measure Strategy through a PMS there should be alignment between these two. In paragraph 2.5.1 this alignment is explained and the possible tensions are described in paragraph 2.5.2

2.5.1 Alignment Strategy and PM

In more recent articles on Performance Measurement like “Exploring the roles of performance measurement systems in strategy implementation: The case of a highly diversified group of firms” (Micheli, Mura, Agliati, 2011) a link is made with the strategy of an organization. In this article implementing strategy is seen as more important to improve results than designing strategy. This is surprisingly as the attention of most management scientist and advisors has been on designing strategies to improve performance at the end of the last decade (Kaplan, R.S., Norton, D.P., 2009). Performance Measurement focused a long time only on measurement of results and formulating management information based on the outcomes. The last decade focus shifted from measurement only towards supporting the implementation and execution of strategy.

Together with this shift in focus comes the question as to how to measure the implementation and to know whether or not the implementation has been successful. If implementing Strategy is presumed as important, than there is also a need of having the right instruments in place to measure progress. This means that (operational) performance indicators should be deducted from or supporting strategic objectives. Franco-Santos c.s. (2007) states that this is not necessarily as there are companies with operational goals which are not dedicated linked to strategy. Even at these companies however alignment with the objective of a PMS is necessary. Misalignment with the objective might mean that a system does not work or even be contra-productive. Recent introduction of causal models present a method how to align strategy and performance measurement (Ittner and Lacker, 2003; Cobbold c.s., 2004; Kaplan and Norton, 2004). These models show a cause-effect relationship between the drivers of success and the performance indicators supporting it.
2.5.2 Tension

The article “Managing the tension between performance measurement and strategy: coping strategies” of Johnston and Pongatichat (2008) describes the tension between strategy and implementing it through Performance Measurement Systems. Measuring performance is seen as a critical activity for management in order to improve operations, report progress and ensure alignment with strategic objectives.

By implementing strategy and showing the progress in it, performance gets visible as well. In the article of Micheli (2011) the roles of a PMS at implementing strategy are investigated. By designing and executing a PMS attention of Management is required. Intensity of Management attention should reflect their needs and place on their agendas of getting high quality information for decision making. At the design of a PMS procedures are developed that can occur changes in organizations and over time even transform them radically (Mouritsen, 2005). So there can be effects that were not designed and forces management to interfere. The design is an artefact which pushes to people’s concerns interest and ambitions where a management control system is equipped with calculative, organizational and technological procedures. Mobilisation is the process where the design is carried, transformed and bent around purposes. The assumption Mouritsen (2005) uses is that there are situations where the design will create bad performance if it is allowed to word as designed. The design can be full of tensions which need intervention to make a PMS stronger and more beautiful than it already is.

According to Skinner (1971) operational measures and strategic objectives should be aligned. An organization he stated should not only be judged on efficiency and costs as other criteria could be more important given the particular strategic context of that organization.

So tension might appear by the alignment of PMS and strategy but also on the execution of Strategy. If the implementation of, or executing the strategy is not supported by the PMS, how then to judge the strategy.

Research of Melnyk c.s. (2005) in 45 organizations showed that tensions exists between strategy and (operational) performance indicators. According to Newton’s third law forces come in pairs of two, action and reaction. The tension is the disruption in two objects, strategy and performance indicators. The size of it depends on the size of the disruption.

If the PMS does not support its goals this leads to tensions. Johnston and Pongachitat (2008) have defined 8 different types of tension.

Types of tensions according to Johnston and Pongachitat, 2008):

1. Performance indicators are not (properly) aligned with strategy
2. Performance indicators reporting whether or not performance leads to designed and chosen strategy
3. Strategy changes
4. The procedures developed at the design of a PMS lead to effects which are not meant and ask for intervention
5. Performance indicators are used which are not leading indicators
6. Long term versus short term objectives, focusing on financial results and hence on the short term, value creating activities in the long term can be sacrificed
7. Stakeholder tension, focus on alignment vs focus on core activities
8. Attention from Management is not sufficient
In the table below these tensions are described in more detail.

<table>
<thead>
<tr>
<th>Possible Tension</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 PI not aligned with Strategy</td>
<td>If not aligned, implementation of Strategy cannot be measured or not entirely been measured</td>
</tr>
<tr>
<td>2 PI reporting if Performance leads to designed and chosen Strategy</td>
<td>If Performance leads to the chosen Strategy there is no tension. If however the KPIs or KRI’s showing that performance does not lead to the designed Strategy there can be tension</td>
</tr>
<tr>
<td>3 Strategy changes</td>
<td>Performances indicators need to be adjusted. If not than tension 1 will appear, if adjusted properly then tension 2 might appear</td>
</tr>
<tr>
<td>4 PMS has on desired effects</td>
<td>PMS might incur changes in the organization which will not lead to the chosen Strategy</td>
</tr>
<tr>
<td>5 Performance Indicators are not leading Indicators</td>
<td>PI’s are result indicators showing what has been done or do not supply sufficient steering information to reach Strategy</td>
</tr>
<tr>
<td>6 Long term vs Short term</td>
<td>Strategy is usually based on the long term so if Performance indicators focus on short term the Strategy will not be met. Indicators for the short term are perceived as being more easy to define whereas the longer term seems to be more vague.</td>
</tr>
<tr>
<td>7 Stake holders Tension</td>
<td>Meeting Strategy is long term and if Stakeholders focus on short term there is tension. Another tension for the stakeholders might be that if too much attention is given to demonstrate the alignment not enough capacity is left for core activities</td>
</tr>
<tr>
<td>8 Attention from Management</td>
<td>Tension can exist as Management is focusing on PI’s not leading to Strategy and not focusing on those who actually lead to the chosen Strategy</td>
</tr>
</tbody>
</table>

2.6 **Purpose of the research**

Aligning performance measurement to strategy requires attention, commitment and effort from management. This will not always be available, leading to (increased) tension between strategy and (performance) measurement. To make sure that execution strategy leads to good performance of the organizations in its (core) activities, monitoring is required which generates measures to intervene wherever necessary.

The main question to be answered is how do managers react if there is tension between Strategy and Performance Measurement and how they use a BSC to cope with this. Together with the question why so many organizations seem to fail in doing what they want to do it is interesting to find out where it goes wrong. This is a very broad field and needs to be limited. The result is to investigate how managers react if there are tensions between Strategy and Performance Measurement. It is a challenge to make this explicit and to find a way to build up the research. By breaking it down to the pieces of Strategy and performance measurement and then building it up through the alignment between these two it became more clear. The value added by this research should be in the field of investigating whether or not the management perceives tension by measuring Strategy and how they cope with it.
By answering the question on how they cope with tension it should become clear which mitigating actions they prefer to take. Johnston and Pongatichat (2008) described and investigated these actions. Methods to mitigate tension can be changing the strategy to align to performance measurement or changing performance measurement to align to strategy and what role does a PMS has in this. Is PMS used to adjust Strategy or is the PMS changed due to the outcomes and therefore responsible for its own change. Recent literature researches how measures derived from a PMS are used to adjust performance. There is a shift from designing and developing models towards researching the supporting role of PMS at implementing and execution of the strategy.

The assumption in the article of Johnston and Pongatichat (2008) was that managers where adjusting performance measurement to support strategy as changing the strategy was presumed to be difficult. In the research they did this was not the case. Managers are looking for methods to mitigate or hide the tension between strategy and performance measurement. Three strategies emerged from the research, the doing nothing strategy, the pseudo alignment strategy and distraction from strategy. The word mitigation seems a bit misleading in these Strategies as none of them really does anything to solve the tensions between PM and Strategy. They do either nothing at all and in the best case try to refocus the attention of Management and Stakeholders. As mentioned at the external environment paragraph the development and implementation of Strategy seems to be a continuous ongoing process. The existence of tensions as described above are then also a continuous process which raises the question as where tension is a way of live and almost an automatic result of continuous changing the Strategy. Or are the tensions there due to not sufficiently changing the measurement systems. In this research the focus is on the tensions between measurement of implementing the Strategy and the use of the BSC in this.

- **Doing nothing strategy** (take no action to align measures and strategy):
  - Ignoring tactic: Just ignore misalignment and report progress without demonstrating the link between strategy and measures
  - Assuming and believing tactic: Assume that the measures used support strategy
  - Avoidance tactic: Avoid discussing misalignment of measures and strategy

- **Pseudo alignment strategy** (appear to take action to align measures with strategy):
  - Nominal plan-changing tactic: Make symbolic changes to the measures in order to appear to be responsive
  - Story-telling tactic: Use the existing measures to “demonstrate” that they supported strategy
  - Alignment-obscuring tactic: “Demonstrate” alignment with strategy, objectives or vision – all of which were different

- **Distracting strategy** (distract people’s attention from the alignment issue altogether)
  - Short term success tactic: Demonstrate success in achieving short-term objectives (which were assumed to support longer-term strategy)
  - Target-adjustment tactic: Change targets to distract attention away from the impact and effectiveness of operational activities
  - Blaming tactic: Blame lack of knowledge, lack of management, changing requirements or the performance of units/agencies
  - Deflecting tactic: Change the subject to other management “fads”

So the question is: Are actions taken to mitigate the tensions or does the Management take other actions, such as changing alignment, changing strategy or even changing the
performance measurement system. This is an interesting question as there is already extensive literature on the techniques of performance measurement systems, the process of designing them and even on the topic of implementing strategy. To ensure the organizations is acting according to Strategy and as the article of Fortune indicates it is seen as important that Strategy is implemented some measurement is needed. By doing this in an efficient way and to make sure the conclusions are based on the underlying facts, alignment between Strategy and PMS is required. This however might lead to tensions as described earlier which makes the question interesting what Management does with the outcome of Performance Measurement and implementing Strategy. Not so much literature however is available yet on the topic of tensions between (implementing) Strategy and PMS and how Management uses the BSC in this context. With this thesis I hope to bring new insights on this topic in the financial industry and make it possible for others to extend the research on the mentioned themes.

2.7 Summary / Conclusion

Strategy is the policy or way to achieve goals. Mintzberg supported 5 definitions of Strategy. These definitions are: a plan as a consciously intended course of actions), a ploy as a specific measure to achieve a specific goal), a pattern as a stream of actions emerging from realising strategy, a position as locating the organisation in its environment) or as a perspective (strategy as a shared perspective by members of an organisation). Designing the Strategy along one of the 5 definitions is important to improve the results. Implementing it as well is getting more attention and is believed to be even more important to improve the results of an organization than only designing it. Every organization is influenced by the external environment which can force an organization to change its Strategy. As the internal capacity to change is slower than the external changes there can be a mismatch between Strategy and performance measurement systems.

The objective of performance measurement systems in the process of measuring and reporting of defined indicators on order to improve performance. One way to improve performance is to implement the chosen Strategy and to follow this by the reporting and measurement systems. This means that the performance indicators used should be aligned with Strategy or support the Strategic initiatives of the organization. There are indicators needed to show past results and indicators who have predictive value based on future trends. The indicators of the past are the result or lagging indicators and the indicators for the future are performance or leading indicators. Performance indicators should be frequently measured non financials items which lead to action and show who is responsible for the outcomes.

The BSC as a Performance Measurement System seems to be an adequate tool to support this as it covers all the items in the internal and external Strategic context of an organization. On this card the Strategic initiatives and themes need to have indicators which show the progress on this item. As Strategy describes the way you want to perform your mission these indicators should also have some predictive elements. By showing the progress on these indicators tensions might appear if indicators are not (sufficiently) aligned with Strategy or if the indicators show whether or not the performance leads to the chosen Strategy.

The design and the execution of performance measurement needs management attention and should reflect their needs. The place on their agendas should indicate how important they think the results are. By showing the performance and by aligning the Performance
Measurement Systems to Strategy or Strategic initiatives there might be tension. Not only on executing the Strategy or performance measurement but also on showing the progress of the implementation. In a research of Johnston and Pongatichat (2008) the assumption was that managers would choose to change performance measurement as changing the Strategy was believed to be difficult. The outcome was even more surprisingly as the performance measurement was not changed either. Their conclusion was that managers seem to hide the tension between implementing Strategy and performance measurement. In the research of Johnston and Pongachitat there are three ways to cope with these tensions. The first one is doing nothing and just to ignore the tension, the second one is a pseudo alignment strategy in which they seem to take action and the third one is a distracting strategy in which they take the attention away from the tension.

Through this thesis research is done in an organization in the financial industry to investigate whether or not management perceives tension and which actions they take (or not).
3 Methodology of Research

3.1 Introduction
The development of the Balanced Score Card has a long history of which a large part in organizations with physical output. More recently as stated before there is a shift in focus from developing strategy and implementing PMS as different processes towards supporting the strategy with the help of a PMS.

As the development and implementation of PMS has been largely explored in production environments it is getting more interesting of researching the impact of PMS in the financial sector. This sector has no physical output and the choice of relevant performance indicators requires another approach and outcome than the same process in a production environment (Randall, 2006) As the main objective of this research focuses on the question whether or not there is tension between strategy and performance measurement this differences will not be investigated.

3.2 Methodology
Saunders, Lewis and Thornhill (2009) give in their book “Research methods for Business Students” guidelines on how to build a research. Based on this the methodology will be divided into the method of data collections, purpose of the research, research strategy and analysing the results.

3.3 Method of data collection
There are two methods for data collection:

- Deductive approach in which a theory and hypothesis is developed and a research strategy is designed to test the hypothesis
- Inductive approach in which data is collected and a theory is developed as a result of the data analysis.

In this research the inductive approach will be used. The research is meant to gather qualitative data (opinions of people) and the question it selves seeks an answer to a theory build on the results of the data analysis.

3.4 Purpose of research
To find a clear answer to the main question the research can be explanatory or descriptive.

- Explorative research tries to find an answer to what is happening or seeking new insights, to ask questions and to assess phenomena in a new light (Robson 2002:59).
- Descriptive studies are meant to get a profile of persons, events or situations’ (Robson 2002:59). This may be an extension of, or a forerunner to, a piece of exploratory research or, more often, a piece of explanatory research. It is necessary to have a clear picture of the phenomena on which the data to be collected prior to the collection of the data.

PMS and strategy will be described and the answer to the main question seeks an explanation of what is happening.
3.5 Research strategy

After the method and purpose of the research a choice has to be made on the strategy of research. Saunders, Lewis and Thornhill (2009) give 7 different strategies.

- **Experiment:** The purpose of an experiment is to study causal links; whether a change in one independent variable produces a change in another dependent variable (Hakim 2000). The simplest experiments are concerned with whether there is a link between two variables. More complex experiments also consider the size of the change and the relative importance of two or more independent variables. Experiments tend to be used in exploratory and explanatory research to answer ‘how’ and ‘why’ questions.

- **Survey:** The survey strategy is usually associated with the deductive approach. It is a popular and common strategy in business and management research and is most frequently used to answer who, what, where, how much and how many questions. It therefore tends to be used for exploratory and descriptive research. Surveys are popular as they allow the collection of a large amount of data from a sizeable population in a highly economical way. Often obtained by using a questionnaire administered to a sample, these data are standardised, allowing easy comparison.

- **Case study:** Robson (2002:178) defines case study as ‘a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence’. Yin (2003) also highlights the importance of context, adding that, within a case study, the boundaries between the phenomenon being studied and the context within which it is being studied are not clearly evident. This is the complete opposite of the experimental strategy we outlined earlier, where the research is undertaken within a highly controlled context. It also differs from the survey strategy where, although the research is undertaken in context, the ability to explore and understand this context is limited by the number of variables for which data can be collected. The case study strategy will be of particular interest to you if you wish to gain a rich understanding of the context of the research and the processes being enacted (Morris and Wood 1991). The case study strategy also has considerable ability to generate answers to the question ‘why?’ as well as the ‘what?’ and ‘how?’ questions, although ‘what?’ and ‘how?’ questions tend to be more the concern of the survey strategy. For this reason the case study strategy is most often used in explanatory and exploratory research. The data collection techniques employed may be various and are likely to be used in combination.

- **Action research:** Lewin first used the term action research in 1946. It has been interpreted subsequently by management researchers in a variety of ways, but there are four common themes within the literature. The first focuses upon and emphasises the purpose of the research: research in action rather than research about action (Coghlan and Brannick 2005) so that, for example, the research is concerned with the resolution of organisational issues such as the implications of change together with those who experience the issues directly. The second relates to the involvement of practitioners in the research and, in particular, a collaborative democratic partnership between practitioners and researchers, be they academics, other practitioners or internal or external consultants. Eden and Huxham (1996:75) argue that the findings of action research result from ‘involvement with members of an organization over a matter which is of genuine concern to them’. Therefore, the researcher is part of the organisation within which the research and the change process are taking place (Coghlan and Brannick 2005) rather than more typical research or consultancy where, for example, employees are subjects or objects of study. The third theme emphasises the iterative nature of the process of diagnosing, planning, taking action and evaluating.
• **Grounded theory:** Classic grounded theory (Glaser and Strauss 1967) is often thought of as the best example of the inductive approach, although this conclusion would be too simplistic. It is better to think of it as ‘theory building’ through a combination of induction and deduction. A grounded theory strategy is, according to Goulding (2002), particularly helpful for research to predict and explain behaviour, the emphasis being upon developing and building theory. As much of business and management is about people’s behaviours, for example consumers’ or employees’, a grounded theory strategy can be used to explore a wide range of business and management issues.

• **Ethnography:** Ethnography is rooted firmly in the inductive approach. It emanates from the field of anthropology. The purpose is to describe and explain the social world the research subjects inhabit in the way in which they would describe and explain it. This is obviously a research strategy that is very time consuming and takes place over an extended time period as the researcher needs to immerse her or himself in the social world being researched as completely as possible. The research process needs to be flexible and responsive to change since the researcher will constantly be developing new patterns of thought about what is being observed.

• **Archival research:** The final strategy we wish to consider, archival research, makes use of administrative records and documents as the principal source of data. Although the term archival has historical connotations, it can refer to recent as well as historical documents (Bryman 1989).

Based on the method of data collection and the purpose of the research a case study seems to be the most appropriate strategy. Data is mostly qualitative and although there might be causal links these seem not the main objective of research, leaving the experiment and survey out of scope. Action research might be a good strategy as the outcomes of the research are very well meant to get into action. Archival research uses administrative records and documents which are not scope of the research. As behaviour of managers is expected to be explained and not predicted and the research period rather short the ethnography and grounded theory will not be used in this research.

### 3.6 Validation of Research

#### 3.6.1 Validation of Research

In his book *Case Study Research* Robert Yin (2009) gives criteria for judging the quality of research design. To do so he gives 4 tests, which should be applied on case studies.

1. **Construct Validity:** Identify correct operational measures for the concepts being studied.
2. **Internal Validity:** (Only for explanatory or causal studies) Seek causal relationship
3. **External Validity:** Define the domain in which the findings can be generalized
4. **Reliability:** Demonstrate that the operations, such as data collection procedures, can be repeated with the same findings and results.
3.6.2 Desk Research and validation:
The process of developing a Strategy by this organization consists of making a 10 year strategic perspective and within this 10 years perspective three blocks of three years. So the Strategy is only renewed once in three years and the overall perspective, or the direction in which the organization has to move once in 10 years. The reason behind this is that the organization does not want to adapt to easily to the changing environment as it believes that a value driven organization should focus on its mission as it tells something about its strength and reason to be.

The Interviewees as presented in paragraph 3.10 have been chosen as the play a key role in either supplying the information on the BSC or using the information. In order to construct validity several layers of the organization have been interviewed (multiple sources of evidence). The Heads of Departments for example as they provide the input for the BSC and are in fact the ones who work with the Strategy in their daily business. They report to the Managing Director of each branch which in turn reports to the executive Board. The Managing Directors are responsible for the (local) Strategy of their Branch and together with the Executive Board for the implementation of the overall Strategy. Each of the interviewees (key informants) have been informed upfront of the questions and themes to be discussed and during the interview notes have been made. There has been no recording on tape to avoid distraction and to ensure the confidentiality of the research. At the end of each interview the interviewees has been asked if the questions matched their expectations and the themes to be covered and to add specific items if needed. After the interviews the notes have been documented and sent back to the interviewees for review and validation. By connecting the questions to the theory (paragraph 3.11), the documentation of interviews, notes and feedback an external chain of evidence is present.

The Executive Board uses the output to inform the Supervisory Board. The Executive Board, Supervisory Board and Head Office are taken as one case as they mainly are the users of data and information given by the branches. The Executive Board takes measures if needed if Performance is not in line with desired outcomes or Strategy.

See table below for an overview:

<table>
<thead>
<tr>
<th>Tests</th>
<th>Case Study Tactic</th>
<th>Phase of Research in which tactic occurs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construct Validity</td>
<td>use multiple sources of evidence</td>
<td>data collection</td>
</tr>
<tr>
<td></td>
<td>establish chain of evidence</td>
<td>data collection</td>
</tr>
<tr>
<td></td>
<td>have key informants review draft case study reports</td>
<td>composition</td>
</tr>
<tr>
<td>Internal validity</td>
<td>pattern matching</td>
<td>data analysis</td>
</tr>
<tr>
<td></td>
<td>explanation building</td>
<td>data analysis</td>
</tr>
<tr>
<td></td>
<td>address rival explanations</td>
<td>data analysis</td>
</tr>
<tr>
<td></td>
<td>use logic models</td>
<td>data analysis</td>
</tr>
<tr>
<td>External validity</td>
<td>use theory in single case studies</td>
<td>research design</td>
</tr>
<tr>
<td></td>
<td>use replication logic in multi case studies</td>
<td>research design</td>
</tr>
<tr>
<td>Reliability</td>
<td>use case study protocol</td>
<td>data collection</td>
</tr>
<tr>
<td></td>
<td>develop case study database</td>
<td>data collection</td>
</tr>
</tbody>
</table>
The next test, the internal validity is somewhat harder to explain. As the main question is not directly meant to seek for causal facts it is not as such incorporated into the questions. Although searching on another level there is internal validity. This is incorporated into the questions whether or not Strategy and Performance Measurement should be aligned and whether or not the Strategy should be implemented. There is a causal relationship between these two. The questions (paragraph 3.9) are divided into three sections to address rival explanations. If Strategy is clear, if performance measurement is clear and if the alignment is desired then tensions should either not exist or be made and mentioned very explicitly.

External validity is made as the organization uses a Balanced Score Card, uses Strategy as defined by Mintzberg and has a common used performance measurement system. So the conclusions and advices given in Chapter 5 will be valid for other organizations in the financial industry. The choice for the different cases and not a single case is because there are different sizes of Branches and business units. To avoid the risk of excluding the branches due to size they have all been taken into account as they all are responsible for the overall Strategy. Based on cultural differences the expectations of answers has been different. The culture in eg Spain differs for example from the culture in the UK. This is another reason for more than just one case, just to see is there are differences based on culture.

The last test is the reliability of the outcomes. As the questions are based on a theoretical study and the interviews have been documented another researcher should come to the same findings and conclusions. The functions chosen in the organization do not change so another interview at the same levels should give the same conclusions.

My own role in the process of the BSC is to assemble one and present it to the Executive Board. If needed clarifying questions are asked to the Heads of Finance who will search their answers at the Heads of Departments. To make sure the findings are objective and not biased by my own expectations the questions have been carefully chosen based on a literature study. Furthermore the wrap up of questions had been done in the same template for everyone to make them comparable and to avoid upfront interpretation of the interviewer.

3.6.3 Documents to be used:
- BSC 2012 & 2013
- Work plans of the different Branches and Business Units
- Strategic plan 2006 – 2016
- Strategic plan 2012 – 2014

3.6.4 Time Table:
1. Planning interviews February – March 2014
2. 32 interviews through Branch visits
3. Writing out interviews 2nd quarter 2014
4. Finalizing Graduation Paper 2nd half of 2014

3.6.5 Documentation of Interviews:
At all interviews written notes have been taken. These written notes have been wired out in a summary and sent back to the interviewee for feedback together with the questions and themes. The written notes and the summary are archived. Per branch or business unit the individual interviews have been wrapped up through the structure of the themes mentioned earlier and presented as a case in Chapter 4.
3.7 Analysing results
The data will be collected through interviews with participants involved in the process of Performance Measurement which is reflected in the use of a Balanced Score Card. A total of 7 cases will be made, one at Head Office in the Netherlands and the others abroad in the different countries the organization is active in.

The interview technique used will be semi-structured or in-depth interview. The objective of the research is to collect qualitative data and are meant to understand the ‘what’ and ‘how’ and to explore the ‘why’ of (tensions) between performance measurement systems and strategy.

Given the subject of the research and to make sure the data is well understood personnel contact is preferred above telephone or internet in taking the interview.

The outcomes of the interviews can either be summarized on a case by case bases or a summary per question through the 5 cases. The last one gives the opportunity to challenge the theory on that specific item, the first one seems to be more appropriate to give a tailor made advice to the organization in which the research takes place.

As the method of research is inductive (building a theory) and the purpose is to find out what is happening the outcomes will primarily be summarized case by case. There have been interviews in different countries and hence different cultures. Although there are certainly differences between the countries and their culture a summary per case supports most the main question. Besides that the influence of culture has not been part of the interviewing technique.

3.8 The interview consists of three steps:
1. Opening (max 5 min) in which:
   a. Participants are thanked upfront of participating
   b. Purpose of the research is outlined
   c. Right to not answer questions and to stop if wanted is expressed implicitly
   d. Participant is informed on the process
   e. Themes to be covered are summarised
2. The questions (30-35 min) itself
   a. Questions on Strategy
   b. Questions on Performance measurement
   c. Questions on alignment and support of PM and strategy
3. The end (5min) in which:
   a. A summary is given
   b. Check if all themes have been met
   c. Participant is told on the next steps

Straight after the interview some contextual data is written down, such as the location, date and time, the setting, if there were interruptions, role of the participant and an immediate impression of how the interview went.
3.9 The questions:

Regarding Strategy:

1. What is your definition of Strategy?
   - Is it a plan (consciously intended course of actions);
   - Is it a ploy (specific measure to achieve a specific goal);
   - Is it a pattern (a stream of actions emerging from realising strategy);
   - Is it a position (locating the organisation in its environment) or:
   - Is it a perspective (strategy as a shared perspective by members of an organisation)?
2. Do you think Strategy should be implemented or is it just enough to have a Strategy?
3. What is the impact of the external environment on your Strategy?
4. Is there enough room for you to cope with changing external environment?
5. Is the Strategy in your opinion clear enough?
6. If it is implemented, is it implemented properly in your opinion?

Regarding Performance measurement:

7. What is your definition of performance measurement?
8. Do you think Performance Measurement helps you to control your business?
9. Has it changed the way you control your business?
10. Has it changed the organization?
11. Are there effects caused by Performance Measurement which were not meant or lead to less performance?
12. What objective should a PM have?
13. Which objective does it have at your organization?
14. Does the BSC used serve this objective?
15. What elements should a good Performance measurement system have?
16. Do you think you have a good performance measurement system?
17. If not, what things would you change?
18. Which measures should be used (KPI or KRI)?
19. Are the measures reviewed on a regularly bases?

Regarding alignment and support of PM and Strategy:

20. Do you think PM and strategy should be aligned? And if yes to which extend and for which purpose? If not, why not?
21. Do you think they are (adequate) aligned at your organization?
22. Do you think we measure Performance?
23. Do you think we measure Strategy?
24. If it is measured, how do we do that?
25. Do they support implementation of Strategy?
26. Is there a tension between Strategy and the use of Performance Measurement?
27. Is the tension at implementing Strategy, executing Strategy or at aligning the Strategy to Performance Measurement?
28. If there is tension what would you prefer to do:
   a. Changing Strategy
   b. Changing Performance Measurement
   c. Other
### 3.10 Table of people which have been interviewed

In the table below the names of the people who have been interviewed.

1. Members of the Supervisory Board
2. Members of the Executive Board
3. Managing Directors of the branches and business units
4. Finance Directors
5. Heads of business departments

### 3.11 Linking questions to the theory:

<table>
<thead>
<tr>
<th>Questions on Strategy</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is your definition of Strategy</td>
<td>Mintzberg, H. 1992, p 12 – 19; Definitions of the 5 P’s by the institute of Manufacturing of Cambridge University</td>
</tr>
<tr>
<td>Do you think Strategy should be implemented or is it just enough to have a Strategy</td>
<td>Kaplan, R.S., Norton, D.P. (2009) Focus op Strategie, Business Contact, P7</td>
</tr>
<tr>
<td>Is there enough room for you to cope with changing external environment</td>
<td>Kaplan, R.S., Norton, D.P. (2009) Focus op Strategie, Business Contact</td>
</tr>
<tr>
<td>Is the Strategy in your opinion clear enough</td>
<td>Kaplan, R.S., Norton, D.P. (2009) Focus op Strategie, Business Contact</td>
</tr>
<tr>
<td>If it is implemented, is it implemented properly in your opinion</td>
<td>Kaplan, R.S., Norton, D.P. (2009) Focus op Strategie, Business Contact</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Questions on Performance Measurement</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has it changed the way you control your business</td>
<td>Mouritsen, J. (2005) Beyond accounting change: design and mobilization of management control systems, Journal of Accounting &amp; Organizational Change, Vol I Issue 1, pp 97-113</td>
</tr>
<tr>
<td>Are there effects caused by Performance Measurement which were not meant or lead to less performance</td>
<td>Mouritsen, J. (2005) Beyond accounting change: design and mobilization of management control systems, Journal of Accounting &amp; Organizational Change, Vol I Issue 1, pp 97-113</td>
</tr>
<tr>
<td>Question</td>
<td>Source</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Which measures should be used (KPI or KRI)</td>
<td>Parmenter, D. (2010) Key Performance Indicators (KPI): Developing, Implementing and using winning KPI’s, John Wiley &amp; Sons, Inc., Hoboken, New Jersey</td>
</tr>
<tr>
<td>Questions on Performance Measurement</td>
<td>Theory</td>
</tr>
<tr>
<td>--------------------------------------</td>
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<tr>
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</tr>
<tr>
<td>If it is measured, how do we do that</td>
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</tr>
<tr>
<td>Do they support implementation of Strategy</td>
<td>Kaplan, R.S., Norton, D.P. (2009) <em>Focus op Strategie, Business Contact</em></td>
</tr>
</tbody>
</table>
4 Results

4.1 Introduction
The results of all interviews have been summarized on branch / business unit level. These summaries are listed in appendix 1 and are wrapped up in this chapter versus the themes of this research and the theory in Chapter 2.

4.2 Strategy

4.2.1 View on Strategy
Throughout all the interviews it became clear that the Mission and Vision of the organization are very well known. Strategy is mainly defined as having a picture of where you are heading for, which is mainly the definition of Strategy as a plan. At the end of the process of defining the Strategy it should be translated into work plans leading to actions which support the Strategy. Strategy as position, a ploy or a pattern has not been found during this research.

Exceptions to this definition is where a distinction is made between Strategy and its Strategic perspective or where the Strategy should give guidance and hence not be sharply traced into specific actions. The latter means that Strategy should not be a list of actions or a year plan as it is used at the moment. It should tell you within which boundaries the activities should take place. This definition is the Strategy as a perspective definition of Mintzberg.

On the question concerning the theoretical concept of Strategy the opinions are mostly aligned. Digging deeper to the specific overall Group Strategy the picture gets less clear. It is in general defined as a perspective in the definition of Mintzberg (1992). Strategy as a perspective is defined as a shared value or perspective by the members of an organization. The second and more in depth characterization of the Group Strategy according to Mintzberg is a plan (a consciously intended course of actions). On branch level there are differences as well, close to home the Strategy (defined as knowing what to do to reach the given targets) is clear whereas it is not clear for the organization as a whole.

Interim conclusion: Strategy on branch level is perceived as clear. The overall Group Strategy is not perceived as clear The Strategic perspective seems to be very close linked to vision and mission (Strategy as a perspective). Mission and vision are known by everybody and seem to fill the gap of not having an overall clear picture of total group Strategy. The theory is known and the definitions are shared. Most of the interviewees per branch were aware of what has to be done to reach their own targets (Strategy as a plan). Translated to group level however the Strategy is perceived as less clear (mainly for the level below the Managing Director. The present Strategy of the Group is perceived to be too much a detailed action plan and needs to be redefined and set on a higher level and describing the road to take to get the mission in practice. So although there seems to be a Strategy as defined by Mintzberg in a first glance, a second view shows that the knowledge of Mission and Vision is used and explained as Strategy which supports the conclusion that the Strategy of the Group is not perceived as clear to all participants.

Although the Strategy is seen as a plan with a lot of detailed information on an operational level there is still need out of the organization to translate the Mission into a Strategy into work plans into actions. Co-workers do want to know how to contribute to the overall Strategy of the group which is not clear on all levels at this very moment.
Out of the interviews it has become clear that the implementation of Strategy is not followed or measured with existing performance measurement systems. Present performance measurement systems of which the BSC do not have measurement indicators to follow the Strategy or its implementation (which however does not necessarily mean that the Strategy is not implemented, it is only not measured as such). The Strategic projects on the present BSC do give some backgrounds on branch specific targets or Strategic objectives; no reference is made however to the overall Group Strategy.

**Interim conclusion:** The present overall Group Strategy seems to be implemented through management by walking around with no specific indicators measuring implementation or progress made on Strategic themes.

Strategy process is based on a three year cycle adding up to a 10 year strategic perspective. So every three years the Strategy is reviewed and renewed. In year 2 and 3 reviews take place, however based on the thoughts of the first year of the strategic period. This is sometimes felt as artificial and loss of focus as it is not sufficiently clear what will be expected in each year of the Strategic cycle.

**Interim conclusion:** Strategy is reviewed by making some adjustments in the work plans, the focus is based on the new budget whereas the overall Strategy is not adjusted.

### 4.2.2 External influences on performance and Strategy

The influence of external environment must be split into two categories, Customers and Regulators. The influence of customers is felt within the branches on their local markets. Some interviewees mentioned that the Strategy has not been changed for a long period and that even external circumstances such as a financial crisis did not lead to changing a Strategy. Customers nor regulators seem to have large influence on the overall Group Strategy of the organization. As the organization profiles itself as a value based organization the question rises at what point Strategy should be changed based on external influences from customers. By adapting too soon it might lose the values, by adapting too late it might lose the market. The organization is growing so customers do expect a financial institute with a full palette of services. Customers want to have products for themselves and for their children. If these are not serviced then there is a risk of losing market share, which is not in line with the Strategy of this organization.

Regulators on the other hand do have large impact. Due to the financial crisis regulators make more effort on reporting and having the financial institutes prove they are in control.

In many organizations there is a misalignment between external changes and the internal capacity to match up, the so-called alignment deterioration (Pongatchat and Johnston 2008). At the organization in question there is alignment deterioration which is mainly due to the growing of the organization through capacity constraints. Management is aware of this misalignment and thinks some alignment is possible but should not be too large.

**Interim conclusion:** The overall Strategy has not been changed for a long period. In local markets however a lot has changed which should be taken into account in the (local) Strategy and wrapped up in the overall Strategy. If not there is a risk of a growing misalignment between the internal and external stakeholders leading to a possible loss of market share.
4.3 **Objective of a Performance Measurement System**

The objective of a Performance Measurement system is to monitor and report on indicators in order to support measures to improve the performance. A second objective is to use it as a communicating tool to start a dialogue on the reported performance. The BSC used at this organization has been developed to measure and show performance in order to start the dialogue on how well a branch or unit was doing. At this moment the BSC is no longer used as a communication tool as it is too operational for the Strategic level and not detailed enough for the operational level. It is no longer the start of the dialogue as the Board is already informed on issues through other means and reports.

As mentioned in chapter two the implementation of Strategy is seen as more important than only having a Strategy when it comes to the performance of an organization. In order to do so it is needed to measure it to see which effort is made on this implementation. As Kaplan and Norton stated that companies who only focused on financial indicators seem to make wrong decisions related to future performance. They stated as well that if an organization only looks at financial indicators, that is leading to behavior in which long term value creating activities are scarified to short term results and hence not leading to improving performance. To support right decisions for improving performance there is a need for future actions which are future forces behind performance. This has led Kaplan and Norton to the thought to measure Strategy as a way to support the decisions for improving performance. The Balanced Score Card was in their view a solid performance measurement system as it has not only financial looking backward indicators but also non-financial forward looking indicators. The Balanced Score Card used at this organization has no real looking forward indicators aligned with the overall Group Strategy. It is too operational for Strategic themes and has no enough detailed indicators to show the contribution of activities to the overall Strategy. As Strategy is written on a 3 year period without a breakdown to achievements on a yearly bases it is hard to set indicators and get solid targets on these indicators. A good example of a Strategic theme is the impact they want to make in society. On the BSC there are no indicators supporting this theme.

Nearly all branches and business units indicated that the BSC is hardly used for internal steering of the business and that the only purpose of the BSC is a compulsory report for Head Office. At Head Office it is neither used as a steering or communication tool as information is already shared through other means.

*Interim conclusion: The BSC is not used for the objectives of a Performance Measurement system. It is too late in time with not enough detail for departments and no indicators for Strategic themes. It has become a compulsory tool needed to be realigned to its objectives.*

4.4 **Performance indicators and PMS**

The performance indicators used are mainly result indicators. The BSC used covers three parts, the past (performance) the present (health) and the future (development). Although in the health section there are non-financial indicators as well they are mainly used to get insight in already achieved results. There are nearly no predictive indicators. In the development section there are Strategic projects for each branch or business unit. They are meant to give a view on future development but there is no link with the general Group Strategy.
As most of the indicators are result indicators and not performance indicators there is insufficient support for (implementing) Strategy and decisions to improve performance. Timing becomes an issue because the communicative function of the BSC has been replaced through other reports and channels. So the information presented on the BSC should not lead to surprises for management.

Most of the interviewees said that there should be alignment between the performance indicators used and Strategy and that one of the functions of a PMS system is to support implementation of Strategy. Strategy has to be implemented as it is useless if it only exists on paper without leading to actions for the organization. How else can you say that you are on track. Despite these thoughts the PMS used does not support it in the present.

_Interim conclusion:_ The indicators used do not support implementation of Strategy. They are mainly result indicators indicating past performance and hardly any predictive indicators for the future. There seems to be insufficient alignment between the indicators and Strategy and the BSC as it is now.

### 4.5 Performance indicators and PMS

#### 4.5.1 Tensions between Strategy and PMS

All the interviewees have been asked if there were tensions between Strategy and Performance Measurement. Although implementation of Strategy is not followed and measured by a PMS system almost all said that tensions exist. These tensions are mainly defined as not meeting the (financial) targets. However nobody thought that the existing tension should be eliminated. Tension should exist is the general opinion as this is the start of a dialogue. Only if tensions lead to punishment it is felt as not healthy.

The difference between a perspective and a plan and further towards the Group Strategy seems to have its base in the question whether or not a strategy should be translated into work plans and actions. The Strategy is perceived to be implemented, although not measured as such. The motivation of people is not based on a bonus (financial incentive) but on the intrinsic motivation following the mission of the organization.

As Strategy is not translated into actions and there is no specific measurement through a PMS then there is tension. Strategy should be implemented and the performance indicators and the PMS should be aligned to Strategy. The missing part is how to do so and that is where the tension is about.

_Interim conclusion:_ Tensions do exist but not because the Performance Measurement system shows that the Strategy is not met or implemented. There is no system showing that Strategy is not met. Targets are defined on a yearly basis following budget and based on a three year perspective. As market circumstances change the targets change also during this Strategic period. So tensions are more or less seen as a difference between a measure and the targets and not as a mismatch between Strategy and Performance Measurement.

#### 4.5.2 Change through PMS

Performance measurement does change the organization. Through measuring the performance it is made visible what is doing well and where adjustments are needed. The changes within the organization are seen as necessary and all interviewees indicated that some sort of performance measurement is necessary and that it also leads to changes and
adjustments in activities. As this organization is not a bonus driven Performance measurement does not change frequently and very visible the organization. One of the interviewees mentioned even that in bonus driven organizations the change you want is the change you pay for. Performance measurement systems do give you the answer you are paying for and as a result you get the desired change

Interim conclusion: Performance measurement can be a driving force behind organizational change.

4.6 Conclusion
Mission and vision are well known throughout the entire organization. The theoretical definition of Strategy in general is clear, if translated to the overall Group Strategy however it becomes less clear. If the Strategy is defined as a pattern (consistency in behavior) then the Strategy seems to be followed and executed due to the in depth knowledge of the Mission. Defined as a perspective then it reaches the mission and vision of the Bank, an ingrained way of perceiving the world as personality is to the individual. Due to this in depth knowledge of Mission and Vision the answers to the questions can be the same despite the differences in culture. This raises the question however whether Mission and Vision are transposed to the definition of Strategy.

On a deeper level the Group Strategy is perceived to be too much as an operational plan and not as on guidance describing the road to travel. Despite this there is still a need for more detailed action plans and a need for the co-workers to know how they contribute to overall Strategy and performance of the organization.

The overall Strategy has not been changed for a long period, which is a well-made choice based on the strategic value based principles. In local markets however a lot has changed which should be taken into account in the (local) Strategy and wrapped up in the overall Strategy. If not there is a risk of a growing misalignment between the internal and external stakeholders leading to a possible loss of market share.

The present Strategy seems to be implemented through management by walking around with no specific indicators measuring implementation or progress made on Strategic themes. Strategy is reviewed by making some adjustments in the yearly work plans, the focus is based on the new budget whereas the overall Strategy is not adjusted.

The present BSC is not used for the objectives of a Performance Measurement system as defined in chapter 2. It is too late in time with not enough detail for departments and no indicators for Strategic themes. It has become a compulsory tool needed to be realigned to its objectives. Almost every unit has its own tools to measure their own Strategy. Tension on the lower or local level has not been a part of the investigation. It will be valuable for the organization to investigate this as well and also how the different local performance measurement systems are aligned to the overall reporting and performance measurement systems which should be used to measure the implementation of Strategy. The indicators used do not support implementation of Strategy. They are mainly result indicators indicating past performance and hardly any predictive indicators for the future. There seems to be insufficient alignment between the indicators and Strategy and the BSC as it is now. Performance measurement can be a driving force behind organizational change.
Tensions do exist but not because the Performance Measurement system shows that the Strategy is not met or implemented. The current Performance Measurement System and more in particular the BSC does not guarantee whether the organization is able to assess if the organization meets its Strategic goals. Targets are defined on a yearly bases following budget and based on a three year perspective. As market circumstances change the targets change also during this Strategic period. As the implementation of Strategy is not visibly measured by the BSC it is difficult to assess whether Managers use the mitigating tactics of doing nothing, pseudo alignment or distracting focus from the discussion. As Strategy is not translated into actions and there is no specific measurement through a PMS then there is tension. Strategy should be implemented and the performance indicators and the PMS should be aligned to Strategy. The missing part is how to do so and that is where the tension is about.
5 Conclusions and advice

5.1 Introduction
This thesis has the Main question:

*How do managers react if there is tension between strategy and performance measurement (PM)?*

In this chapter the answers will be given to the sub questions and subsequently to the main question above.

5.2 Do managers think that strategy and PM should be aligned and that PM should support implementing the Strategy?
Yes, almost all interviewees have responded that this should be the case. Strategy has to be implemented; it is not enough just to have one. To make sure that Strategy is implemented a BSC can or should be used. Only three interviewees had some doubt concerning the BSC as the most suitable tool for this purpose. One item of the Strategy has been given specific attention and that one is how to make impact and changes in the Society. The latter is seen as hard to measure and how to measure that is why there is some doubt as well versus the BSC. Although all managers think alignment is necessary, why then are local performance measurement systems in use and what do they tell more than the overall performance measurement systems on group level. These are new questions based on the outcomes of the interviews and should lead to further investigation. By designing the case studies the assumption was made that the performance measurement systems in use where aligned to the overall measurement systems and to the fact that the Strategy was assumed to be known at all levels. The latter because of the open and transparent way the organization wishes to work. If the local performance measurement system does support Strategy how then do managers cope with the local tensions. Do they make use of the mitigating strategies mentioned earlier (doing nothing, pseudo alignment or distracting strategy). As mentioned before, the implementation of Strategy is not visibly measured by the BSC. So it is difficult to assess whether Managers use the mitigating tactics of doing nothing, pseudo alignment or distracting focus from the discussion

5.3 Is PM used to influence cooperative forces in the organization in order to implement strategy and what indicators are used?
This is not done through the BSC but more through management by walking around. The organization has in general an open culture based on personal contacts. A lot of effort is made on cooperation between co-workers which is hardly physically measured. The indicators used in the BSC are mostly financial and not sufficiently related to Strategy. So the forces are used to improve performance, it is not separately measured

5.4 Can there be a tension between strategy and PM and what mitigating actions are taken?
Yes there can. Strategy can also be seen as a pattern or consistency in behaviour. Within this organization almost everyone acts driven by the mission so unintended the Strategy seems to be implemented. It is not measured however so it is hard to tell whether the Strategy is implemented as designed and if the results are the best possible results. Through a PMS a lot of indicators are measured but none of them relate to Strategy. On department level however other indicators are used to support the local Strategy. The tension consists
more in the indicators reported to Head Office versus the indicators used on branch level. So overall Strategy is not clear to everyone and is not measured so on that level no tensions exist. But as the alignment misses with the overall Strategy there is tension because it is insufficient clear when it is met and therefore Managing Directors focus on their own branch and local markets. Based on the research of Kaplan and Norton this has a risk of sacrificing long term value creating activities against short term financial results.

5.5  **Is Strategy aligned to PM or are performance indicators aligned to strategy?**

With the present Performance measurement system and in particular the BSC there are no specific indicators defined to measure the implementation of Strategy. Although all the Managers think it should be aligned it is difficult to assess whether this is really the case. On local level there has been done no research on alignment between local Strategy and local Performance Indicators. Managers claim that it is the case, but it has not been part of this research.

5.6  **Should PM act immediately on changes in the external environment of the organization, or is some time lag and or misalignment allowed?**

Some misalignment is allowed. There are capacity constraints and the organization is in general a value based organization. It wants to make impact and make changes in society. That means that the Strategy should not be too easily adapted to avoid losing the values.

5.7  **Conclusion and answering the main question:**

The tensions are felt as part of live. It tells something of the organization, its customers and the way things are done. Strategy is not the first to be changed as the first question is why things are not working out. So make first a grounded analysis of what is not operated as planned, take measures and only if Strategy has proven to be unrealistic change it. Managers in this organization prefer to adapt the Performance Measurement system and based on the outcomes decide what has to be changed on Strategic level. During the interviews none of the mitigating strategies have been proven and consequently we can conclude that the described mitigating strategies (doing nothing, pseudo alignment or distracting focus) are not applicable for the Managers and management style of this financial institute. Based on this management style and the lack of external incentives (bonuses) the management would have mentioned these mitigating strategies if applicable. This is based on the implicit desire of the managers to open the discussion. One of the managers said that because there is not a pay-off or penalty culture there is room for discussion as to which direction to choose.

5.8  **Recommendation to the organization**

The recommendation for the organization consists of the next steps:

- Defining overall Strategy / Strategy map
- Communicating Strategy
- Translating local Strategy maps to the overall Strategy / Strategy map
- Design BSC to monitor implementation of Strategy

The recommendation as written below is not only applicable for this organization but also to other organizations in the financial industry.
Defining Strategy:
The general Mission has to be translated into guidelines leading to Strategy and then cascaded to work plans and action plans. The plan-do-check-act circle should be drawn on the Mission, the vision, the guidelines etc until department level is reached. Governance structure should be made clear by translating long term strategy to daily business and examine it by the governance structure. Implementing Strategy is important as it is seen as contributing to improving the overall performance. With the BSC, assumptions of the Strategy can be made explicit (Kaplan, 2001). By translating the strategic perspective into a BSC and further into plans and a budget, feedback can be generated on the Strategy and Strategic perspective. With this feedback in mind Management can make better analysis of the Strategy leading to better decisions on the final Strategy.

Below two graphs, the first one shows the present situation, the second one the desired situation, giving the BSC a more prominent place in defining Strategy.

Present situation of plan-do-check-act circle:

In the present situation the BSC is used to follow up performance, where the KPI’s and KRI’s seem not to be connected or aligned to Strategic goals.
In the desired situation the BSC is placed more in line with Strategy and is used to make the Strategy clear and explicit. By translating it through Strategy maps on local level it gets implemented and is generating feedback for the overall Strategy.

**Communicating Strategy:**

As Strategy of the Group is not clear to everyone the first actions have to be on communicating the overall Strategy to all levels within the organization. The defined Strategy should be communicated in a short and catchy sentence. The shorter the formulation of the Strategy, the more powerful it becomes. Take some time for this communication and ask the branches to translate the Strategy to their own local markets, work plans and actions and then translate that back to overall Group Strategy. Having branch specific Strategy maps does not necessarily harm the overall Strategy. If the translation back into Group Strategy matches the original Strategy communication has been successful.
**Strategy maps:**
After the Mission and vision have been translated into Strategy the next step should be that all branches and business units make their own Strategy map. In these maps the goals of each branch are broken down into different perspectives.

Source: The Strategy focused organization, Kaplan 2001
Aligning the Strategy to performance measurement is the next step. Once the Strategy has been defined the Critical Success Factors should be derived leading to performance indicators. Out of the performance indicators the critical indicators should be derived which are measured frequently, non-financial and leading to action.

Source: Kaplan 2001

So by using the BSC in the (ongoing) Strategic process the Strategy can be better analyzed with the feedback of the organization and make the Strategy more tangible. So perhaps the conclusion should be that if an organization wishes to implement its Strategy it should use the BSC to get a clear view on the Strategy and by doing so the Strategy gets implemented.

5.9 Reflection on the research

The main question is about tensions by measuring the implementation of Strategy through a performance measurement system and how managers cope with this. In the conclusions mentioned above I said that management of this organization prefers to change the performance measurement in order to get straight answers to the question where and how to change the Strategic perspective. In Chapter 4 the real tension revealed was that there is a lack of translating Strategy into day to day actions to let the co-workers know what their contribution to Strategy really is. During the interviews I investigated how managers react if there are tensions between Strategy and Performance Measurement. The results show that tensions are there but the mitigating actions are not applicable to this organization. The real tension is mainly in not aligning Strategy and performance measurement as the Strategy is not explicitly translated into actions and therefore not really measured as such.
I found it a real challenge to make this explicit and to find a way to build up the research. By breaking it down to the pieces of Strategy and performance measurement and then building it up through the alignment between these two it became more clear.

Although the questions have been sent upfront every interview has been different and that made it also a challenge to wrap it up again into similar templates to keep the consistency. One of the first things I learned was to let go my own expectations because if you do not do that the conclusions are made too soon and too easily with the danger of being biased by me. Next to that is was interesting to see how each interview has its own structure leading to even other questions which I did not add to the interviews as I did not want to change the design during the research (test of reliability). In the preparation all interviews where the same, the outcome was not and I think it went well as the interviews where very structured as well as the wrap up. There were serious questions on the added value of the present BSC. Besides that the Strategy was expected to be known and measured through other means than the BSC. I think some work has to be done on translating the Strategy to the work floor and critical success factors, as mentioned in my advice to the organization.
Literature

Aguilar, O. (2003) How Strategic Performance Management is helping companies create Business value, *Strategic Finance*


Kaplan, R.S., Norton, D.P. (2009) *Focus op Strategie, Business Contact*


Appendices:

Appendix 1: Results Cases:

A.1 Case 1:

A.1.1 How is Strategy implemented and measured:
Mission and Vision are known by heart in general. The concept of Strategy is more or less defined the same by all participants. The strategy of the Group however is not clear to everyone. From the MD’s point of view it is the longer strategic goal, for the level below him it has to be translated to the work floor for which the Strategy is not clear enough. So stepping down from mission and vision to strategy the long term goals are clear, translating the long term view to actions on a daily bases some work has still to be done. The (implementation) of the strategy is not sufficiently measured. Together with the translation of strategy to the daily business the issues of the governance structure of the organization are popping up.

A.1.2 What objectives does the PMS have and does it support its objective

Communication
Strategy is believed to be communicated to all co-workers. The present BSC however is not known on all levels, leaving it a reporting instrument only to Head Office.

Implementing strategy
The BSC does not support implementation of Strategy; it is on too high a level with insufficient measurement for strategic themes.

Other
On department level other PMS are used to steer the department and reach the department goals. As strategy is not clear enough on department level it is hard to say whether these local measurement systems do support the general strategy.

A.1.3 What performance indicators are used (present BSC)

Do they support the objective of PM
The objective of PM: To be in Control, measuring performance versus targets and supply information to steer the business.
 a. Do they support (implementation of) strategy No, most of the performance indicators used are result indicators, telling something of the past (lagging indicators). The projects defined however do support the objectives of PM as they are projected on future developments
 b. Do they reflect a (financial) outcome: Most of the present indicators do
 c. How are they aligned to strategy: Only projects are aligned to Strategy. As Strategy is not clear enough, it is hard to say if it is adequately aligned. A lot is measured internally and only a few parameters externally. Benchmarking would be a good instrument but is not widely used
 d. How are they reviewed: Only once a year and only the target is reviewed

A.1.4 Is there a tension between the strategy and the performance measurement
 a. At the implementation of Strategy: No
 b. At the execution of Strategy: No specific to the execution of Strategy. Tensions do exist and are felt as part of the game which should be answered. It is felt healthy to have tensions as it is a start of the discussion.
c. At the alignment of Strategy and PM: There is no specific effort done on alignment PM and Strategy

A.1.5 In which way do Managers cope with this tension, what actions do they take
a. Alignment Strategy to PM
b. Alignment PM to Strategy
c. No alignment
d. Change PM, change Strategy or neither of them and do something different

General thought is to find out where the tensions exist, which causes can be found and act upon the causes. If performance is wrongly measured then change PM but if measure is correct than adjust the strategy. The latter can be done as no direct visual personal incentives are related to strategy

A.1.6 Has PM changed the organization
Yes it has and that is what is supposed to happen. Performance has to be measured frequently and the organization should change accordingly. For example: a meeting on the same day with the same people and the same agenda will lose its effectiveness over time. Changes are needed in days, time frequency, people and agendas to keep up.

A.1.7 Effects caused by the PM which are not meant or lead to less performance
No effects known

A.1.8 How does the external environment influence the performance and strategy
Influence and impact of supervisory institutes is felt more heavily. Legislation is increasing and has a big burden on smaller organizations

A.1.9 Conclusions:
• Governance structure should be made clear by translating long term strategy to daily business and examine it by the governance structure.
• Definition of Strategy in general is clear, if translated to the overall Group Strategy it becomes less clear. Implementation of strategy takes place by motivating people through mission and vision. It is not measured as such and hence there is no adequate alignment between Strategy and PM. Pm is used to steer day to day business by mainly result indicators and is not used to support the implementation of Strategy.
• As there are no specific incentives on reaching the strategy it is a question how people are committed to reaching the strategy. In a value based organization people act from a mission and an intrinsic motivation is activated.
• The impact of external environment is almost entirely based on supervisors and hardly on customers
• Present BSC does not fit its purpose, on department level separate PM systems have been developed
A.2 Case 2:

A.2.1 How is Strategy implemented and measured:
Mission and Vision are known by most people as is the definition of the concept of Strategy. Concerning the overall Group Strategy however it is harder to define. The Guidelines are mentioned and seem not well translated into day to day business. For the MD it is clear towards the future, for the levels below the MD there is a need for more translation of the Strategy into work plans into actions. Co-workers do want to know how they can help building the Strategy and making the Mission work. The general opinion is that having Strategy is not enough but it should be implemented as well. A BSC can be an instrument to support the implementation. It is an instrument on which everyone should find how they contribute. So stepping down from mission and vision to strategy the long term goals are clear, translating the long term view to actions on a daily bases some work has still to be done. At this organization a year period is used without reviewing the Strategy on a yearly base. So at the start of a 3-year period a long term goal is set and after two years we say what we will do in the last year based on what we thought we would do two years ago in that particular year.

A.2.2 What objectives does the PMS have and does it support its objective

Communication
BSC is not extensively used as communication tool on how we perform versus the Strategic targets. It can be used however to support implementation of Strategy and monitor it.

Implementing strategy
The BSC does not support implementation of Strategy. The comments should have substance which is not the case at the moment. Translating the Strategy into actions has to be done with clear targets and how to measure how we are doing.

Other
On department level other PMS are used to steer the department and reach the department goals. As strategy is not clear enough on department level it is hard to say whether these local measurement systems do support the general strategy. The Strategy is the umbrella and PM is underneath and should be consistent. Problem is how to measure impact as mentioned in our mission.

A.2.3 What performance indicators are used (present BSC)

Do they support the objective of PM
The objective of PM: To be in Control, measuring performance versus targets and supply information to steer the business.

a. Do they support (implementation of) strategy
No, most of the performance indicators used are result indicators, telling something of the past (lagging indicators). The projects defined however do support the objectives of PM as they are projected on future developments

b. Do they reflect a (financial) outcome
Most of the present indicators do not reflect a financial outcome.

c. How are they aligned to strategy
Only projects are aligned to Strategy. As Strategy is not clear enough, it is hard to say if it is adequately aligned.

d. How are they reviewed
Only when the new Strategic period is set

A.2.4 Is there a tension between the strategy and the performance measurement
a. At the implementation of Strategy
No
b. At the execution of Strategy: No specific to the execution of Strategy. Tensions do exist and are felt as part of the game which should be answered. Tensions do not give massive new insights as issue are known before they appear on the BSC. The challenge should be on improving our targets.

c. At the alignment of Strategy and PM: Yes there is, although difficult to point as no sufficient effort is done on alignment PM and Strategy as the latter is not translated into actions

A.2.5 In which way do Managers cope with this tension, what actions do they take

a. Alignment Strategy to PM
b. Alignment PM to Strategy
c. No alignment
d. Change PM, change Strategy or neither of them and do something different

General thought is to find out where the tensions exist, which causes can be found and act upon the causes. If performance is wrongly measured then change PM but if measure is correct than adjust the strategy. The latter can be done as no direct visual personal incentives are related to strategy

A.2.6 Has PM changed the organization

Yes it has and that is what is supposed to happen. Targets are more prominent now and we have to pay attention that they will not become too important. The focus should not only be on financial targets but on the impact we make as well. The present BSC has not got the place it should have.

A.2.7 Effects caused by the PM which are not meant or lead to less performance

No effects known

A.2.8 How does the external environment influence the performance and strategy

As Strategy is more or less based on external influences they have a large impact. At the moment there is a big impact from regulations. It helps also to get things clear. A lot of things have been thought through but not written down

A.2.9 Conclusions:

- Stepping down from mission and vision to strategy the long term goals are clear, translating the long term view to actions on a daily bases some work has still to be done.
- Definition of Strategy in general is clear, if translated to the overall Group Strategy it becomes less clear. Implementation of strategy takes place by motivating people through mission and vision. It is not measured as such and hence there is no adequate alignment between Strategy and PM. PM is used to steer day to day business by mainly result indicators and is not used to support the implementation of Strategy.
- As there are no specific incentives on reaching the strategy it is a question how people are committed to reaching the strategy. In a value based organization people act from a mission and an intrinsic motivation is activated.
- Present BSC does not fit its purpose, on department level separate PM systems have been developed. This might lead even to the conclusion that these PM systems have been adapted to the Strategy. As the local PM systems have not been part of this research however this conclusion is not based on underlying facts.
A.3 Case 3:

A.3.1 How is Strategy implemented and measured:
Mission and Vision are very well known as is the definition of the concept of Strategy. The Strategy of this branch itself is clear to everyone, the Strategy of the Group is less clear. Strategy in this country is not only seen as the way things have to be done, but also as a way to see where your position is in the market and to know the position of others. It is believed that Strategy itself cannot be implemented as it gives only a direction where to go. The things you need to implement are your tactics and actions in order to reach the direction you wish. In the Spanish branch not only the MD knows the Strategy, but the levels below him do as well. The general opinion is that having Strategy is not enough but it should be implemented (through tactics and actions) as well. A BSC can be an instrument to support the implementation if it is made for different levels. It is believed that having only one BSC for the whole organization is not possible. One for each branch specific is needed and within the branch on different levels. So stepping down from mission and vision to strategy the long term goals are clear, even translating the long term view to actions on a daily bases.

A.3.2 What objectives does the PMS have and does it support its objective

Communication
BSC is not locally used as communication tool, but only seen as compulsory for Head Office. It can be used however to support implementation of Strategy and monitor it.

Implementing strategy
The BSC does not support implementation of Strategy. Local PM is used to see how Strategy is implemented. A lot of effort is placed on movements in external markets as competition is fierce.

Other
On department level other PMS are used to steer the department and reach the department goals. Alignment between PM and Strategy is believed to be necessary, however based on local markets and specific to each branch. Problem is how to measure impact as mentioned in our mission, you cannot model this.

A.3.3 What performance indicators are used (present BSC)

Do they support the objective of PM
The objective of PM: A way of getting your goals into figures and measure it. It should follow Strategy and operation targets as well. It is always looking backwards, however to know the future, you need to know the past. It is important to make sure it is a reporting tool and not an objective in itself. It has to be holistic.

a. Do they support (implementation of) strategy Local PM does, the BSC does not. In the mission we say we want to make impact. It is hard however to measure that without modelling. A society cannot be modelled, the performance indicators used are result indicators, telling something of the past (lagging indicators) and too high for local use.

b. Do they reflect a (financial) outcome: Most of the present indicators do. What we miss are the risk indicators. We measure risk events and they measure nothing.

c. How are they aligned to strategy: They are not aligned at the moment on Group level, but should be.

d. How are they reviewed: Only when the new Strategic period is set
A.3.4 Is there a tension between the strategy and the performance measurement
   a. At the implementation of Strategy: No
   b. At the execution of Strategy: Only versus regulators as they wish to see the bank as a machinery which it is not. Regulators want the Bank to follow and proof the rules they have made instead of running a Bank based on human judgement.
   c. At the alignment of Strategy and PM: Yes there is, but is necessary as it tells you what is going on. If there is no tension or if the BSC tells something you do not know, you have a problem

A.3.5 In which way do Managers cope with this tension, what actions do they take
   a. Alignment Strategy to PM; Strategy only to be changed if the external environment asks for it
   b. Alignment PM to Strategy; PM should not be changed and always be aligned to Strategy.
   c. No alignment
   d. Change PM, change Strategy or neither of them and do something different
      General thought is that you cannot run a bank if PM and Strategy are not aligned. Your PM tells you how you are doing and if the results follow the direction you wish to go. If not than act on the facts to get in line

A.3.6 Has PM changed the organization
   No, it helps to know what is happening and how to change things which are not as planned.

A.3.7 Effects caused by the PM which are not meant or lead to less performance
   Not by using PM itself, only through influences of regulators

A.3.8 How does the external environment influence the performance and strategy
   Competition is fierce so has a huge impact. On the other hand there is the regulator who asks us to follow their rules and proof we do. An institution like this however is not a machine and is based also on solid human judgment which is hard to get into models. We need to look into the whole organization to find out what is happening and not just on single facts or figures on a specific item.

A.3.9 Conclusions:
   • Strategy of the branch itself seems to be known on all levels. Group Strategy is less clear and is not supposed to be aligned with local Strategy.
   • A strong wish for local freedom and branch specific targets, PM and BSC
   • Strong doubt versus regulators and facts and figures if human judgment is not involved.
   • As there are no specific incentives on reaching the strategy it is a question how people are committed to reaching the strategy. In a value based organization people act from a mission and an intrinsic motivation is activated.
   • Present BSC does not fit its purpose, on department level separate PM systems have been developed
A.4  Case 4:

A.4.1  How is Strategy implemented and measured:

Mission and Vision are very well known. The concept of Strategy differs a bit. On one hand it is seen as a guidance to help decision making, on the other hand it is seen as a way of achieving your goals. In the view of guidance it is not a plan which indicates the activities you should do to reach your goals. A guidance principle gives more room for a branch than specific targets. For example a guiding principle for a healthy balance gives more room than a specific number for loan volumes. Also guiding principles for the development of staff is healthier than FTE targets. The present 3-year plan is not a Strategy in this view. For the next years new guidelines are needed to follow our mission and vision. By giving guidelines it is believed that the Mission and Vision will be better served than Strategy with specific plans. The Strategy should be the guidelines. The Guidelines should be cascaded into Strategy, to work plans, to action plans and finally to result targets. On the work floor there is a specific need to get Strategy into action. The present Strategy is still too much a plan which has to be followed instead of supporting decision making to translate our mission into society. In the three year plan the Strategy is not reviewed so in the first year of the plan period the long term is as important as it is in the second and third year and no specific breakdown is given as what to reach within each year. Strategy or at least the guiding principles should be implemented because a direction is necessary.

A.4.2  What objectives does the PMS have and does it support its objective

Communication
Strategy and guidelines should be communicated as people ought to know what they are expected to do. The present BSC however is not known on all levels, leaving it a reporting instrument only to Head Office.

Implementing strategy
The BSC does not support implementation of Strategy; it is on too high a level with insufficient measurement for strategic themes. Through other means the implementation of Strategy is followed

Other
On department level other PMS are used to steer the department and reach the department goals. As strategy is not clear enough on department level it is hard to say whether these local measurement systems do support the general strategy

A.4.3  What performance indicators are used (present BSC)

Do they support the objective of PM
The objective of PM: To be in Control, measuring performance versus targets and supply information to steer the business.
   a.  Do they support (implementation of) strategy No, not the ones used in the BSC. Therefore on department level other indicators are used to steer the business. Besides that informal steering takes places by walking around, talking to people to get a sense of what is going on
   b.  Do they reflect a (financial) outcome: Most of the present indicators do
   c.  How are they aligned to strategy: Not visibly. Strategy local is clear and the indicators used support the local Strategy. As Strategy is not clear enough, it is hard to say if it is
adequately aligned. A lot is measured internally and only a few parameters externally. Benchmarking would be a good instrument but is not widely used

d. How are they reviewed: Only once a year and only the target is reviewed

A.4.4 Is there a tension between the strategy and the performance measurement

a. At the implementation of Strategy: No
b. At the execution of Strategy: No specific to the execution of Strategy. Tensions do exist and are felt as part of the game which should be answered. It is felt healthy to have tensions as it is a start of the discussion.
c. At the alignment of Strategy and PM: There is some alignment on financial indicators. On the sections of customers, brand awareness and efficiency there is not enough alignment between PM and Strategy

A.4.5 In which way do Managers cope with this tension, what actions do they take

a. Alignment Strategy to PM
b. Alignment PM to Strategy
c. No alignment
d. Change PM, change Strategy or neither of them and do something different

General thought is to find out where the tensions exist, which causes can be found and act upon the causes. If performance is wrongly measured then change PM but if measure is correct then adjust the strategy. The latter can be done as no direct visual personal incentives are related to strategy

A.4.6 Has PM changed the organization

Yes it has and that is what is supposed to happen. Performance has to be improved in the loan departments. We have a strong focus on financial targets but we should aim also for commercial targets.

A.4.7 Effects caused by the PM which are not meant or lead to less performance

No effects known

A.4.8 How does the external environment influence the performance and strategy

Influence and impact of supervisory institutes is felt more heavily. Legislation is increasing and has a big burden on smaller organizations. At the moment there is a huge impact of regulators which take capacity away from commercial activities

A.4.9 Conclusions:

- The concept of Strategy needs to be more clear. The three year plan is not a Strategy. So something needs to be in place between the Mission and the three year plan.
- On department level there is a need of stepping down from mission to strategy to action plans. Danger in doing so is also that things get to tight leaving no room at all for entrepreneurship.
- Implementation of strategy takes place by motivating people through mission and vision. It is not measured as such but the people are measured on their contribution to the overall performance.
- As there are no specific incentives on reaching the strategy it is a question how people are committed to reaching the strategy. In a value based organization people act from a mission and an intrinsic motivation is activated.
- Present BSC does not fit its purpose, on department level separate PM systems have been developed
- Keep in mind that there is a difference between running a bank (PM) and changing a bank (BSC)
A.5 Case 5:

A.5.1 How is Strategy implemented and measured:
The definition of Strategy is clear, the Strategy of the Group however is clear on only a high level. Mission and Vision give some guidance. In the Strategy the goal needs to be defined. The Mission is to change the economy into a more sustainable economy. In the Strategy this needs to be translated into goals which define how to get this done. Strategy can be medium to long term if there are work and action plans for the daily business aligned to Strategy. At this moment it is not clearly measured.

A.5.2 What objectives does the PMS have and does it support its objective

Communication
Strategy is high level and not fully or sufficient communicated to all co-workers. The present BSC does not serve this purpose anymore and is seen as a reporting instrument only to Head Office.

Implementing strategy
The BSC does not support implementation of Strategy; it is on too high a level with insufficient measurement for strategic themes.

Other
On department level other PMS are used to steer the department and reach the department goals. As strategy is not clear enough on department level it is hard to say whether these local measurement systems do support the general strategy

A.5.3 What performance indicators are used (present BSC)

Do they support the objective of PM
The objective of PM: To be in Control, measuring performance versus targets and supply information to steer the business.

a. Do they support (implementation of) strategy No, the present performance indicators used do not give sufficient information on how we are doing. The present BSC is not capable of steering the business. It appears too late and is only used to inform EB/SB (on what they already know.)
b. Do they reflect a (financial) outcome: Most of the present indicators do. The one we use are not sufficient to steer the business
c. How are they aligned to strategy: As Strategy is not clear enough, it is hard to say if it is aligned adequately.
d. How are they reviewed: Only once a year and only the target is reviewed

A.5.4 Is there a tension between the strategy and the performance measurement

a. At the implementation of Strategy: No
b. At the execution of Strategy: No specific to the execution of Strategy. Tensions do exist and are felt as part of the game which should be answered. It is felt healthy to have tensions as it is a start of the discussion.
c. At the alignment of Strategy and PM: There is no specific effort done on alignment PM and Strategy

A.5.5 In which way do Managers cope with this tension, what actions do they take

a. Alignment Strategy to PM
b. Alignment PM to Strategy
c. No alignment
d. Change PM, change Strategy or neither of them and do something different
General thought is to find out where the tensions exist, which causes can be found and act upon the causes. If performance is wrongly measured then change PM but if measure is correct than adjust the strategy. The latter can be done as no direct visual personal incentives are related to strategy.

A.5.6 Has PM changed the organization
No not visible. It has not visibly changed as the organization is not a bonus driven organization. In a bonus driven organization you get what you measure and pay for it. The systems give the outcomes what you have been paying them for.

A.5.7 Effects caused by the PM which are not meant or lead to less performance
The biggest challenge is how to measure impact and how to measure a healthy development of your co-workers so that they can perform supporting the mission.

A.5.8 How does the external environment influence the performance and strategy
It has a big influence and not only from regulators. Clients in this country look at every movement the bank is making and ask how activities fit into the Strategy.

A.5.9 Conclusions:
- The branch is struggling with internal structure and the question how and when to break even.
- Definition of Strategy in general is clear, if translated to the overall Group Strategy it becomes less clear. Implementation of strategy takes place by motivating people through mission and vision. It is not measured as such and hence there is no adequate alignment between Strategy and PM. Pm is used to steer day to day business by mainly result indicators and is not used to support the implementation of Strategy.
- As there are no specific incentives on reaching the strategy it is a question how people are committed to reaching the strategy. In a value based organization people act from a mission and an intrinsic motivation is activated.
- The impact of external environment is more based on customers
- Present BSC does not fit its purpose, on department level separate PM systems have been developed
- There are not enough measures on the health of the bank, development of co-workers and how we fit the mission
A.6 Case 6:

A.6.1 How is Strategy implemented and measured:
Mission and Vision are very well known as is the concept of Strategy. Overall Group Strategy is seen more as a plan (and hence too operational) than as a Strategy for medium to long term. Strategy is not necessarily a list of actions or a plan; it should however follow mission and vision and give the framework or guidance for the development of the organization. Strategy is seen as a perspective following the definition of Mintzberg. It should contain the place or markets the organization is active in and also the direction the organization wishes to follow. On one hand the market we are active in and how do we see it change and on the other hand who do we want to be in that context and how do we interact between these two views. Strategy can be vaguer on a Strategic level but needs to be clearer in that case on operational level. Out of Strategy you need to develop your strategic perspective leading to actions. Strategy of the Group is clear enough. There is however not a straight answer to the questions whether or not the strategy is measured as it should be. There is a need for having an overall strategy which gives direction and then translating this into (work) plans and actions on department level. So the present Strategy or Strategy process does not answer the needs at this moment.

A.6.2 What objectives does the PMS have and does it support its objective

Communication
Strategy and guidelines should be communicated throughout the organization on all levels. The shorter the Strategy is formulated the better it is. The present BSC however is not known on all levels, leaving it a reporting instrument only to Head Office.

Implementing strategy
The BSC does not support implementation of Strategy; it is too operational with insufficient measurement for strategic themes. Implementation of Strategy is followed through other means.

Other
PMS is not used as it is meant to be. We look at all kind of financial measures without knowing what they really mean for the direction we want to take. There is not enough analysis to support decision making to follow Strategy.

A.6.3 What performance indicators are used (present BSC)

Do they support the objective of PM
The objective of PM: To be in Control, measuring performance versus targets and supply information to steer the business.

a. Do they support (implementation of) strategy: No, not the ones used in the BSC. The present BSC is too operational with too many indicators leading to loss of focus. Information is given to the Board through other reports and means.

b. Do they reflect a (financial) outcome: Almost all of the present indicators do

c. How are they aligned to strategy: This is not visible. In our mission we state that we want to make impact. We do not use indicators too make that visible. Benchmarking would be a good instrument but is not widely used

d. How are they reviewed: Only once a year and only the target is reviewed

A.6.4 Is there a tension between the strategy and the performance measurement

a. At the implementation of Strategy: No, as Strategy is too much a plan and the implementation is not measured by a PMS
b. At the execution of Strategy: If Strategy is not met than you have to find out why and take measures. If Strategy is not realistic than changing it might be an outcome. As the organization perceives itself as a value based organization Strategy should not easily be adjusted as it might mean losing the values. If circumstances ask to change then you should react but keep in mind the mission.

c. At the alignment of Strategy and PM: There is some alignment on financial indicators. On the sections of customers, brand awareness and efficiency there is not enough alignment between PM and Strategy. The present BSC does not show development or innovation of the organization so alignment misses.

A.6.5 In which way do Managers cope with this tension, what actions do they take

a. Alignment Strategy to PM: No, only if circumstances ask for it. Basic thought is to first find out why, take measures and only if Strategy is proven to be not realistic it might be changed.

b. Alignment PM to Strategy: Only to get more and better information to support decision making.

c. No alignment

d. Change PM, change Strategy or neither of them and do something different

General thought is to find out where the tensions exist, which causes can be found and act upon the causes. If performance is measured then change PM but if measure is correct than adjust the strategy. The latter can be done as no direct visual personal incentives are related to strategy.

A.6.6 Has PM changed the organization

Yes it has and that is what is supposed to happen. Measurement of performance has to be improved in all departments to understand the business and support decision making.

A.6.7 Effects caused by the PM which are not meant or lead to less performance

No effects known

A.6.8 How does the external environment influence the performance and strategy

Influence and impact of supervisory institutes is felt more heavily and is even needed to get things done. The information required by the regulators should have been available based on own needs of the organization. There is some misalignment between external changes and the internal capacity to cope with these changes.

A.6.9 Conclusions:

- The Strategy needs to be redefined and cascaded to strategic, tactic and operational level. The three year plan is not a Strategy.
- Out of the Strategy action plans and work plans have to be separated without freezing the activities to avoid that all actions are defined too tight leaving no room at all for entrepreneurship.
- Implementation of strategy takes place by motivating people through mission and vision. It is not measured as such.
- As there are no specific incentives on reaching the strategy it is a question how people are committed to reaching the strategy. In a value based organization people act from a mission and an intrinsic motivation is activated.
- Present BSC does not fit its purpose and needs to be updated to follow the Strategy without giving too much operational detail
- Develop indicators but no more than four or five per segment. Indicators should not be changed too regularly as steadiness in direction is also required.
- Past and present cannot be changed as they are already due, so indicators to discover trends are needed. Translate lessons learned into measures for the future.
A.7 Case 7:

A.7.1 How is Strategy implemented and measured:
Mission and Vision are well known as is the general concept of Strategy. Overall Group Strategy is clear for the Managing Directors and people working within the organization. For outsiders the Strategy is not very clear. Strategy seems to be the same for over 30 years. Strategy is not directly dependent on external factors. One of the items in the Strategy is that money should be used to make a difference. A detailed view how to do so is missing. It feels as if choices are not clear enough and it is difficult to align idealists and entrepreneurs. Present BSC is not enough to underline the Strategy, not in implementing and does not give any insight in the Strategy.

A.7.2 What objectives does the PMS have and does it support its objective

Communication
Strategy and guidelines should be communicated throughout the organization on all levels. Co-workers should know what to do to contribute to Strategy. The present BSC does not support this.

Implementing strategy
The BSC does not support implementation of Strategy; it is too operational with insufficient measurement for strategic themes. Implementation of Strategy is followed through other means.

Other
PMS is not used as it is meant to be. We look at all kind of financial measures without knowing what they really mean for the direction we want to take. There is not enough capacity to make thorough analysis. For MD’s the present BSC gives enough detail and is good to use as it shows an overall overview of what we are doing.

A.7.3 What performance indicators are used (present BSC)

Do they support the objective of PM
The objective of PM: To be in Control, measuring performance versus targets and supply information to steer the business.
   a. Do they support (implementation of) strategy: No, the BSC should be the upper reporting tool with links to other reports if details are needed. At the moment there are too many details and for example the items showing the well-being of the co-workers is missing. Which is strange as it is a human capital organization.
   b. Do they reflect a (financial) outcome: Almost all of the present indicators do
   c. How are they aligned to strategy: They are not aligned. In our mission we state that we want to make impact. We do not use indicators to make that visible. Benchmarking would be a good instrument but is not widely used.
   d. How are they reviewed: Only once a year and only the target is reviewed

A.7.4 Is there a tension between the strategy and the performance measurement
   a. At the implementation of Strategy: No, as Strategy is not changed over a long period, it is stable and a lot is realized.
   b. At the execution of Strategy: We do not use external changes enough, we seem to be swimming upwards the stream sometimes. We make our own course.
   c. At the alignment of Strategy and PM: There is some alignment on financial indicators. The present BSC does not show enough on the development and appreciation of customers. Feedback is missing as it is often seen as criticism.
A.7.5 In which way do Managers cope with this tension, what actions do they take

a. Alignment Strategy to PM: No, only if circumstances ask for it. Basic thought is to first find out why, take measures and only if Strategy is proven to be not realistic it might be changed.
b. Alignment PM to Strategy: Only to get more and better information to support decision making.
c. No alignment
d. Change PM, change Strategy or neither of them and do something different
e. General thought is to find out where the tensions exist, which causes can be found and act upon the causes. If performance is wrongly measured then change PM but if measure is correct than adjust the strategy. The latter can be done as no direct visual personal incentives are related to strategy

A.7.6 Has PM changed the organization

Yes it has, but due to capacity constraints hard to give a measurement on this. PM is not a “settlement” tool at this organization as we have no bonus system.

A.7.7 Effects caused by the PM which are not meant or lead to less performance

No effects known

A.7.8 How does the external environment influence the performance and strategy

In does not directly. During the crisis Lehmann fell but this organization did not change its Strategy. Influence of customers directly on the day to day business is bigger and has certainly more impact. There is some misalignment between external changes and the internal capacity to cope with these changes

A.7.9 Conclusions:

- The Strategy is felt as solid but needs to be more specific translated to the work floor without losing the freedom to act and maneuver.
- Out of the Strategy action plans and work plans have to be separated without freezing the activities to avoid that all actions are defined too tight leaving no room at all for entrepreneurship.
- Implementation of strategy takes place by motivating people through mission and vision. It is not measured as such.
- As there are no specific incentives on reaching the strategy it is a question how people are committed to reaching the strategy. In a value based organization people act from a mission and an intrinsic motivation is activated.
- Present BSC does not fit its purpose and needs to be updated to follow the Strategy without giving too much operational detail