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An Examination of Alignment of Performance Measurement and Reward of Managers in Organisations Undertaking Strategic Change

Alexander Roberts

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requirement for the
Degree of Doctor of Philosophy

London Business School

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Thesis Abstract

Managers play a role in the translation of strategic objectives into the day-to-day activities by which objectives are operationalized, and in monitoring progress towards achievement of objectives. A better understanding of the effects of performance measurement and reward of managers on the translation and monitoring process within organizations is needed.

The thesis is an empirical examination of the performance measurement and reward of managers in organizations undertaking strategic change. The principal research questions of the thesis are: do organizations undertaking strategic change seek to align their performance measurement and reward of managers with the business objectives, and does lack of alignment give rise to unintended effects?

A review of the literature discloses a general lack of understanding of the role of control and reward systems, and middle managers in implementing strategic objectives.

In a departure from earlier studies, which focus almost exclusively on senior managers or the shop floor, this research examines multiple levels in the managerial hierarchy of large strategic business units. The study, which consists of four short case studies and two in-depth field studies, uses in-depth interviews and archival records for data collection.

The analysis suggests that within these six organizations there was generally an absence of the understanding of the alignment issues, lack of alignment created unintended changes in strategy, and misalignment effects were frequently mis-diagnosed. A face-to-face survey of 20 additional companies provided support for these findings.

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Table of Contents

Thesis Abstract 2

Acknowledgements 3

Table of Contents 4

Table of Tables 7

Chapter 1 Introduction 9

1.1 Overview 9
1.2 Motivation 10
1.3 Relevance of Research Questions 12
1.4 Overview of Theoretical Foundations 15
1.5 Methodology Overview 20
1.6 Critical Definitions 21
1.7 Thesis Overview 26

Chapter 2 Theoretical Foundations 29

2.1 Overview 29
2.2 Literature Data Base Search 30
2.3 Linking Strategy and Control Types 33
2.4 Alignment in Operationalising Strategy 36
2.5 Organisational Change Process 37
2.6 Interconnecting Systems 42
2.7 "Hinge" Functions 43
2.8 Mixed Support for Reward Led Change 47
2.9 Strategic, Organizational and Management Controls 50
2.10 Management Control and Goal Congruence 52
2.11 Management Control Systems and Strategic Change 55
2.12 Motivational Aspects of Performance Measurement of Managers 57

Chapter 3 Methodology 64

3.1 Overview 64
3.2 Case Study Research 65
3.3 Stage One - Getting Started 69
3.4 Stage Two - Selecting Cases 70
3.5 Stage Two/a - Short Field Studies 74
3.6 Stage Three - Crafting Instruments and Protocols 77
3.7 Stage Four - Entering the Field 85
3.8 Face-to-Face Interview Survey 92
3.9 Limitations Of This Research 93

Chapter 4 Short Field Studies 98

4.1 Case Study 1 - Large Stores Group Repositioning 98
4.2 Case Study 2 - Exploitation of IT by Financial Services Group 101
4.3 Case Study 3 - New Measures for UK-based Project-Management Organisation 105
4.4 Case Study 4 - Change Government Department into an Agency110
4.5 Discussion 114

Chapter 5 Agency Field Study 124

5.1 Overview 124
5.2 Agency and Parent Organisation 126
5.3 Agency Mission 128
5.4 Agency Managers' Mental Models of the Agency 129
5.5 Managerial Performance Measurement and Reward System, and the Strategic Planning System 133
5.6 Relationship Between Formal Job Descriptions and Management By Objectives 154
5.7 Relationship Amongst Strategic (i.e. 5 Year) Plans, Annual Plans, Projects and Initiatives, the Operational Reporting System, and the Performance Measurement and Reward System for Managers 154
5.8 Evidence of Issues Found in Chapter 4 158
5.9 Discussion 158

Chapter 6 Finco Field Study 169

6.1 Overview 169
6.2 Finco Organisation and Parent Company 171
6.3 Finco Mission/Strategy 174
6.4 Finco Managers' Mental Models of Finco 179
6.5 Managerial Performance Measurement and Reward System, and the Strategic Planning System 184
6.6 Relationship Between Formal Job Descriptions and Management By Objectives 205
6.7 Relationship Amongst Strategic (i.e. 5 Year) Plans, Annual Plans, Projects and Initiatives, the Operational Reporting System, and the Performance Measurement and Reward System for Managers 206
6.8 Evidence of Issues Found in Chapter 4 210
6.9 Discussion 210

Chapter 7 Discussion and Directions for Future Research 224

7.1 Overview 224
7.2 Discussion of the Agency and Finco Studies 225
7.3 Discussion of the Six Studies 232
7.4 Face-to-Face Survey Of 20 Major UK-based Manufacturing Organisations 237
7.5 Discussion of the Present Research and Reports in the Literature 241
7.6 Future Research Directions. 266

Chapter 8 Contributions to Knowledge and Recommendations 276

Appendix 1 Data Base Search 288

Appendix 2 Agency - Questionnaire 293

Appendix 3 Finco - Questionnaire 295

Appendix 4 Agency - Archival Data Collection 300

Appendix 5 Finco - Archival Data Collection 304

Appendix 6 Agency - Respondents 310

Appendix 7 Finco - Respondents 311

References 312

Table of Tables

1 Process of Building Theories From Case Studies

2 Strategic and Financial Control Styles

3 Case Studies 1-4, Organisational Data And Issues

4 Case Studies 1-4, Summary of Findings

5 Agency - Organisational Data

6 Agency - Characteristics of Managerial Performance Measurement and Reward System

7 Agency - Characteristics of Managerial Performance Measurement and Reward System (continued)

8 Agency - Liveliness of Documentation

9 Agency - Liveliness of Documentation (continued)

10 Agency - Issues Suggested by Short Field Studies

11 Agency - Alignment and Hinges

12 Finco - Organisational Data

13 Finco - Characteristics of Managerial Performance Measurement and Reward System

14 Finco - Characteristics of Managerial Performance Measurement and Reward System (continued)

15 Finco - Liveliness of Documentation

16 Finco - Liveliness of Documentation (continued)

17 Finco - Issues Suggested by Short Field Studies

18 Finco - Alignment and Hinges

19 Agency and Finco - Organisational Data

20 Agency and Finco - Characteristics of Managerial Performance Measurement and Reward Systems

21 Agency and Finco - Characteristics of Managerial Performance Measurement and Reward Systems (continued)

22 Agency and Finco - Liveliness of Documentation

23 Agency and Finco - Liveliness of Documentation (continued)

24 Agency and Finco - Alignment and Hinges

25 Agency and Finco - Issues Suggested by the Short Field Studies

26 All Studies - Organisational Data and Issues Suggested by Short Field Studies

Chapter 1 Introduction

1.1 Overview

Managers have roles in the translation of strategic objectives into the day-to-day activities by which objectives are operationalized, and in monitoring progress towards achievement of objectives. There exists little literature on these roles. A better understanding of the effects of performance measurement and reward of managers on the translation and monitoring process within organizations is needed. This thesis seeks to contribute to this need by exploring the use of performance measurement and reward of managers in the implementation of strategic objectives in organizations undertaking strategic change.

The study is part of a long-term research agenda into how organizations align their management control systems with their strategic objectives. Using the performance measurement and reward of managers, sub-sets of the overall formal management control system, two specific questions are addressed in the thesis. These are:

1) Do organizations undertaking strategic change seek to align their performance measurement and reward of managers with their business objectives? and

2) Does lack of alignment give rise to unintended effects?

Because of the absence of systematic empirically tested theory which addresses these questions directly, the thesis adopts an exploratory approach. In a departure from most

earlier studies which focus almost exclusively on senior managers or on the shop floor, this research examines multiple levels in the managerial hierarchy of strategic business units. The study, which consists of four short case studies and two in-depth field studies, uses in-depth interviews and archival records for data collection.

The study's level of analysis is the strategic business unit (SBU). The sampling frame consists of large, long-established organizations with SBUs that are undertaking strategic change.

The remainder of this chapter addresses the motivation for the research (section 1.2), the relevance of these research questions (section 1.3), provides an overview of the theoretical foundations (section 1.4), summarises the methodological approach (section 1.5), introduces critical definitions (section 1.6), and signposts the remainder of the thesis (section 1.7).

1.2 Motivation

The direction of this research was stimulated by three observations;

Firstly, through membership of a management development network this researcher regularly met executive board members of thirty large organizations. It was intriguing to find that following apparently sound strategic planning, directors regularly reported their company's limited success or even outright failure in achieving their organization's objectives. Initial explanations usually

focused on unforeseen changes in the environment, the local 'culture', or similar attributions to an external locus of control. However, many of these directors subsequently reported individually that the changes in the environment were predictable, the 'culture' well understood, and the real reason for not succeeding appeared to be some 'unseen internal force(s)' that kept dragging their organizations away from the intended directions.

Secondly, a press report of a USA based survey of Fortune 500 companies in the United States of America by consultants Booze Allen (1990) suggested that "The top bosses believe pay policies at their companies may be working against the strategic choices they try to push. Half say performance rewards actually encourage counterproductive or narrowly focused behavior."

Thirdly, twenty plus years business experience in managerial posts at increasing hierarchical levels placed the author in positions to directly observe 1) the unanticipated results of alterations to performance measurement and reward systems on several occasions; and 2) that although there were multiple formal management control systems in companies, the systems generally did not appear to be integrated nor co-ordinated. Both key and secondary control systems[1] appeared to lack alignment.

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[1] Key control systems are those which senior management intentionally use and emphasize. Secondary control systems are all other control systems. Classification of particular types of control systems will vary from company to company.

These unsystematic observations led to the development of a long-term research agenda which is intended to address the alignment of management control systems with organizational strategic objectives.

1.3 Relevance of Research Questions

The need for alignment, sometimes referred to as fit or congruence, between an organization's strategy and structure has been generally accepted for many years. (Rumelt 1974; Galbraith and Nathanson, 1979). Otley's (1980) paper on accounting control systems and business strategy provides an example from the management control literature. The widely taught McKinsey Seven S framework (Waterman, Peters and Phillips 1980) is an example from the strategy area. Although parts of the Seven S model have been quoted by various authors to support analysis of anecdotal evidence, this model has not been rigorously tested. The original paper by Waterman et al (op cit) did not cite any research in support of their model. Also, while the Seven S framework may provide a useful explanatory analytical tool for MBAs and practising consultants, it appears difficult to operationalize.

Despite calls for research into the relationship between management controls and strategy (e.g. Schendel and Hofer, 1979), how organizations use formal controls, incentives, and information systems to implement strategy and how these subsequently effect performance remain largely unexplored areas in strategy research (Huff and Reger 1987; Simons, 1994).

Well known contributors to the strategy literature tend to be prescriptive or normative in respect of management control systems and rewards, and provide little rigorous empirical support or testing. For example, Porter (1980, p40) defines three generic competitive strategy types - differentiation, overall cost leadership, and focus - and prescribes that each requires its own organizational, control procedures and incentive systems. He argues (p52) that competitors' control and incentive systems give important clues about what the competitor believes is important and how its managers will respond to events in view of their rewards. Porter (1985, p388) offers his opinion that "corporate incentive plans can exacerbate certain strategies." His prescriptive solution is that business unit managers should have some group and corporate level elements in their incentive packages (p404/5). Porter does not provide guidelines for how the new control and incentive systems are to be devised. In addition, he appears implicitly to use the term manager to mean the business unit CEO. He also appears to implicitly subscribe to the perspective that if the business unit CEOs objectives are aligned with corporate's this will lead to alignment of the other managers within the business unit. There is however no empirical evidence to support these contentions.

In contrast, Baden-Fuller and Stopford (1992) view the competitive challenge for mature businesses as developing innovative strategies that successfully reconcile apparent paradoxes e.g. that achieve cost leadership and differentiation simultaneously. They advocate the elimination of unnecessary systems, controls and procedures (p140) and prescribe that organizations "tailor their control systems to emphasize strategic priorities and avoid confusing messages blurring the focus of the effort." They propose that organizations need "new control measures compatible with the new, interrelated tasks"

(p190). They recommend the need for new reward systems, particularly team-based as opposed to individual-based, and postulate that "new reward systems are necessary which encourage individual effort provided it is also collectively employed" (p98). They suggest that control systems be "adapted to excite and empower the middle and lower levels of the organization" (p194/7). Implicitly this subscribes to the school of thought supporting the largely untested view that "what gets measured gets done" (Drucker 1954; Haire 1956); in other words new strategies require new measures. Although they cite the occasional anecdote they rely on Argyris (1990) who prescribes that "much of the resistance to change comes from the hidden beliefs, systems, structures, and databases that exist in organizations".

Unfortunately, the evidence which is the sole support for the Baden-Fuller and Stopford position is primarily anecdotal and would benefit from systematic testing. There is no systematically collected empirical evidence to support the majority of their prescriptions. They do not explicitly address the alignment of performance measurement and reward of managers with business unit strategy. Their argument appears to overlook that for many years modern, twentieth century organizations have generally had interrelated tasks, a point well illustrated by Sloan (1964).

The Baden-Fuller call for new reward systems is not supported by rigorous analysis of existing reward systems. The mechanisms in existing reward systems do not appear to be well understood. This suggests that perhaps it is premature to discard existing but dimly understood systems for the new but even more unknown ones.

Unanswered is the question: Is it the reward system or its operation that is the issue? The foreword to Argyris (1952) suggests that "in spite of unquestioned progress [in development of control systems], there is more and more evidence that making the tool is a far easier task than learning how to use it."

1.4 Overview of Theoretical Foundations

The strategy formulation and structure literatures appear to support the notion that management control systems, particularly performance measurement and reward systems should be aligned with the strategic objectives of organizations (e.g. Porter 1985; Baden-Fuller and Stopford 1992). However, simplified or composite anecdotes are generally supplied as evidence in support of their prescriptions.

There is a literature developing which proposes to assign control type by strategy type. For example, Miles and Snow (1978) make recommendations based on their four part strategy typology. Broderick (1986) tests this recommendation for the correlation between strategy type and pay system content, but not performance or other outcomes. Whilst the research scope is limited it is suggestive that associations can be found between a high level view of strategy type and some elements of control system composition. However, Broderick's research was not designed to identify or explain performance differences between firms within the same type.

Broderick considers only a high level view and reports from the human resources (HR) function perspective. Milkovich (1988) defines and describes the characteristics of

strategic compensation systems that are critical to the performance of an organization. However, in both Broderick and Milkovich, the issue of alignment of performance measurement and reward of managers in organizations with the strategic objectives of their firms remains largely unaddressed and unresolved, although Broderick provides a useful first step.

The strategy implementation and strategic change literatures address issues associated with operationalizing strategic plans. Well known contributors to the literature on strategy implementation (Hrebiniak and Joyce, 1984; Galbraith and Kazanjian, 1986, 1978) support the viewpoint that reward systems and their fit with strategy is very important because reward systems focus and influence individual behaviour. These are however mostly prescriptive, lack empirical support, and frequently call for more research. For example, Hrebiniak and Joyce (p187) state "...insufficient attention has been paid to the integration of previous work on incentives and controls in the organizational behavior and strategy literatures."

Galbraith and Kazanjian (p91) note that "The study of the motivating value of various reward and punishment schemes has been a major research activity of the organization specialists for some time. Although the primary concern for purposes of strategy implementation is the reward system for senior managers, the conceptual and research foundations in this area concentrate on lower- and middle-level personnel." This viewpoint, the primary concern being senior managers, is similar to Porter's discussed above.

There is some evidence that business unit managers can perform a "hinge" function (Euske et al 1992). Upon receiving directions from the CEO they make decisions as to how completely, if at all, they will comply. Merchant (1981) implicitly also identifies a manifestation of such behaviour when he describes how in highly-diversified, highly-decentralized organizations the business unit managers have a high personal involvement in the budgeting process with little interaction upwards (with superiors) or downwards (with subordinates). The scope of the Merchant and Euske et al studies did not include the possibility of further "hinge" functions at managerial levels below the business unit manager. Yet there is nothing to preclude such behaviour.

A PhD study (Broderick 1986) seeks to develop a contingency theory of strategy types and reward systems based on the Miles and Snow typology. Whilst suggestive, limitations of the scope of this study and methodological weaknesses result in little contribution towards the research questions addressed in this thesis or in support of strategist prescriptions discussed above. In the belief that alignment could be a critical element in operationalizing strategy, the strategy implementation and strategic change literatures are reviewed. While these subscribe to the view that alignment of reward and strategy is important in implementation, there is scant supporting evidence. This literature also discloses calls for research.

The strategic change literature raises an unresolved question of the process of change. In particular, should change to the reward system lead or lag in the change process sequence, or should change to the belief system (culture) be attempted first with rewards subsequently used to institutionalise the changed position? There exists mixed, largely

anecdotal support for both approaches. Change to the reward systems appears to provide an easy option versus culture change programmes which require a huge investment in resources. In practice, the reward system is connected to a series of other systems and aligning these could prove equally as demanding as designing a culture change programme. However, lack of knowledge about how reward systems, particularly for managers, operate in practice is an obstacle to resolution of this debate.

The literature reveals that newly appointed managers often attempt to impact the belief systems (culture) of organizations within the first few months of their appointment and accompany this by changing the emphasis upon individual formal controls. However, the management control area has uncovered the existence of hinge functions within some organizations. If the hinge phenomena is wide spread, it carries the implication that these functions may impede such efforts by newly appointed managers. A second issue is whether an organization's control function is sufficiently robust to motivate "hinge" players to align the activities under their control with the intentions of the business unit head. There is a lack of knowledge both about the short-term impact on managers of belief system change efforts, and of managers responses to changes in formal control systems. The "hinge" could be related to these issues.

The control system literature does not reveal generally accepted definitions for the terms strategic, organizational, and management controls. There is an implicit assumption underlying all of them that "what gets measured gets done" and that the performance measurement and reward of managers is important. Again however, there is limited empirical support for the prescriptions. Also underlying much of the literature on control

systems is the notion of feedback systems. Feedback systems provide information on actual performance versus standard or budget. This in turn leads to changes in subsequent performance if managers are motivated to respond.

One particularly contentious and unresolved issue is whether change management efforts should be accompanied by leading (e.g. Eccles 1994) or lagging (e.g. Lorsch 1986) change to the reward systems.

Three theories are particularly relevant to the motivational aspects of performance measurement and reward systems; expectancy theory, equity theory and goal-setting theory. The last is particularly relevant in that it suggests that setting difficult, but attainable, specific goals motivates individuals towards achieving them. This suggests goals that are aligned with the organization's strategy and are specific will motivate individuals towards actions that support strategy implementation. Most of the foundations on which these theories are built are based on "shop floor" level personnel. There is a lack of knowledge about how goals for managers within SBUs are set and whether these are related to the organization's strategy, and also of what goals are set.

In summary, the strategy formulation, implementation and strategic change literatures tend to suggest that alignment of performance measurement and reward systems with an organization's strategic objectives is important. However, there is limited empirical support, from strategy related and other management disciplines, in support of the prescriptions of these researchers. There are complex issues surrounding these two prescriptions that are explored further in Chapter 2. A clearer understanding of the

functioning of reward systems for managers, a major component of control systems, within organizations would provide a sounder foundation from which to resolve these issues.

1.5 Methodology Overview

The methodology followed in this thesis is outlined below and set out in detail in Chapter 3. As discussed above, there is little literature concerning the performance measurement and reward of managers in business units. There are calls from a number of disciplines for detailed in-depth study. One call came from a colloquium held at Harvard in 1990 because of the unsatisfactory state of knowledge in the area (Bruns et al, 1992). The colloquium called for additional in-depth studies of individual organizations. The tradition for this sort of study has been labelled case studies. The terms field study and case study are frequently used interchangeably. For the purposes of this thesis the terms are used synonymously.

In recent years considerable attention has been given to the methodological issues involved in case study research in order that case study material can be gathered systematically and in such a manner as to facilitate theory generation. Without this, case studies are largely reduced to providing anecdotal or non-generalisable insights.

Eisenhardt (1989) provides the best summary of the scientific approach to the process of building theory from case study research and her framework has been used as a guide. Eisenhardt's model has eight stages and is summarised in table 1. In the present thesis

an additional stage, stage 2a, was added. In stage 2a, four short field studies were undertaken to validate the importance in practice of the questions guiding this research, and to define more clearly the crafting instruments and protocols required. The results of these studies validated the currency and importance of the research questions, and also indicated that in-depth contemporaneous studies were needed. Therefore, two in-depth field studies were undertaken.

The present research utilises a sampling frame derived from existing theory. This consists of organisations that are of a size (very large) and maturity (long established) where scale benefits are likely to be found, and management coordination and control problems to be minimised through learning curve effects. All of the organisations studied possess the long-established specialist human resources management functions, at corporate and business unit levels, associated with the results of scale economies. Long-establishment suggests learning curve benefits can be expected to have accumulated.

The small number of organizations studied limited the generalisability of the results. Therefore a face-to-face survey was carried out within 20 additional companies that fit the theoretical sampling frame. This supported the earlier findings.

1.6 Critical Definitions

The management literature is replete with inconsistencies in definition of key terms and lack of clarity in their usage. The purpose of this section is clarify the key terms used in the present research and hence avoid confusion. It is not intended as a criticism of

those whose definitions differ.

"Alignment" and "Consistency" are interchangeable and refer to a condition of congruity of goals/objectives/targets and priorities among the individuals within an organisation.

"CEO" refers to the chief executive officer of an organisation. In Britain the position is usually held by the "managing director" or "chairman" of an organisation; in the United States the position is usually held by the "president" or "chairman".

"Critical success factors (CSFs)" refer to the limited number of areas in which satisfactory results will ensure successful competitive performance for the organization. CSFs are the few key areas where 'things must go right' for the business to flourish and the managers' goals to be attained (Bullen and Rockart 1991, Rockart 1979).

"Direct reports" refers to the individuals who report directly to a manager or supervisor.

"Goals", "Objectives", and "Targets" are the purposes toward which an endeavour is directed; ends. Goals may be explicitly stated or implicitly apparent.

"Hierarchy" refers to the general body or structure of the organisation that is partitioned into graded sub-divisions. Both "vertical" and "horizontal" are directional concepts relevant when considering hierarchical relationships across the graded structure. For ease of understanding "cross-boundary" will be used to refer to horizontal hierarchical relationships.

"Hierarchical disconnect" is a broad construct referring to a lack of continuity within the hierarchy. It would include inconsistency in goals, objectives, and targets, or in cognitive and emotional orientation.

"Hinge" refers to a manager diverting the intended objectives of senior management into different directions. A hinge is an example of a hierarchical disconnect.

"Informants" or "Respondents" are the individual managers within the subject companies who participated in the data collection.

"Management control" is broadly defined as the activities, systems and mechanisms within the control of an organisation which influence the achievement of overall organisational aims and objectives. "Formal controls" are those activities, systems and mechanisms explicitly intended to influence the achievement of organisational aims and objectives. "Informal controls" are those activities, systems and mechanisms which implicitly influence achievement of overall organisational aims and objectives, whether intended or not. The distinction between formal and informal is not always clear, but generally formal controls would be those with acknowledged criteria which were developed to a specified form.

"Manager" refers to a person who is responsible for obtaining results through the actions of other people. Managers make decisions and persuade others to implement the decisions; other professionals make decisions and implement the decisions personally. This definition is sufficiently wide to include all levels in the organisational hierarchy

from the CEO through to and including the lowest level of supervision. (Anthony 1988).

"Measurement" constitutes a comparison of position against some standard. Within organisations, measurement is an activity which entails the creation of data on other activities which then may be transformed into "information" (i.e. data organised for decision making). Measurement information may be compared against various standards selected by management. These standards, or gauges, may include intended results, prior results, competitors' results, industry norms or internal management standards. Some are formal (i.e. actually calculated) and others are informal measures (i.e. subjective and judgemental). Some are empirical, while others are normative. Some are tight and rigorous; others are not.

"Mission" refers to a general expression of the overriding premise of the organisation.

"Performance" is the cumulative behaviour, consequences and results of actions involving the resources of the organisation interacting with the external environment.

"Rely" is used here to mean: to depend on, a mainstay.

"Reward" refers to "Formal rewards". "Formal rewards" refer to financial and other tangible benefits, including promotion, offered to individuals in return for performance of a service. This is not to deny that "Indirect rewards" can be influential, merely that they are not part of the subject of this study. From an individual's perspective a reward can be anything that is desirable to that individual.

"Reward systems" refers to those activities, systems and mechanisms explicitly intended to stimulate individuals towards achievement of goals, targets or objectives.

"Stimulus" is something which causes a response; an agent, action or condition that elicits or accelerates an activity or behaviour. The opposite of "stimulus" is a "barrier" something which restrains or blocks an activity or behaviour.

"Strategy" refers to the planned or resultant use of resources for meeting organisational goals and objectives. Planned deployment of resources is an "intended" strategy; resultant deployment of resources is an "emergent" strategy (Mintzberg 1985, 1987), which may, or may not, be what was originally intended.

"Strategic business unit (SBU)" refers to a unit within the overall corporate entity for which there is a competitive market for its goods and services which is distinct from that of another SBU. A corresponding definition for public-sector organisations (governmental or government owned/controlled organisations) refers to a part of the organisation or service for which there is a distinct client group (Johnson and Scholes 1993).

"Strategic change" refers to change in the use of resources that changes the effectiveness of an organisation in achieving its long-term goals and objectives (sometimes called changing competitive advantage).

"Strategic decisions" are those choices or decisions which cumulatively effect the

selection of goals, and the deployment of organisational resources as they relate to the firm's goals and objectives.

"System" is a group of interacting, interrelated or interdependent elements forming or regarded as forming a collective entity; fundamentally related groups of elements. "Formal systems" would be those systems and systematic mechanisms which have acknowledged criteria which were developed to a specified form. "Informal systems" encompass all others.

1.7 Thesis Overview

As highlighted in this chapter and the next, in many different areas of the management literature prescriptions were to be found supporting the importance of the performance measurement and reward systems for managers. Several key works during the last twenty years highlighted the need for empirical research in this area but this had not been forthcoming. The few studies that did exist did not address the question of consistency of goals downwards, upwards or across the managerial hierarchy. Nor did these studies specifically relate the performance and reward systems to organisations' strategic objectives at the business unit level.

One possible reason for the lack of such studies was that alignment was more of a problem in theory than in practice. Therefore, the first stage in this thesis was to carry out a series of short exploratory case studies to establish if the issue was important in practice. These studies appeared to indicate that the subject was both important and

problematical in practice. A number of themes appeared to emerge. Although suggestive, the short studies could not be conclusive as to cause and effect. They highlighted the need for deeper, contemporaneous studies. Two in-depth studies were then undertaken.

If, ultimately, the studies were to contribute to the building of theory it was essential that they were supported by analytical frameworks that could be replicated and developed by other researchers. Existing studies lacked frameworks containing contextual, content, and process data related to the systems of performance measurement and reward of managers. This data is important for the pattern building that leads to theory development. It makes explicit many of the assumptions underlying the research approach and which otherwise would remain hidden and therefor could not be discounted as contributing to the phenomena under study. It also facilitates cross-case comparisons and the accumulation of data from many cases for statistical analysis.

Broderick/Milkovich had developed a framework for analyzing the content of reward systems. Despite apparent drawbacks arising from the way in which they operationalised it, the framework was grounded in existing theory and practice. The author adopted this framework and extended it, using a literature driven theoretical relationship between goal setting and supervision as a guide, to include contextual and process elements. Process issues are important to gaining an understanding of effects from the way in which systems are operated. The two in-depth studies provided some support for the critical nature of process issues.

The in-depth studies appeared to confirm the issues found in the four early studies. Although the subject organisations all came from within the same theoretically derived sampling frame, the ability to generalise from these was restricted due to the small number of cases involved. With six studies it is possible to identify disconfirmatory evidence to certain propositions, however, the number is too small for confident generalisation. To assist overcome the generalisability issue, face-to-face interviews were carried out in 20 organisations which met the sampling frame criteria. These appeared to confirm the findings from the earlier case studies.

The collected data was then compared to several other studies in the literature. The subject organisations for these met the theoretical sampling frame conditions set for the present research. The result was tentative extensions to some propositions emerging from the earlier research, and to cast doubt on the findings of several others.

Chapter 2 Theoretical foundations

2.1 Overview

The research questions that this thesis addresses are

1) Do organizations undertaking strategic change seek to align their performance measurement and reward of managers with their business objectives? and

2) Does lack of alignment give rise to unintended effects?

Section 1.3 above addressed the question of whether the strategy literature revealed a perceived need for alignment between the reward systems and the business strategy. It appears that academic strategists do believe that this is important because they prescribe aligning rewards and business strategy. However, they cite no systematic empirical evidence in support of their position. Indeed, several authors call for research into the relationship between control systems, of which performance measurement and reward of managers forms a key element, and strategy.

This section commences with a database search aimed at uncovering some of the theoretical foundations contained in the literature. The database search disclosed a scant, largely practitioner driven, anecdotal literature with little in the way of systematic

empirical studies. The remainder of the search for theoretical underpinnings appears to support this.

The literature review then traces the theoretical links from strategy through to individual manager's motivation to behave in a way that realises strategy via the influence of control systems and goal-setting theory. Literatures from several disciplines prescribe the importance of aligning the performance measurement and reward systems for managers with organizational strategy. The prescriptions arising from this would benefit from the support of empirical research into current practice.

2.2 Literature Database Search

Key word(s) (terms) searches of the computerised ABI Inform data base were conducted as a preliminary step to conducting a thorough literature review. This method searches for words or combinations of words (terms) in the titles, classifications, and abstracts of articles published in a wide range of academic and practitioner journals including all of the leading academic management journals. While key term searches of data bases are "inadequate to identify all relevant research" (Otley, 1984), they may indicate whether a large body of work waits to be applied to the subject of the research, and the disciplines involved. As such they are a useful initial stage in the research process.

Searches were undertaken covering the period 1970 through January 1994. An example of the search and results for the period January 1990 to January 1994 is shown in

appendix I.

There were no articles which contained the complete set of relevant key terms;

alignment

performance measurement

strategic change

reward

managers.

The search was broadened and combinations forming sub-sets were sought. Despite broadening the search terms many of the cells in the matrix contain few, or even zero, articles. A matrix of the complete search outcome for the period January 1990 to January 1994 is shown in appendix I.

The abstracts of all articles in the combination cells, i.e. those lying at the conjunction of two search terms, were reviewed. The majority of these articles published in journals were theoretical/prescriptive with supporting evidence limited to brief anecdotes. Many were written by practitioners/consultants. The search disclosed few systematic empirical studies. The main conclusion to be drawn is that there was little research on the

relationships between

performance measurement and change

performance measurement and control

alignment and change

alignment and control

reward and change

reward and control.

The data base search suggested several disciplines appeared relevant to this research. These are,

management and strategic control

strategic management

organizational behaviour

and, human resource management.

2.3 Linking Strategy and Control Types

Miles and Snow (1978; see also Snow and Hrebiniak, 1980) classify organizations into four strategic types. Prospectors are organizations that value being "first in" in new product and market areas; defenders are organizations that try to protect their domain; analyzers are organizations that lie somewhere in between prospectors and defenders, and reactors are organizations that do not appear to have a consistent product market orientation.

It is interesting to note that Miles and Snow (p95 op cit), in illustrating the applications of their model, had to create examples from "a composite of behaviours in several real organizations." This begs the question of degree of fit[2] of any individual organization in their sample to the typologies.

Miles and Snow prescribe that controls should be contingent upon the strategic type to which an organization belongs. This proposition is not supported by systematic empirical research. A recent PhD thesis provides some limited support of Miles and Snow's prescription (Broderick 1986; Milkovich 1988). Using postal-survey methodology this study found a correlation between Miles and Snow strategy types and compensation schemes whose content is consistent with that predicted from an extrapolation of the Miles and Snow contingency model. However, for the purposes of building theoretical foundations, the Broderick and Milkovich research has three weaknesses:

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[2] Degrees of fit are the proportion of specific typology criterion met, and the strength of each.

Firstly, it relies on responses from the heads of human resources (HR) functions. These may be unreliable indicators of how compensation schemes operate in practice. This researcher's experience indicates that senior managers, when discussing issues related to their areas of responsibility, often describe how HR originally designed the schemes to operate, or how they think/would hopefully like the schemes to operate, without any supporting evidence that this is happening in practice. This type of weakness is explored more fully in the methodology discussion (Chapter 3).

Secondly, some of the classifications Broderick requests HR heads to make are, in this researcher's experience, overly generalised and so requires respondents to force-fit some responses. For example, the questionnaire asks for the dominant criteria of incentive plan rewards for middle managers. It provides a 5 point Likert-type scale with operating efficiency at one end and innovation/creativity at the other. This researcher has observed business units where the full range of *both criteria* (efficiency and innovation) are found in managerial groups and a dominant criteria would be difficult to identify. A positioning on this scale could therefore be misleadingly arbitrary. Therefore, Broderick's force fitting raises an additional degree of fit issue, and does not contribute towards resolving the Miles and Snow degrees of fit issues discussed above.

Thirdly, this researcher's experiential observations of reward and performance measurement systems supports the observation in Argyris about the difficulty in learning the use of control systems i.e. "in spite of unquestioned progress [in

development of control systems], there is more and more evidence that making the tool is a far easier task than learning how to use it."(Argyris 1952). The way in which a reward system is operationalized may be very important. The same system may be utilised by different companies in significantly different ways. The converse has also been observed by this researcher i.e. different systems may be utilised in such a way as to produce the same motivational outcomes.

Broderick tests for the correlation between strategy type and pay system content, but not performance or other outcomes. The research scope does not consider incentives in-depth, nor does it cover analysis of multiple layers of managers. Whilst it is suggestive, the research was not designed to explain performance differences between firms within the same type. There is a growing understanding that it is firm specific rather than generic industry types that are important (e.g. Rumelt 1974,1991). The issue of alignment of performance measurement and reward of managers in these organizations with the strategic objectives of their firms remains unresolved, although Broderick provides a useful first step.

In summary, the strategy formulation and structure literatures appear to support the notion that management control systems, particularly performance measurement and reward systems, should be aligned with the strategic objectives of organizations. However, simplified or composite anecdotes are generally supplied as evidence in support of their prescriptions. There is currently insufficient support of these concepts to provide a sound theoretical base.

2.4 Alignment in Operationalizing Strategy

The strategy implementation and strategic change literatures address issues associated with operationalizing strategic plans. Well known contributors to the literature on strategy implementation (Hrebiniak and Joyce, 1984; Galbraith and Kazanjian, 1986, 1978) support the viewpoint that reward systems and their fit with strategy is very important because reward systems focus and influence individual behaviour. These are mostly prescriptive, lack empirical support, and frequently call for more research. For example, Hrebiniak and Joyce (p187) state "...insufficient attention has been paid to the integration of previous work on incentives and controls in the organizational behavior and strategy literatures. Motivations at the individual level, especially in middle-management positions, rarely have been related to strategy implementation and performance at the organizational level of analysis." They express the opinion that incentives produce organizational climates[3] which impact upon strategic direction.

Galbraith and Kazanjian (p91) note that "The study of the motivating value of various reward and punishment schemes has been a major research activity of the organization specialists for some time. Although the primary concern for purposes of strategy implementation is the reward system for senior managers, the conceptual and research foundations in this area concentrate on lower- and middle-level personnel." This viewpoint is primarily concerned with senior managers, and therefore is similar to Porter's discussed above. It implicitly subscribes to the view that if the senior business unit managers reward system, and hence objectives, are aligned with corporate's the

[3] Some authors use the term culture.

senior managers will align the reward system and objectives of the business unit's lower level managers. However, there is no systematic empirical evidence about the performance measurement and reward of managers in business units (see Bruns et al 1992), to support their prescription.

2.5 Organizational Change Process

There are essentially three organizational development steps involved in change programmes or efforts (Lewin, 1951; Huse and Cummings, 1985). They have been called "unfreezing", "changing", and then "refreezing". The unfreezing element involves the communication of the need and necessity for change. Changing involves the learning of new skills and behaviours. Refreezing involves finding ways to maintain and reinforce the new behaviours.

Eccles (1994, p23) postulates that superior implementation skills are one potential source of competitive advantage. It is clear that superior implementation skills require an understanding of which change levers to use, and the sequence in which to use them. However, there are two very different views on how to approach the issues of unfreezing and changing during strategy implementation or strategic change. Eccles outlines two divergent schools of thought as to the appropriate change sequence (p213). These are the traditional view (e.g. Lorsch 1986) and a more radical approach of which Eccles is a proponent.

1) Traditional:

altering attitudes -> culture -> behaviour -> performance -> rewards

2) Eccles:

altering rewards -> behaviour -> performance -> attitudes -> culture

Traditional views, such as Lorsch's argue that strategic change depends upon cultural change i.e that the unfreezing step commences with attitude and culture change. Organizational culture can be defined as a pattern of beliefs and expectations shared by members of an organization that produce rules for behaviour - norms - that shape the behaviour of individuals and groups in the organization. (Lorsch, 1986; Deal and Kennedy, 1982; Kilman, Saxton and Serpa 1986, Smircich 1983). Culture is perceived to be difficult to change and the traditional view attributes the failure of some strategic change efforts to the lack of culture change.

As a result, the traditional change sequence flows from deliberately attempting to change attitudes, and ultimately this will lead to changed performances that are then institutionalised (refrozen) by changes in the reward system. This school of thought emphasizes the use of culture change programmes at an early stage of strategic change efforts.

There are however implications of following such a course of action including, a significant use of top management time and attention in creating new mission statements, personally 'selling' or 'communicating' the mission to staff via roadshows, seminars, and other types of face-to-face meetings with groups and individuals, and management-by-walk-about. Time and attention required in the training of managers at all levels in organizations diverts significant management attention from operational activities; and often involves the use of external facilitators, management consultants, or other specialists. There is also generally a deluge of written 'communications' (paperwork that may or may not be read by the recipients).

This researcher's experiential observations suggest that in practice a top management operationalization of a "culture change programme" frequently entails more one-way telling than two-way communication and this could reduce the feedback of information to senior executives.

Lorsch (1986) concentrates on the need to change the culture of the top team and, by implication, that once this is corrected the other actions and decisions necessary to pursue a new strategic agenda will flow almost automatically. This concentration on top management is consistent with Porter's and Galbraith and Kazanjian's implicit position discussed above. However, prevailing thinking by consultants using cultural change programmes suggests that all layers of management must be involved in the cultural change process (e.g. KPMG Nolan Norton as observed in practice by this researcher).

An apparent contradiction may exist due to the time horizons being considered. Lorsch

may have concentrated on the need to change the top management culture because on-going top management commitment will be required to develop, and see through to completion, any organizational strategic and cultural change efforts. Irrespective, while many writers on cultural change support Lorsch's contention that cultural change can take many years to achieve (e.g. Hales 1993 216-7, Baden-Fuller and Stopford 1992 p132-33), what happens after top management buys into the change remains largely a "black box."

The second sequence above as proposed by Eccles, is based on a large number of unsystematic observations and awaits systematic testing. This model proposes that changes in rewards lead to changes in performance which in turn, as they become institutionalised, ultimately change the culture. According to this perspective, change efforts should be accompanied by changes in the reward systems at an early stage of unfreezing.

Both the traditionalists and Eccles agree that behaviour change is a necessary precursor to achieving performance changes. Eccles argues that the reward change route to behaviour change is significantly faster and more effective than the culture change route.

Understanding of both the traditional and Eccles models above would benefit from consideration of the subtleties associated with reward system change efforts in practice. Alteration to the reward system can be achieved in many different ways, for example,

1) creating a new system of reward. This includes things like the introduction of pay-for-performance systems.

2) changing elements within the existing system. For example, changing the objectives in a management by objectives system. This might entail a change in specific objectives. It could involve a change from individually achievable objectives to those requiring team work and co-operation, or from a financial objective to an emphasis on strategic positioning such as quality.

3) change the mechanics of the measurement. For example, where a profit centre operation is in existence and rewards are based on profitability, any change in the basis for cross-charging goods and services such as from market rates to cost, will result in a reward change without changing any elements of the reward system.

The reward literature tends to focus on the relationship between pay mix, particularly base pay and incentives, and performance at the individual level. A reward can be anything that is desirable to an individual (see discussion on intrinsic and extrinsic rewards below). Notwithstanding that for managers in many organizations promotion may be the most desirable reward, both from intrinsic motivational and extrinsic financial perspectives, (Otley 1992), the reward literature tends to pay only passing attention to non-monetary rewards.

For the purposes of this research changes in promotion practices are considered changes to the reward system.

2.6 Interconnecting Systems

It can be observed in the literature that the pay system appears closely connected to a number of other systems, and that changes to the pay system may expose weaknesses in the other systems (Patten and Fraser, 1975). Performance appraisal problems, dysfunctional management practices, poor supervision, control system errors, poor job designs, accounting inadequacies, and awkward communication networks, are all examples of issues that may potentially be highlighted by attempts to change the pay system.

Should the change involve the introduction of a pay-for-performance scheme for managers this could exacerbate any lack of congruence between the objectives of individual managers. Problems may already exist but be behaviourally silent until changes in the reward systems stimulates observable behaviours. If so, the prescription that organizations should "tailor their control systems to emphasize strategic priorities and avoid confusing messages blurring the focus of the effort " (Baden-Fuller and Stopford op cit), could be useful. Although intuitively appealing, this recommendation lacks specific guidance for operationalizing the recommendations.

There are however implications of reward led change which are as yet unexplored. These include the need for major efforts to,

specify the behaviours required

clarify roles and responsibilities

establish performance measures

ensure congruency of the measures and reward of managers with the organizations strategic objectives

redesign all the systems that are interconnected with the reward system

Whilst it is clear that eliminating impediments may be a major task, at least in theory, it is not entirely clear how a traditional culture change programme would of itself overcome these issues if they already existed in the organizational context.

2.7 "Hinge" Functions

Euske et al (1992) set out to explore the question: "To what extent do performance measurement systems reflect company strategy and a customer perspective?" The underlying philosophy of their study was that the relationships among strategy, performance measures, and performance evaluation serve as the basic framework for the management control process (Euske 1984).

The unit of analysis was the "plant level". The plants belonged to a diverse range of industries and geographical locations: from high-technology electronics, to steel, and to

hotels. Among the key site selection criteria were at least 3 managers above supervisory level and at least 350 employees.

The study suggests that a variety of performance measures were in use and that once the financial criteria were met other criteria became more important. Accounting information appeared to serve a limited role at the plant level. This is consistent with Daft and McIntosh's (1984) observations that the lower down the managerial hierarchy the less used, and relevant, were financial measures of performance. Euske et al's conclusions also were consistent with Daft and McIntosh. They found little evidence of integration between the financial reporting system and the other key measurement systems within the organization. However, the study neither lists nor defines what the other key measurement systems were.

Euske et al concluded that the site managers form the integrating mechanisms between corporate's demands and those passed down to the lower-level site managers. "The site manager served as an "umbrella holder" or "filtering mechanism" for the operating [site] groups, shielding them from selected corporate goals (e.g. return on assets, return on investment, growth goals) and inopportune demands of higher levels in the organization." In effect, the site managers could over-ride a change in strategic direction signalled from corporate - at least in the short-term.

They observed that site managers operated as a "hinge" within the existing performance measurement systems. Site managers apparently had sole responsibility for translating the financial goals established by corporate management into defined operational goals

for the individuals below them. "The actor at the hinge translates both the corporate financial measures from higher levels of the organization to operational measures for use at lower levels of the organization and the operational measures from lower levels to financial measures for higher levels. The existence of the hinge suggests that very few performance measures flow directly from the corporate objectives to the operating units."

For most sites, coordination is said to take place informally through team and ad hoc meetings. This is consistent with Van de Ven et al (1976) who consider there is a need for face-to-face meetings to handle complex coordination. Also required is a basic understanding of the production process. Although individuals are said to be rewarded for being cooperative team members, there is no other information given about the reward systems. From the article, it is not possible to assess if the reward systems did indeed succeed in motivating individuals towards cooperative behaviours.[4]

The Euske et al study appears consistent with the literature cited above that highlights the role of the business unit head. However, one major difference exists. Site managers are not normally responsible for the full range of functions that could be expected to be found within SBUs. The site manager's ability to act as a hinge player is suggestive that similar hinge abilities may lie with other functional heads at the same hierarchical level within

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[4] The one "representative quotation " provided as supporting evidence does not provide sufficient contextual data to exclude the possibility of post-event rationalization by the respondent i.e. Quote "(When queried about the criteria for promoting a subordinate) .... personal commitment to our principles, commitment to the success of the corporation, capacity to serve the corporation in other jobs, a good team player, customer orientation and high standards of quality, and a good track record."

SBUs. Coordination and control to overcome "hinges" appears necessary if the unintended pursuit of multiple, possibly conflicting, strategic goals is to be avoided.

Also, it is not possible to deduce from the study whether the site managers are in a similar position to corporate with regard to the possibility of hinge functions existing below their level in the managerial hierarchy. The study could usefully be extended to,

SBUs and the full range of functions therein including, by way of example, sales and marketing, and new product development.

multiple hierarchical managerial levels in order to consider whether other "hinges" may exist

specify the reward systems in more detail

and, to provide details of the other performance measurement systems discovered.

The Euske et al study introduces to the management control literature the concept of hinge players and their ability to deviate from corporate choices of strategic direction. Further, it opens up the possibility of meeting budget whilst still pursuing individual or group objectives that are at variance with the overall strategic objectives of the organization.

The importance of this is illustrated by recent longitudinal research that considers the use

of control systems to stimulate strategic change. Simons (1994) identified two key change methods employed during the first few months of strategic change efforts for a sample of 10 newly-appointed top managers in the United States. One was to replace key subordinates and the other was an attempt to change the belief system. Examples suggest mission statements are drawn up and the messages contained therein reinforced through a variety of communication mediums. This is consistent with the traditional change sequence model. Simons' study did not extend to testing whether the new mission was understood, internalized, or implemented by subordinate managers. Nor was there consideration of the outcomes or performance of these interventions. In short, Simons identified the new CEOs intentions and actions but not whether these achieved the CEOs intentions. It is not possible to ascertain if any "hinge" functions (Euske et al 1992) could be frustrating CEO intentions. In order to consider the use of these techniques more fully, additional variables would need to be considered.

2.8 Mixed Support for Reward Led Change

There is mixed support for the use of changes in rewards to lead strategic change efforts. There is some largely anecdotal support for the case that incentive reward systems will ultimately fail (Kohn 1993, Booz Allen and Hamilton 1990). On the other hand, Hax and Majluf (1984, p89) in a discussion of motivational and reward systems express the view that "... undoubtedly the reward system is the one that has the most definite influence in determining individual behaviour in the organization. Naturally, people tend to act in a way consistent with the performance measures which are exercised upon them, and which in turn determine future career paths in the organization. Therefore, if we are seeking

a strong organizational commitment in the pursuit of an agreed upon strategy, there is not a more central administrative system to seek congruency with than establishing individual rewards and motivations. Yet, it is this lack of congruency that is perhaps the most appalling when one performs an audit for American Corporations." They do not cite any systematic empirical studies in support of their contentions, perhaps these have arisen from consultancy work. However, this researcher's unsystematic experiential observations suggest similar conditions may also exist within UK organizations. Also, Hax and Majluf overlook that determination of future career paths in an organization may be wholly independent of performance measurements.

Whilst some leading authorities on reward systems suggest that reward led change interventions are possible, there is a lack of empirical support for the effectiveness of such an approach (Lawler, 1983,1981, Ledford 1995). It is reported that "surprisingly little has been written about the role of pay system change in organizational change efforts. With a few exceptions .... the issue has been ignored in both the organization development literature and the pay literature." (p196). In 1981 Lawler reported on the early lessons learned from long-term longitudinal research that was underway into pay system led change efforts (p196-215). However, publication of the promised final results is still pending at the time of writing, 14 years later.

Lawler advises that "despite the reasons for believing pay system changes can be a good place to start an organizational change effort, little research exists on how effective this approach is, and little is known about how to design and implement a change program that starts with the pay system." (p198).

At the time of writing this thesis the position remains much the same. A multi-national colloquium was convened in Harvard in 1990 because of the "... unsatisfactory state of knowledge about how organizations measure performance of managers and business units and how incentive schemes are developed and used in organizations." (Bruns, 1992). The chair of the Organisation Development and Change Division of the Academy of Management (Ledford 1995) draws attention to a blindspot in that field i.e. about the use of pay system change as an organisational change or intervention method.

In summary, the strategy formulation, implementation and strategic change literatures tend to suggest that alignment of performance measurement and reward systems with an organization's strategic objectives is important. However, there is only limited empirical support, from strategy related and other management disciplines, in support of their prescriptions. One particularly contentious and unresolved issue is whether change management efforts should be accompanied by leading or lagging change to the reward systems. A second issue is whether an organization's control function is sufficiently robust to motivate "hinge" players to align the activities under their control with the intentions of the business unit head. A clearer understanding of the functioning of reward systems for managers, a major component of control systems, within organizations would provide a sounder foundation from which to resolve these issues.

Meantime, in practice there appears to be an increase in the numbers of performance-related pay schemes for middle- and lower-level managers in the UK (Smith 1991, Otley 1992, Armstrong and Murlis 1994). There is also said to be a "clear pattern of greater use of many innovative pay practices in large firms" in the USA over the period 1987

through 1993 (Ledford 1995).

2.9 Strategic, Organizational and Management controls

Reward and performance measurement are part of the control systems. Therefore the comparatively small body of control literatures (appendix 1) must be considered. Within the existing, albeit scant, literature there are no generally agreed definitions for strategic control, organizational control, or management control. There is also no clear distinction between the uses of strategic, organizational, and management control. The literature can be grouped into general groups, typologies, or schools of thought, based upon this researcher's view of the apparent overarching purpose of the controls.

For example, the macro-structural strategic school of thought (e.g. Lorange et al 1986) has largely concerned itself with control over macro-structural issues such as product/market choices and positioning, and organization structure such as U form and M form. The macro-structural school concentrates on controlling the strategic direction of the organization within the environmental contexts in which the firm finds itself. A strategic control system is generally defined by this school as "a system to support managers in assessing the relevance of the organization's strategy to its progress in the accomplishment of its goals, and when discrepancies exist, to support areas needing attention." (Lorange et al 1986, p10).

In contrast, the internal-planning strategic school of thought concentrates on internal planning and control issues and is similar to organizational and management control. (e.g.

Goold and Quinn 1990). This school is concerned with control over implementation activities in pursuit of an organization's chosen strategies.

Another school concentrates on strategic budgets. This group postulates segregating budget expenditures which support strategic programs that are directly linked to longer-term strategic objectives, eg research and development, new market development, and 'ring fencing' these in order that they may not used for other purposes (e.g. Lorange and Vancil 1977). The notion behind this view is that such expenditures are critical to the long-term well being of an organization and should be sacrosanct.

The coordination school defines control as the systematic process through which managers regulate organizational activities to make them consistent with the expectations established in plans, targets, and standards of performance. (Green and Walsh 1988; Merchant 1985). Control activities for this school include planning, motivation of employees, and co-ordination across departments. (see Daft and Macintosh 1984, Barrett and Fraser, 1977). This school proposes that top managers use controls in order to assess whether important decisions are incorporated into departmental activities and to determine whether strategies are influencing organizational performance (e.g. Daft and Macintosh 1984, Christensen, Andrews, Bower, Hamermesh and Porter, 1982).

The classic literature on the management control function and management control systems would be included in the coordination school. This literature defines management control 'as the process by which managers influence other members of the organization to implement the organization's strategies' (Anthony 1988 and 1965, p10;

Anthony, Dearden and Govindarajan 1992, p10). This group purposely links management control to the implementation of strategies, which is control's direct purpose. But unlike the macro structural school which emphasizes the strategic direction, the coordination school emphasizes the detailed systems; primarily accounting.

The "process by which managers influence other members of the organization" is wide enough to include many of the aspects of strategic and organizational controls. Indeed, the cybernetic feedback model (see below) implicitly includes the plans, targets, and standards of performance in control.

As there is no clear distinction made in the literature between strategic, organizational and management controls an alternative typology could be developed. This would conceptualise a nested hierarchy with strategic control at the highest level, with organizational control as a sub-set thereof and management control as a sub-set of organizational control. Under this typology strategic control provides strategic tracking as represented by the macro structural school, organizational control provides coordination as represented by the internal planning school, and management control provides the detailed administrative systems as represented by the coordination school.

2.10 Management Control and Goal Congruence

Irrespective of the form of typology of controls a key element, implicit or explicit, underlying all of them is that managers are responsible for the implementation of the organization's strategies. All the control literature appears to implicitly adopt what is in

essence the agency theory assumption of lack of congruence between the interests of the owners (principals) and the managers (agents)[5]. At SBU level corporate becomes the principal and the SBU head the agent.

For example, Anthony (1988, p14) states,

> "The purpose of the management control process is to ensure that the organization's strategies are implemented and consequently that its goals are attained. The process is primarily behavioral. Since managers have personal goals, the central problem is to induce them to act so that when they seek their personal goals, they are also achieving organizational goals; this is called goal congruence.
>
> Complete congruence between personal goals and organization goals cannot be attained; the aim is to work toward congruence to the extent feasible."

Anthony (op cit) defines a manager as a person who is responsible for obtaining results through the actions of other people. Managers make decisions and persuade others to implement the decisions; other professionals make decisions and implement the decisions personally. This definition is sufficiently wide to include all levels in the organizational hierarchy from the CEO through to and including the lowest level of supervision.

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[5] For a recent review of agency theory see Eisenhardt (1989).

In an organization with several management layers (a management hierarchy), managers must persuade managers at lower levels, who in turn must persuade managers at even lower levels and so on. The management control systems are intended to give some formal cohesion and coordination to the process.

An underlying, widely accepted, and largely untested assumption underpinning management control is that what gets measured gets done (Drucker 1954; Haire 1956), particularly when reinforced by the reward system. Specifying the performance to be measured is critical, and there are examples of measures leading to rewarding one form of behaviour whilst hoping for another. (Kerr 1975). Most of the research in this area has been carried out at the 'shop floor' level, a level at which the activities to be undertaken tend to be more amenable to measurement and some precision in specification than those of a manager. But, little is known about the performance measurement and reward of managers[6]; the people with responsibility for the day-to-day deployment and redeployment of resources - physical and capital - through which strategy is realized.

Another implicit assumption in the management control literature, as in the strategy literature above, is that if the performance measurement and reward of the Chief Executive Officer (CEO) is satisfactory the process of aligning the performance measurement and reward of subordinate managers at lower hierarchical levels will follow automatically. For example, Anthony, Dearden and Govindarajan's (p 638-658, 1992)

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[6] A colloquium, stimulated by "the unsatisfactory state of knowledge about how organizations measure the performance of managers and business units and how incentive compensation systems are developed and used in organizations" (Bruns, Jr ed 1992), was held at Harvard in June 1990.

is typical. Their discussion on management compensation concentrates on the compensation of the corporate level CEO and the business unit heads. Simon's research into how top managers use certain control systems to motivate staff towards organizational and strategic change efforts is also consistent with this perspective. (Simons 1994).

The assumption of alignment between the performance measurement and reward of CEOs and their subordinate managers at all levels is untested.

2.11 Management control systems and strategic change

From the above perspective, it follows that when an organization's strategies change it is necessary to revise the management control systems. Revision to the performance measurement and reward systems for managers could communicate the new requirements and induce individual managers to act in a manner that will achieve these. Without such changes, the control systems may continue to ensure that the previous strategies continued to be followed (see McNair, Mosconi and Norris 1989, for anecdotal examples arising from cost accounting control systems). In some instances, lack of change to the control systems may provide an alternative explanation to Mintzberg's (1985, 1987) for the cause of gaps between intended and realised strategy.

The systems feedback model encapsulates the traditional view of how management control systems operate (Simons 1991, Green and Walsh, 1988; Giglioni and Bedeian, 1974) and act as co-ordinating mechanisms when strategic change is being undertaken. Typically

the system has been, explicitly or implicitly, depicted as a top-down linear process whereby a strategic plan is devised, then a budget is derived to support this, responsibilities are allocated to managers, actions are taken and results achieved, the variance between the budget and the actual is reported (fedback) to the managers for corrective actions to be established or, in severe cases, the strategic plan to be amended. The managers are persuaded to behave in a way that facilitates implementation of the plan through a system of monitoring, performance measurement, and rewards. Therefore, performance measurement and reward of managers form part of the management control systems as defined above. The models in Anthony et al (op cit) and Daft and McIntosh (1984) are consistent with the systems feedback model outlined in this paragraph.

For example, the Daft and McIntosh model has the following sequence,

strategic plan --> financial budget --> operations etc.,

It explicitly depicts the operations as being driven by the financial plan. An alternative viewpoint could be argued that the financial budget only provides an overall constraint on the level of resources that can be expended but in all other respects is loosely connected to resource utilisation within the organization. For example, Euske et al (1992) observe that once the budget is met site managers have considerable latitude. The financial budget rarely, if ever, specifies precisely how resources will be utilised. For example, it can be argued that managers' time is an organization's most important

resource[7]. In this researcher's experience, how managers' time is to be utilised does not normally form part of budget plans.

Lawler (1976) highlighted that very little research had been performed on why organizations end up with the control systems they have. In the case of performance measurement and reward of managers this remains the case (Bruns et al 1992, Ledford 1995). There are no systematic empirical studies to show whether strategic change is, in practice, normally immediately accompanied by changes to the control systems, nor of whether managers understand the need to do so.

Hence the researcher's questions considered here:

1) Do organizations undertaking strategic change seek to align their performance measurement and reward of managers with their business objectives? and

2) Does lack of alignment give rise to unintended effects?

2.12 Motivational Aspects of Performance Measurement of Managers

Several theories from the behavioural literatures are relevant here.

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[7] See Barney 1991 for discussion of the resource based view of the firm.

Expectancy theory (Vroom 1964, Nadler and Lawler 1977) is concerned with the motivation of individuals. It suggests that the level of effort expended by an individual will be primarily driven by two things: whether the individual believes that personal effort will lead to the desired performance, and achieving the desired performance will lead to achievement of desired rewards.

The desired performance is signalled through the performance measures by which an individual's performance is to be judged. Assuming that the level of effort required and reward attractiveness meets the needs of the individual, the individual will focus on achieving the performance defined by the measures. If a blurring of effort (see Baden-Fuller and Stopford above) or conflicting objectives are to be avoided some means of co-ordinating the measures of managers performances is essential. There is no systematic empirical evidence about what happens in practice.

Expectancy theory is tempered by equity theory (Adams 1963). Equity theory considers how fairly individuals believe they are paid for their performance in comparison with others. Individuals are predicted to respond to a perceived equity gap in a number of ways: these include changing their level of effort, negotiating changes in outputs or reward levels, leave the job, or distort their perceptions.

Equity theory at least partially determines whether the level of reward will be acceptable (desirable) to the individual. In contrast to the human resources school of thought (e.g. Roethlisberger and Dickson 1964, p517) which argues that high job satisfaction leads to high performance, Porter and Lawler (1968) argue that high performance, followed by

equitable rewards, may lead to high job satisfaction. This suggests that the direction of cause and effect is the reverse of that espoused by the human relations school. If high job satisfaction is accepted as one manifestation of culture, then the human relations school of thought is consistent with culture led change and the Porter and Lawler position is consistent with the reward led change school of thought (discussed above).

Goal-setting theory is concerned with setting goals to which individuals will commit themselves.[8] For the purposes of this research the terms goal-setting and setting performance measures are synonymous. The principle of goal-setting, and by association setting of performance measures, is recognised implicitly or explicitly by virtually all major theories of, and approaches to, work motivation (Locke 1978). The theory suggests that employees will commit themselves to achieving goals that are both stretching, but attainable, and very specific. It builds on both laboratory experiments with naive college students, and field studies that are mainly based on "shop floor" level personnel. For example, several of the seminal empirical studies (Ronan, Latham, and Kinnie III 1973; Latham and Kinnie III 1974; Latham and Baldes 1975) are based on small logging units working on tree felling, and on drivers involved in log haulage.

This research demonstrates that setting goals increases performance levels, with or without employee participation in the goal setting process, and that supervisory presence to ensure goal commitment increases performance even further. In the period since the early 1970s there has been much debate in the literature about participation's effects on

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[8] For a review of goal-setting theory see Locke 1968; Locke and Latham 1984.

performance and satisfaction. A recent critical examination of previous research into participation in goal-setting suggests that this may not be a major factor in motivating individuals towards goal achievement. The examination suggests that while participation can have statistically significant effects on performance and satisfaction, the average size of these effects is small enough to raise concerns about practical significance (Wagner, 1994). This is consistent with Locke et al's (1980) findings that the average performance improvement as a result of participation was only 0.5%. Supervisory presence appears to be significantly more important than participation. The literature does not explore the question of supervisory presence at the various managerial levels within an organization nor the role that presence takes.

Of the 110 goal-setting experiments carried out in laboratory and organizational settings during the 12 year period 1969-1980, some 90% showed positive results for goal setting. It is claimed that this makes goal-setting one of the most dependable and robust techniques in all the motivational literature (Locke et al 1981).

The studies of goal-setting tend to measure efficiency of task performance rather than strategic performance which is about effectiveness. To use an analogy, the studies demonstrate that various groups of people are running faster but not that they are running faster in the right direction. The need to coordinate the goals of individuals where overarching goals are dependent on coordination or cooperation has long been recognised in the goal-setting literature (e.g. Tosi, Rizzo and Carroll 1970). Most of the research on which this is based relates to manufacturing or other manual task based organizations. This is reflected in Locke and Latham's (1984, p36) comment that "Vertical coordination

may be relatively easy with an MBO [management by objectives - one specific form of goal-setting] system, for example, since each manager will be aware of the goals of each subordinate." Galbraith (1973) echoes this by considering that conflicts are more likely to occur laterally and thus there is a need for lateral integrating mechanisms.

Is the appearance of the relative ease of vertical coordination indicative of effectiveness? The hinge function described above raises the question of how many layers down into the management hierarchy does, in practice, effective vertical goal coordination take place? There is a lack of empirical studies relating to vertical coordination of managers' goals in support of an organization's strategic objectives. This is not to dispute the need for lateral integrating mechanisms as well. Authors have argued in favour of group goal setting when the tasks to be accomplished are highly interdependent (e.g. Likert and Fisher 1977). This is said to "foster a higher degree of cooperation and communication than individual goal setting, and thus is preferable" (Locke and Latham 1984, p36). It could be argued that managers are highly dependent on each other both vertically and horizontally in the managerial hierarchy. However, there is a lack of knowledge about the alignment of goals of managers (Bruns ed 1992).

Goal setting is posited by Locke and Latham (1984, p18) as having four main benefits. These are to raise productivity or improve work quality, to clarify expectations (Latham, Mitchell and Dossett 1978), to relieve boredom by increasing the challenge of the job and providing a sense of purpose (Locke and Bryan 1967), and when goals are attained and feedback is provided to indicate that these goals have been reached. It is proposed that employees feel a sense of increased liking for the task and satisfaction with their

performance and the work they are doing (Locke 1965, 1966a, 1966b and 1967).

Specific goals clarify what is required of individuals and, particularly, what their managers want them to do. Locke and Latham (1984 p40) prescribe the first step in the goal setting process as specifying the nature of the job to be accomplished by writing a job description. In terms of expectation theory (discussed above), specific goals should allow individuals to calculate their effort/reward ratios. The introduction of challenging but attainable goals contributes to the individual's assessment of whether personal effort will achieve the performance desired. Given the specificity and attainability of the goals, the individual can be intrinsically motivated (by the psychological reward of feelings of achievement e.g. see Latham and Yukl 1976), extrinsically motivated (if financial or other desired contingent rewards are offered by the organization) or a combination of both towards goal achievement. This suggests that in the case of managers, alignment of the organization's goals with the goals set for them personally, when supported by positive motivational reinforcers, is more likely to lead to achievement of the organization's strategy. However, there is little empirical knowledge about the alignment of organizational and managers goals.

A recent review of the motivational literatures (Kanfer 1990) suggests that goal setting is particularly useful in times of uncertainty. It provides individuals with specific indicators of good performance they can aim for and hence reduces at least part of their uncertainties. However, the review also suggests that individual's perceptions of control (that they are being manipulated) associated with the contingent financial reward element of pay-for-performance type schemes can lead to unintended behaviours. This suggests

that pay-for-performance type schemes may be accepted during times of change because they reduce the level of uncertainty, but it also implies that once the new levels of performance are attained regularly the control element may become exposed and lead to behaviours that cause a fall in performance. There has been a significant increase in pay-for-performance schemes for managers at all levels in organizations from the mid-1980s onwards, in both the USA and UK. By way of contrast some large organizations, such as the vehicle manufacturer Rover, have been eliminating pay-for-performance schemes, such as piece work, at the shop floor level because of perceived disruptive constraints on organizational development efforts aimed at significantly increasing productivity. This is counter intuitive as, arguably, goals are more easily specified at the shop floor level.

There is clearly a substantial gap in the literature. The methodology chapter which follows addresses how this research intends to contribute.

Chapter 3 Methodology

3.1 Overview

As discussed in chapters 1 and 2, there is little literature concerning the performance measurement and reward of managers in business units. There are calls from a number of disciplines for detailed in-depth study. One call came from a colloquium held at Harvard in 1990 because of the unsatisfactory state of knowledge in the area (Bruns et al, 1992). The colloquium called for additional in-depth studies of individual organizations. The tradition for this sort of study has been labelled case studies.

In recent years considerable attention has been given to the methodological issues involved in case study research in order that case study material can be gathered systematically and in such a manner as to facilitate theory generation. Without this, case studies are largely reduced to providing anecdotal or non-generalisable insights.

Eisenhardt (1989) provides the best summary of the scientific approach to the process of building theory from case study research and her framework has been used as a guide in writing this chapter. Eisenhardt's model has eight stages and is summarised in table 1. One additional step was added, essentially a stage 2a inserted between stages 2 and 3.

In stage 2a, four short field studies were undertaken to validate the importance in practice of the questions guiding this research, and to define more clearly the crafting instruments and protocols required. The results of these studies validated the currency and

importance of the research questions. They were followed by two in-depth field studies.

The terms field study and case study are frequently used interchangeably. For the purposes of this thesis the terms are used synonymously.

A subsequent study of 20 firms, using a face-to-face interview instrument as a survey instrument, was undertaken to confirm some of the impressions/findings that emerged from the six case studies (i.e the four short and two extended studies).

3.2 Case Study Research

A multinational colloquium was convened at Harvard in 1990 because of the "... unsatisfactory state of knowledge about how organizations measure performance of managers and business units and how incentive compensation schemes are developed and used in organizations" (Bruns, 1992). The colloquium reviewed ten invited papers reporting on field research into current practice. It also implicitly highlighted the need for further field study research; "We can understand how measurement and evaluation will affect the behaviour of managers and others only by getting more data on how such systems actually work in organizations." The present research contributes to this stream by exploring the link(s), in practice, between such systems and the strategic objectives of organisations.

Using case studies "is a research strategy which focuses on understanding the dynamics

present within single settings" (Eisenhardt 1989). "The case study is the method of choice when the phenomenon under study is not readily distinguishable from its context" (Yin 1993). Therefore, case studies are particularly appropriate at the early exploratory phases associated with attempts to distinguish a new and complex phenomena, and its operation. The research questions considered in this thesis meet all of these criteria.

The papers presented at the colloquium did not address the methodological issues involved in developing a consistent body of work from which theory can be developed. This is quite normal for the early exploratory nature of such work. However, in the main the end result is a number of new case studies that largely leaves unresolved how to move beyond anecdote to scientific method.

Glaser and Strauss (1967) argue that the intimate connection with empirical reality permits the development of testable, relevant, and valid theory. Eisenhardt (1989) sets out a case study research methodology that supports 'Building Theories from Case Study Research' (table 1). Her approach synthesises and extends, in a rigorous manner, previous work related to case study research methodology with the intent of describing a process for inducting theory using case studies. In particular, it builds upon the influences of Glaser and Strauss' (1967) comparative method for developing 'grounded theory', Yin's (1981, 1984) design of case study research and criteria for selecting between alternative designs, and Miles and Huberman's (1984) codification of a series of procedures for analyzing qualitative data.

The methodology used in the present research followed the steps outlined in Eisenhardt's

(1989) paper. In particular, selection of an appropriate population to control extraneous variation thus helped to define the limits for generalising findings. Theoretical sampling combined with replication logic applied to multiple case analysis further strengthens the generalisability of findings. With theoretical sampling it is neither necessary nor preferable to choose random samples. Random sampling does not add to the theory building power of theoretical sampling (Pettigrew 1988).

A sampling frame was constructed in such a way as to be based on theoretical sampling with a population that controls extraneous variation (Section 3.2 below).

Four short field studies were undertaken to establish the currency, validity and relevance of the specific research questions in practice (Section 3.3 below). The results were written up as case studies. Again, the organisations studied met the conditions imposed by the theoretical sampling frame. Pettigrew (1988) and Yin (1993 p4), in considering the role of theory in doing case studies, point to the superiority of choosing cases from a theoretically determined sample in contributing to theory building. Pettigrew also postulates that "Excluded would be considerations of access, convenience, logistics, or nonsubstantive issues". Provided the sample meets the theoretical sampling criteria, the serendipitous existence of favourable conditions for these other considerations should not weaken the samples validity.

The short field studies identified questions that could only be answered by deeper, contemporaneous studies of the performance measurement and reward systems for managers and their alignment with the strategic objectives. Two extended field studies

were chosen from contrasting industries, one from the public sector and the other from the private sector.

The extended field studies were approached from two complementary perspectives. One considered the collection and codification of descriptive 'factual' data about the content and formal processes associated with the systems. Such an approach facilitates future research concerned with replicating and comparing the results of this study. It also goes some way towards addressing the wider needs involved in the pattern matching which is essential to theory development from case studies. In particular, it makes explicit a number of variables that have been implicitly considered in arriving at alternative explanations of the phenomena being studied. "The process is a kind of pattern-matching in which there are many aspects of the pattern demanded by theory that are available for matching with his [the researcher's] observations on the local setting" (Campbell 1975). Conversely, there are many aspects that must be considered before a pattern emerges from which theory can be derived.

The second perspective considers the differing perceptions at the multiple hierarchical layers of managers. Individuals' perceptions of the 'missions' of both the overall business unit and of their functional units were explored. These were compared with the contents of 1) the formal mission statements, and 2) the individuals formal performance measures and rewards. Comparisons were drawn between and across the different hierarchical levels.

Simons (1994) study highlighted that newly appointed CEOs placed emphasis on creating

and disseminating mission statements within their businesses. The above methodology allowed some testing of the efficacy of such efforts. In particular, it revealed the level of retention of the content of mission statements at multiple layers within organizations.

3.3 Stage One - Getting Started

Eisenhardt postulates that in stage one neither theory nor hypotheses should be generated. Indeed, this researcher would go further and suggest that if theory or hypotheses could be generated it would imply a greater understanding of the phenomena being studied. In such a situation it is likely that alternative research methods such as postal survey research could be more appropriate. This is because the research task would be moving towards establishing "norms" and the distribution of the phenomena within the population.

At stage one it is important to retain theoretical flexibility because the characteristics of the phenomena and its environment lack the necessary degree of clarity.

Eisenhardt, citing Mintzberg (1979) in support, recommends that research questions are formulated to guide the research. Without a research locus it is easy to become overwhelmed by the volumes of data.

The study reported in this thesis is guided by two questions that were suggested by the

literature review in chapters 1 and 2 i.e.

1) Do organizations undertaking strategic change seek to align their performance measurement and reward of managers with their business objectives?

and 2) Does lack of alignment give rise to unintended effects?

3.4 Stage Two - Selecting Cases

Selection of an appropriate population to control extraneous variation helps to define the limits for generalising findings. Confidence in field study results is increased when theoretical versus statistical sampling is used to determine the characteristics of the organisations to be studied (Eisenhardt and Bourgeois, 1988). With a theoretical sampling frame, the frame encloses a stratified sample where the choice of sample characteristics was guided by existing theory. The sample is homogeneous with respect to these characteristics. By way of contrast, statistical sampling is used in order to assist in ensuring that generalisations can be made about the characteristics of populations. With theoretical sampling it is neither necessary nor preferable to choose random samples because random sampling does not add to the theory building power of theoretical sampling (Pettigrew 1988). Theoretical sampling combined with replication logic applied to multiple case analysis further strengthens the generalisability of findings.

Campbell (1975) made analogies between the degrees of freedom issue in statistics and

certain types of case study research. "A second degrees-of-freedom, test of significance issue worth borrowing is the distinction between one-tailed and two-tailed tests. This can perhaps be translated into the case study setting as a distinction between the confirmatory value of an agreement between implication and facts when theory has been chosen in the light of those facts versus the higher confirmatory value when the theory has been chosen without knowledge of these confirmations." This research seeks the higher confirmatory value of using a theoretical sampling frame without knowledge of confirmatory evidence i.e. theoretically, scale and learning curve theories suggest that large, long-established organisations would align the performance measurement and reward of managers with their intended strategic objectives, but no studies exist to support or disconfirm this.

A theoretical sampling frame was chosen to capture the effects of economies of scale and experience/learning curves which are well established in the economics, marketing and strategic management literatures (e.g. Keat and Young 1992; Porter 1980, 1985). This literature postulates that scale economies result where increased size of an organisation allows greater specialisation of tasks and functions, both line and staff. This greater specialisation is posited to lead in turn to greater efficiency of the organisation as a whole. But size may also create dis-economies of scale through increased complexity of management coordination and control requirements.

Learning curve theory (one part of the experience curve) posits that through experience gained over time, efficiency in tasks and functions can increase and dis-economies decrease (Hirschmann 1964; Hax and Majluf 1982). One source of learning curve benefits comes from the number of times an activity is undertaken, whether in a

manufacturing operation on the shop floor or an administrative process. This theory appears to be largely based on concepts espoused by the Boston Consulting Group (1968) since the late 1960s.

In discussing scale and experience effects, Abell and Hammond (op cit) note that these phenomena are frequently linked because growth in size resulting in scale benefits will generally be accompanied by accumulating experience. They also note that it may not be easy to disaggregate the combined results or benefits of experience and scale.

Most discussions of scale and learning curve effects refer to manufacturing and/or administrative processes such as order processing or sales and marketing (e.g. Porter 1980). In theory, scale and learning curve effects could also include the management processes of establishing and revising performance measurement and reward systems on an on-going basis. Where performance measurement and reward systems have been in existence in excess of three years, managers would be expected to have achieved familiarity (climbed the learning curve) with their intended operation (Otley,p105 1992).

Therefore, theoretically it could be expected that large, long-established organisations can achieve scale benefits and through time minimise management coordination and control problems through accumulated learning curve benefits. It can be postulated that such organisations could more readily align, and realign, the performance measurement and reward of managers with their strategic objectives.

Therefore, the theoretical sampling frame consists of organisations that are of a size (very

large) and maturity (long established) where scale benefits are likely to be found, and management coordination and control problems to be minimised through learning curve effects. The organisations studied all possess the long-established specialist human resources management functions, at corporate and business unit levels, that would be associated with the results of scale economies. Long-establishment suggests learning curve benefits can be expected to have accumulated.

One business unit from each of four large, long-established, multi-site organisations were studied initially (see 3.3 below). Two additional organizations were subsequently studied in-depth. The organisations are all highly regarded in their respective industries and "household names". In all cases there existed specialist human resources management functions at corporate and business unit levels, and performance measurement and reward systems for managers. These systems had all been in existence for more than three years. Some form of goal-setting for managers had been in existence for at least five years.

The organisations studied were selected from the 200 largest employers in the United Kingdom. Business units within these organisations were chosen based on geographical proximity. Each business unit was functionally organised. Whilst the sample size necessarily limits the generalizability of the results, there is no evidence of systematic bias. The confidence in the results is increased by the use of theoretical sampling to determine the characteristics of the subjects for study (see above).

The identities of the organisations and business units have been altered to maintain the

confidentiality that was a condition of access imposed by the participating organisations.

3.5 Stage 2a - Short Field Studies

The literature review provides some support, mainly of a prescriptive or anecdotal nature, for the proposition that performance measurement and reward of managers may be an important factor in successful strategic change efforts. The author decided to execute some short field studies to ascertain if, in practice, performance measurement and reward of managers appeared to impact on the strategic direction of organizations (reported in chapter 4). Adding to the number of units studied was stopped when incremental learning diminished (Glaser and Strauss, 1967; Sutton and Callahan, 1987; Eisenhardt and Bourgeois, 1988) and it became evident that additional understanding of the phenomena observed would require the adoption of a different research approach.

Data Sources

A senior general manager was selected as key informant and interviewed using semi-structured interviewing. This was selected as appropriate to the exploratory nature of the study (Yin 1984, Simons 1994). A minimum of two secondary informants were interviewed to affirm the information provided by the key informant. These were the most senior manager from the human resources function plus one other senior manager. Whilst, as could be expected, there were slight variations in the content detail between informants, the substance of their accounts was consistent. All informants had been in their positions for more than three years at the time of the strategic change and

subsequent problem analysis.

Secondary source data internal to the business units, e.g. minutes of relevant meetings and internal memos, were collected and used to support, or refute, the perceptual data collected from the managers.

The key informant interview had a semi-structured open-ended format. It began by asking the key informant to identify and describe the most recent significant strategic change the business unit had been involved in. The informant was then asked a series of open-ended questions including:

> How the performance measurement and reward systems for managers were perceived to operate prior to the strategic change? What changes, if any, were made to these systems as a consequence of the strategic change?
>
> Whether the performance measurement and reward systems for managers were perceived to have supported or frustrated the strategic change efforts?

Following the methods of inductive research, the semi-structured questions were supplemented with ones that seemed fruitful to pursue during the interview.

A similar procedure was followed with the secondary informants. The interviews with key informants lasted between two and four hours. Interviews with secondary informants

typically lasted around ninety minutes with the longest taking around three hours.

This researcher followed several of the recommendations for within-case analysis (Eisenhardt and Bourgeois (1988), Yin (1984)). Immediately following an interview, facts were cross-checked wherever possible. Detailed interview notes were completed within 24 hours of interview. Where necessary, clarifications were obtained by telephone.

Data Analysis

The data was written up in the form of individual case studies, including summary and analysis, for each of the business units and circulated to the informants for corroboration and comment. The results are included and reviewed in Chapter 4.

Short Field Study Results - A brief discussion

The data from these studies seemed to confirm the findings suggested by the literature review,

> a link between outcomes of strategic change efforts and alignment of the performance measurement and reward of managers with business objectives
>
> and, lack of alignment led to unintended consequences.

The studies suggested that an organisation's strategic direction may be affected by the performance measurement and reward systems of managers, but not always as intended. In two out of the four studies, problems emanating from the lack of alignment of the control systems were, at least initially, apparently incorrectly diagnosed as "cultural problems". There is some evidence that inappropriate organizational responses, because of the faulty diagnoses, were seriously considered by senior management in response to these.

In two cases changes to control systems (performance measurement and reward systems of managers) appeared to contribute to impeding the achievement of strategic objectives. Conversely, in the other two cases unchanged control systems appeared to be implicated in such impediments.

The studies provided support for the currency, validity and substance of the research questions. They also pointed to the need for extended, contemporaneous, exploratory studies. In response to this, it was decided to undertake two extended field studies. Resources and time constraints of this researcher were key considerations in limiting the number of additional studies to two.

3.6 Stage Three - Crafting Instruments and Protocols

Eisenhardt (1989) cites evidence that theory-building researchers typically combine multiple data collection methods. The triangulation made possible by multiple data

collection methods is said to provide stronger substantiation of emerging constructs and hypotheses.

A number of data collection methods were considered and three selected. The rejection of certain other data collection methods does not imply that these are invalid for research purposes. In the main, their rejection reflects the early exploratory nature of the line of enquiry followed for this study and these methods may be appropriate for theory, and hence hypotheses, testing at some later stage. By way of example, experiments, simulations, games, and laboratory research techniques were considered and rejected due to the exploratory and descriptive nature of this research, and the shortage of existing literature and theoretical development to support such efforts.

This study employed face-to-face interviews, observations, and archival sources.

Face-to-face Interviews

This method is useful for tackling new and original lines of enquiry. Combined with the usage of a semi-structured questionnaire, it provided the following benefits

a) the opportunity for immediate feedback to the respondent to clarify the researchers understanding of the responses being received

b) the opportunity to pursue unforeseen lines of enquiry arising from the way in which the respondent replied e.g. unsolicited "off-the-cuff" remarks and

observations

c) the opportunity to clarify questions for the respondent. This was particularly useful given the complexity and length of the research instruments

d) elicitation of answers to all questions and hence reduced the number of incomplete responses

e) higher and more complete response rates than had mailed questionnaires been employed.

The semi-structured interview protocol was developed as the research progressed. The semi-structured interview protocol used in the four short field studies was designed to assist in the development of the one used in the Agency study. The experience gained in the Agency study was in turn used to develop the semi-structured interview protocol used in the Finco study. The semi-structured interview protocols are included in appendices 2 and 3.

Eisenhardt (1989) addresses the question of altering data collection methods as follows. "Is it legitimate to alter or even add data collection methods during a study? For theory building research the answer is "yes", because investigators are trying to understand each case individually and in as much depth as is feasible. The goal is not to produce summary statistics about a set of observations. Thus if a new data collection opportunity arises or if a new line of thinking emerges during the research, it makes sense to take

advantage by altering data collection, if such an alteration is likely to better ground the theory or to provide new theoretical insight. The flexibility is not a licence to be unsystematic. Rather, this flexibility is controlled opportunism in which researchers take advantage of the uniqueness of a specific case and the emergence of new themes to improve resultant theory." Unquote.

Face-to-face interviews were clearly of value to the exploratory nature of the enquiries that form the substance of this research. The multi-level nature of the interviewing dictated by level of analysis considerations (see below) suggested personal interviewing was essential. On the other hand, time and resource constraints on the researcher necessarily limited the number of business units where in-depth interviewing could be carried out. Mailed questionnaires were considered as a method of overcoming these difficulties but were rejected (see below).

In a subsequent study of 20 firms a face-to-face interview instrument was used as a survey instrument to confirm some of the impressions/findings that emerged from the six case studies (i.e the four short and two extended studies).

Mailed Questionnaires

The unsolicited mailed questionnaire is one of the most frequently used research methods. Proponents argue that it enhances the opportunity for developing generalizable hypotheses. It has the advantages of low cost and low researcher time requirements compared to other data collection methods. However, there is evidence of low response

rates; possibly as a response to the wide spread usage of this method; frequently in the 10% to 20% range. This contention is supported by literature reviews and anecdotal evidence from interviews with academic researchers in several disciplines. Low response rates raise questions about the validity of generalizing from such data collections.

The four short field studies and literature review suggested mailed questionnaires were not appropriate for this research because of the,

a) difficulty in designing a questionnaire that could elicit the cause and effect relationships of interest to this enquiry. One of the objectives of this research being to contribute to the clearer description of the phenomena and its environment that is a prerequisite to such a design effort

b) likelihood of biased results from low return rates

c) high risk of incompleteness. In part, this research relies upon responses from multiple managerial levels in an organizational hierarchy. Unsolicited mail is thought to be unlikely to gain the senior management commitment that would be necessary to ensure a complete response

and d) face-to-face interviewing enhanced the parallel archival data collection effort through

the higher degree of personal rapport that could be established during such

interviews and hence eliciting a greater degree of willingness on the part of interviewees to assist

and, the inclusion of documents used by interviewees to illustrate responses to the semi-structured and subsequent follow-up questions but which otherwise may have been overlooked

It is clear that in the specific case of this research, use of a mailed questionnaire instrument could have resulted in spurious generalizability; the opposite of the benefits claimed for it. As illustrated above, such an instrument could also have reduced the flexibility (controlled opportunism) necessary to new lines of enquiry of the type that are the subject of this research. However, the results of this research could pave the way for the creation and usage of mailed questionnaires in the future development of this research.

Archival Data

A list of potentially useful sources of archival data was created based on the literature reviews and the authors wide practical experience of data normally available in such organisations. This was used to guide requests to interviewees. In addition, respondents were asked to supply any additional archival data they considered relevant to the questions being asked and the general nature of the study. This was supplemented by requests for copies of archival data produced during interviews to support or otherwise illustrate points being made by interviewees. The resultant mass of archival data

collected is listed in appendices 4 and 5.

Levels of Analysis

One of the reasons for choosing a multiple hierarchical approach was due to personal observation as set out below. This suggests that for research questions of the type addressed in this study, in-depth multiple hierarchical research approaches should form a necessary part.

During the period 1981 to 1985 inclusive this researcher was Finance Director of three of the business units of Plessey Plc. This coincides with the period during which Goold and Campbell (1987) carried out the research in which they categorized Plessey as a 'strategic control' type company. This researcher did not recognise this as the same company in which he had worked. Based on their classification system (table 2), Plessey exhibited many more of the characteristics associated with classification as a 'financial control' type than a 'strategic control' type. This researcher's perception was that most directors of strategic business units (SBU) within Plessey at that time would share this interpretation. A telephone survey with a small non-random sample, but greater than Goold and Campbell's, of Plessey SBU directors supported this contention.

The five year (strategic) planning review meetings were dominated by the financial projections and levels of risk in attaining these. The first year of the five year (strategic) plan became, for all practical purposes, the budget for the following year. During the financial year, projections of the quarterly and full year results were prepared monthly

by each business unit. If a business unit forecast that it would fail to meet either its cash flow or profit budgets great pressure would be applied by senior management at divisional and group levels to rectify this position. The business unit's authorities - e.g. to commit expenditures on budgeted capital projects (even where such expenditures were in support of strategic market entry projects that were at a significantly advanced stage of development), and hiring people - were revoked and head office approval required on an item by item basis until the position was rectified. The business unit's managing director and finance director were called to a meeting with the group finance director, someone they would not normally meet in the ordinary course of running the business unit, to explain the reason for the shortfall and pressure would be applied to take actions that would close the gap with budget. There was a perception that to miss the financial budget targets on several occasions would be career limiting, possibly leading to termination, for the unit managing director and financial director.

Both Goold & Campbell and this researcher are providing representations based on the data available at the time. Which was correct? It is possible that the variance is due to the level and depth of interviewing. It can be speculated that had Goold and Campbell interviewed extensively and in-depth at the SBU director level a hierarchical disconnect between the perceptions of the most senior managers in Plessey and the SBU directors would have been uncovered. Assuming the senior managers articulated their intended control style in the Goold and Campbell study, it seems reasonable to conclude that the intended and realised control styles differed.

The above runs counter to the 'trickle down' hypothesis i.e. that once the CEOs

objectives and performance measures are established these will 'trickle down' in a congruent manner to managers at lower levels in the hierarchy. The way in which the control systems are used, intended versus realised, partially determines whether this occurs. The methodology adopted in this study assists in testing the 'trickle down' hypothesis. Whilst not statistically valid for confirmatory purposes, these cases may provide disconfirmatory evidence.

3.7 Stage Four - Entering the Field

The theoretical sampling frame for the two extended field studies followed the logic outlined in section 3.1 above i.e. the theoretical sampling frame consists of organisations that are of a size (very large) and maturity (long established) where scale benefits are likely to be found, and management coordination and control problems to be minimised through learning curve effects. Both organisations studied possess the long-established specialist human resources management functions, at corporate and business unit levels, that would be associated with the results of scale economies. Long-establishment suggests learning curve benefits can be expected to have accumulated.

One business unit from each of two large, long-established, multi-site organisations were studied. Both organisations are highly regarded in their respective industries and "household names". In both instances there exists specialist human resources management functions at corporate and business units levels, and performance measurement and reward systems for managers. These systems had all been in existence

for more than three years. Some form of goal-setting for managers had been in existence for at least five years.

The two organisations studied lie within the 200 largest employers in the United Kingdom. The organisations and their business units were chosen based on fit with the theoretical sampling frame and availability to the author. Both business units were functionally organised.

Extended Field Study 1

The results of field study 1 are contained and discussed in chapter 5. This subject was chosen for two reasons. Firstly, it fit the theoretical sampling frame criteria. Secondly, it was at an early stage of pursuing its new strategic objectives i.e. its new status was only three months old at the time of this study.

Data Sources

Data was collected through semi-structured interviewing and the collection of a wide range of secondary source data (appendices 2, 4 and 6). Following the methods of inductive research, the questions were supplemented with ones that seemed fruitful to pursue during the interview. The author is solely responsible for designing the semi-structured interview instrument (appendix 2) and for the data analysis and interpretation contained in this thesis.

During the late 1980s/early 1990s parts of some government departments in Britain were split into semi-independent agencies. Field study 1 was undertaken in a large government Agency some three months after agency status had been achieved. The Agency was considering whether to redesign its existing performance measurement and reward systems. The chief executive recognised the potential value of a rigorous academic study of the existing systems and generously provided both wide access and funding for this part of the research.

The chief executive issued a letter to all managers advising them that the study would be taking place and asking for their co-operation. A secretary in the human resources function was assigned the responsibility for arranging the interviews. An experienced senior manager in the personnel function was assigned responsibility to provide liaison.

Given the highly unionised state of the Agency, the author also met with the Agency's trade union representatives to secure their approval for the study prior to its commencement. The unions expressed their approval and that "a study by academics was likely to provide unbiased results, unlike management consultants".

The time constraints were such that the author secured the services of another academic researcher to execute 50% of the interviews under the author's supervision. This also allowed the author to conduct several joint interviews as recommended by Eisenhardt (1989) and Pettigrew (1988). Comparison of interviewers' notes indicated minor variations in the content detail and notetaking styles, but the substance was consistent. As predicted by Eisenhardt, these convergent observations, as to accuracy and

interpretation, enhanced confidence.

Notes were taken during interviews in preference to tape recordings. The author's previous experiences of interviewing in similar organisations suggested that some managers appeared less candid in their responses when tape recording was used. The author's understanding of the interviewees responses was regularly and systematically played back to respondents during the interview. This took the form of statements such as "If I understand you correctly are you saying that .....?". This allowed respondents to correct, clarify or expand upon their statements.

Most interviews took place in the offices of the individual respondents. A few interviews took place in Agency offices set aside specifically for the purpose. Efforts were made to cross-check interview data within twenty four hours of the interviews taking place.

A list of respondents is included in appendix 6. All managers in the first three layers of the hierarchy were interviewed. A semi-random sample of personnel from the other hierarchical layers was selected. The sample was chosen in order for all layers in the hierarchy to be represented. Selection from within these layers was determined randomly.

Interviews lasted between 90 minutes and 4 hours with a mean of approximately 2.25 hours.

Data Analysis

This took place in four parts. Firstly, a description of the performance measurement and reward systems and their operation was circulated to a range of managers for comment. Subsequently, a presentation of findings was presented to the human resources function, and then to the board and a selection of senior managers.

Secondly, respondents perceptions of the organisation's mission were codified and compared with the official mission statement.

Thirdly, the performance measurement and reward system was re-analyzed using an extended version of the codification developed by Broderick and Milkovich. Their codification concentrated on content issues and was derived from the theoretical and practical works of Belcher (1974), Ellig (1982), Henderson (1982), Lawler (1981), and Milkovich and Newman (1984). This is consistent with similar work in Britain (For example, as reported in Smith (1991) and Armstrong (1994)). The author devised the extensions as surrogate measures of supervisory presence which in theory increases the motivation to achieve targets (Ronan 1973, Locke and Latham 1984).

Fourthly, a copy of the relevant sections of this thesis were submitted to the organisation for observations and comments.

Extended Field Study 2

The results of field study 2 are contained and discussed in chapter 6. It was carried out in a similar manner to field study 1. This subject was also chosen for two reasons.

Firstly, it fitted the theoretical sampling frame criteria. Secondly, at the time of the study it had been embarked on its new strategy for 30 months. This would provide interesting comparisons with field study 1 which was at an earlier stage of development in relation to its changed strategic objectives.

Data Sources

Data was collected through semi-structured interviewing and the collection of a wide range of secondary source data (appendices 3, 5 and 7). Following the methods of inductive research, the questions were supplemented with ones that seemed fruitful to pursue during the interview. The author is solely responsible for designing the semi-structured interview instrument (appendix 3) and for the data analysis and interpretation contained in this thesis. Several questions contained in the interview instrument reflected the interests of the other researcher.

Field study 2 was undertaken in a large Information Technology (IT) subsidiary of a very large financial services organisation. This study took place approximately 30 months after the subsidiary was created out of part of a large centralised computing department. The chief executive recognised the potential value of a rigorous academic study of the existing systems and generously provided both wide access and funding for this part of the research.

The chief executive issued a letter to all managers advising them that the study would be taking place and asking for their co-operation. The Chief Executive's secretary and

personal assistant were given responsibility for arranging the interviews.

In order to ensure the accuracy of interview notes and their interpretation, the author secured the services of another academic researcher, distinct from the one used in extended field study 1 above, to execute 15% of the interviews. Comparison of interviewers' notes indicated minor variations in the content detail and notetaking styles, but the substance was consistent. As predicted by Eisenhardt, these convergent observations enhanced confidence.

Interviewing was carried out in the same way as in field study 1 above.

A list of interviewees is included in appendix 7. All managers in the first three layers of the hierarchy were interviewed. A semi-random sample of personnel from the other hierarchical layers was selected. The sample was chosen in order for all layers in the hierarchy to be represented. Selection from within these layers was determined randomly.

Interviews lasted between 1.5 and 4.5 hours with a mean of approximately 2.45 hours.

Data Analysis

This took place in four parts. Firstly, a description of the performance measurement and reward systems and their operation was circulated to a range of managers for comment. Subsequently, a presentation of findings was given to the senior managers forming the

executive board.

Secondly, respondents perceptions of the organisation's mission were codified and compared with the official mission statement.

Thirdly, the performance measurement and reward system was re-analyzed using an extended version of the codification developed by Broderick and Milkovich. Their codification concentrated on content issues and was derived from the theoretical and practical works of Belcher (1974), Ellig (1982), Henderson (1982), Lawler (1981), and Milkovich and Newman (1984). The author devised the extensions as surrogate measures of supervisory presence which in theory increases the motivation to achieve targets (Ronan 1973, Locke and Latham 1984).

Fourthly, a copy of the relevant sections of this thesis were submitted to the organisation for observations and comments.

3.8 Face-to-face Interview Survey

After completion of the six case studies the author participated as a researcher in a project that included personally interviewing 20 group CEOs of UK-based organizations (Stopford et al 1994). The profile of the CEOs' companies fitted the theoretical sampling frame.

The author was allowed to include some questions related to the present research project.

The CEOs were asked the open-ended questions "What factors are taken into account when strategic decisions are being 1) taken and 2) implemented?". Following the methods of inductive research, the questions were supplemented with ones that seemed fruitful to pursue during the interview.

The results can be found in Chapter 7.

3.9 Limitations Of This Research

Theorists, implicitly or explicitly, suggest that organisations which align the performance measurement and reward of their managers with their strategic objectives should realise these objectives more often than organisations that do not. There is no empirical evidence to support or reject this contention. The present research was not designed to test this. Indeed, the cross-sectional design makes it unsuited for this purpose, although the findings do provide some useful clues. Longitudinal studies would go some way towards overcoming these weaknesses.

To date, the author has not identified any organisations that formally align the performance measurement and reward of their managers with the organisation's strategic objectives. The identification of such organisations, if they do exist, would provide benchmarks and facilitate hypothesis testing. They would also provide a standard against which to compare the performance of non-aligned organisations.

The present analytical tools and frameworks are still somewhat crude. They do not

readily facilitate the creation of an index or other measure of degrees of alignment. Whilst it is possible to identify evidence of lack of alignment in Finco and the Agency it is neither possible, other than by applying judgement, to measure which has the greatest absolute degree of mis-alignment nor how big the gap between them is.

There are many possible factors that may influence managers' behaviours. By way of example, among the things identified as influencing goal setting, which is only one element of the performance measurement and reward systems, are the performance appraisal system, the planning system, the feedback system, the reward system, the communication system, organizational stress, management-subordinate relationships, and union-management relations (Locke and Latham 1984). There is a need for extended, contemporaneous, longitudinal studies to include the other systems and controls which may influence individuals behaviour. This would assist in identifying cross system and control effects i.e. some systems and control effects may be additive on individual behaviours, others may vie for precedence. The relative strengths of these various systems and controls in influencing individual behaviours have still to be ascertained. It may be necessary to develop new protocols and analytical approaches to do this.

Although the sample size is large enough to provide some disconfirmatory evidence to propositions such as 'managers in large, long-established organisations successfully align the performance measurement and reward of managers in business units with the business unit strategic objectives before implementing strategic change' and 'managers in large, long-established organisations correctly diagnose symptoms arising from apparent flaws in performance measurement and reward systems' (Roberts 1995), it is not large enough

to demonstrate the distribution of such behaviours within the total population of large, long-established organisations. However, the face-to-face survey results lends some support to the suggestion that the phenomena are wide-spread, at least within large UK-based manufacturing organisations.

The inferences from the present research are heavily dependent upon the sample of two in-depth case studies. This is too small for generalisable theory development. Although the face-to-face survey in 20 organisations provides some tacit support, they lack the in-depth study necessary to eliminate the most obvious alternative explanations of the causes of unintended effects. Future research efforts will be devoted to testing the inferences.

Although intuitively appealing, there is no empirical evidence for or against the contention that organisations which align the performance measurement and reward of their managers with their strategic objectives achieve higher levels of overall performance versus those not aligned. The study cannot rule out the influence of other external or internal organisational controls and mechanisms. This will need additional research following development of a comparative measure of alignment.

The cross-sectional nature of the data limits the conclusions that may be drawn. There is a need for longitudinal studies of the evolution of business unit objectives and the performance measurement and reward systems for managers, and of other organisational control mechanisms. Whilst it is interesting to know that the systems are or are not aligned, this study does not indicate why this has become so, nor if these systems are, in practice, ever in alignment.

Table 1 Building Theories from Case Studies. Kathleen M Eisenhardt. Academy of Management Review, 1989, Vol 14, No 4 532-550.

Process of Building Theory from Case Study Research

Step	Activity	Reason
1 Getting started	Definition of research question Possibly a priori constructs Neither theory nor hypotheses	Focuses efforts Provides better grounding of construct measures Retains theoretical flexibility
2 Selecting cases	Specified population Theoretical, not random, sampling	Constrains extraneous variation and sharpens external validity Focuses efforts on theoretically useful cases i.e. those that replicate or extend theory by filling conceptual categories
3 Crafting instruments and protocols	Multiple data collection methods Qualitative and quantitative data combined Multiple investigators	Strengthens grounding of theory by triangulation of evidence Synergistic view of evidence Fosters divergent perspectives and strengthens grounding
4 Entering the field	Overlap data collection and analysis, including field notes Flexible and opportunistic data collection methods	Speeds analysis and reveals helpful adjustments to data collection Allows investigators to take advantage of emergent themes and unique case features
5 Analyzing data	Within-case analysis Cross-case pattern search using divergent techniques	Gains familiarity with data and preliminary theory generation Forces investigators to look beyond initial impressions and see evidence through multiple lenses
6 Shaping Hypotheses	Iterative tabulation of evidence for each construct Replication, not sampling, logic across cases Search evidence for "why" behind relationships	Sharpens construct definition, validity, and measurability Confirms, extends, and sharpens theory Builds internal validity
7 Enfolding literature	Comparison with conflicting literature Comparison with similar literature	Builds internal validity, raises theoretical level, and sharpens construct definitions Sharpens generalizability, improves construct definition, and raises theoretical level
8 Reaching Closure	Theoretical saturation when possible	Ends process when marginal improvement becomes small

Table 2 - Strategic and financial control styles.

Strategic control	Financial control
• Devolution of responsibility for strategy development to divisional and business level	• Delegation of responsibility for strategy development to business unit and even profit centre level
• Strong divisional management level which handles coordination between businesses in each division, but little corporate attempt to coordinate across divisions or achieve synergies	• Group level managers that provide a transparent flow of information between the businesses and the centre
• Extensive formal and informal plan review processes to raise the quality of business thinking	• A focus on the budget process as the most important planning process
• General avoidance by the centre of strategic themes, thrusts or specific suggestions for businesses	• Avoidance of initiatives from the centre in the form of themes or thrusts, yet liberal use of suggestions from the centre where appropriate
• Central allocation of resources to support agreed strategy, and setting of priorities between projects	• Clear screening of investment projects and the use of short-term payback criteria to eliminate weak projects
• Capital projects and new business entries generally proposed by businesses, with few major corporate initiatives except on closures and divestments	• A philosophy that the centre will fund all 'good' projects
• Objectives set in terms of long- and short-term goals and strategic and financial targets	• Major use of acquisitions, initiated from the centre and by divisions, as the engine for growth
• Detailed reporting of performance for each profit centre to the corporate management	• Insistence that the budget is a contract between the centre and the businesses and that annual financial performance is the critical measure of achievement
• Tight control, in terms of incentives and sanctions, for actual performance versus planned objectives	• Frequent monitoring and review of performance against budget
	• Strong pressure immediately applied to businesses with performance problems, and management changes readily made in the face of continued problems

Source: Goold and Campbell, Strategies & Styles: The Role of the Centre in Managing Diversified Corporations. Basil Blackwell. 1987. p101 & 133.

Chapter 4 Short Field Studies

The four short cases illustrate misalignment between the performance measurement and reward systems, and the requirements for successful intended strategic change. Several of the studies clearly illustrate 'realised' strategic change which differs from the 'intended'. Gaps between 'intended' and 'realised' strategy (Mintzberg 1985) are explored.

4.1 Case Study 1 - Large stores group repositioning

Key informant: Operations Director

In the late 1980s a leading UK-based stores group identified a perceived gap in the market which would allow it to sell higher value products. This was consistent with its overall strategic objective that the operations director articulated as "gradually moving the organization away from its positioning as 'cheap-and-cheerful' to a more 'upmarket' position". It decided to test the existence of the perceived gap in one geographical region by focusing store managers' attention on selling higher value products with increased profit margin levels as a percentage of sales.

In order to facilitate the change in strategy the store managers were 'incentivised' in two ways. Firstly, adjustments were made to the reporting system to enable senior management to closely monitor aggregate gross profit margin percentage levels by store location. Secondly, a substantial potential bonus element for store managers was introduced. This was based on the aggregate profit margin percentages achieved. Within

weeks the intended margin levels were achieved and managers received their bonuses. At the same time however, market share and overall profitability fell. Senior management's initial analysis concluded that the new strategic positioning effort was ineffective due to the company's "image". Abandonment of the new strategy was seriously considered by top management.

Subsequent investigation revealed that managers' responses to the new measures and incentives had not been to promote the sale of higher value products but, in most cases, had been to achieve their targets through increasing prices on existing high volume products. Customers of the stores group were price sensitive in relation to the price of any individual brand and switched their allegiances to competitors stores. Hence, profits fell alarmingly and weakened the group's competitive position. In addition to lost profits, the group incurred substantial costs in wooing back the lost customers. Meantime, their competitors moved to fill the gap.

Retrospective analysis by management disclosed that the intended objective contained three elements: a margin level element that was articulated and communicated through the performance measurement and reward systems, a changed product mix element and a continuing volume element which were "assumed" by senior management to be "understood" by the store managers. To quote the operations director "when we [the senior managers] let the managers know we wanted the margins increased who would have believed the b*****s [store managers] would have gone and increased all the prices?"

Management reporting showed that the performance measurement and reward system for

store managers had achieved its stated targets, but the results clearly differed from those intended by senior management. The unintended effects could be described as an emergent strategy. The performance measurement and reward system appeared to have stimulated managers into decisions which resulted in the failure to achieve an intended strategic objective.

Case Study 1 Summary

Intended strategy:

Change market position from seller of low value, low priced products, to become seller of higher value, higher priced products and hence increase profitability.

Emergent strategy:

Changed market position from seller of low value, low priced products, and became seller of low value, high priced products with consequential loss of customers and decline in profitability.

Company management's initial analysis:

Company "image" as perceived by existing and prospective customers determined their positioning and could not be changed. Subsequent analysis concluded that the performance (behaviour) required of managers was not completely specified, and accompanied by unexpected behaviour from managers.

Researcher's analysis:

The data suggests that management's analysis may be incomplete. Store managers in this organization are highly motivated to meet targets (performance measures) that are placed upon them. Incomplete specification of performance resulted in target achievement at the level of the individual manager, accompanied by frustration of the intended strategy for the organization as a whole. Whilst the formal reward system appears to be a factor in this, other factors cannot be ruled out. For example, store managers in many organizations are under intense pressure to perform. Although they may be provided with the opportunity for high bonus earnings, this is often accompanied by the implicit or explicit threat of job loss for failure. The first may lead to positive effort for a desired reward, whilst the second may trigger avoidance efforts. The data collected in this study does not allow closer determination of the most important, individual or multiple, performance measure reinforcement agent(s). Whilst the performance measurement and reward of managers appears to have triggered the behaviour, the question of why, (was it gaming, or avoidance, or a combination of both behaviours) remains unresolved.

4.2 Case Study 2 - Exploitation of IT by financial services group

Key informant: Head of Information Technology

During the mid/late 1980s a leading UK financial services group identified the

opportunity to increase sales by making it easier and cheaper for independent brokers to carry out transactions with them. The board authorised a major computer project in support of this objective. The intent was to develop systems that would allow the independent brokers to carry out all of their transactions via computer terminal(s) located in brokers' offices. This would include on-line quotation systems, policy issuing and so on.

The company predicted that brokers would not want a proliferation of terminals on their desks and hence the 'first mover' would achieve lock-in with most brokers. "Who wants ten terminals on their desk?" asked the managing director. They estimated that by being 'first mover' they could gain a six to twelve month lead over competitors. The systems would be expensive to build but there would be a significant reduction in cost for the brokers, accompanied by increased service. It was decided to sell licences for usage of the systems to the brokers. This was to be carried out by the financial services group's existing regional and local salesforce.

In order to facilitate this the salesforce was 'incentivised' in two ways; through the reporting system via close monitoring by senior management of the number of licences sold, and by a bonus element dependent on the number of licences sold. Initially there was a slow take up of licences. This was identified through the reporting system. Senior managers reacted by applying pressure [feedback] through the sales management hierarchy. Sales of licences increased and soon target levels were met.

The technical aspects of the project were implemented satisfactorily. The IT director stated that "technical implementation of IT systems is not the problem it used to be. We

understand the technology issues and problems in designing and implementing these systems a lot better than we did in the 70's and can manage them better." Despite the technological successes the reporting system identified that only low levels of transactions were passing through the new system. Further investigation revealed that only 'second tier' dealers were buying licences.

The senior managers considered dropping the project. One senior manager had been of the opinion that, "the large brokers are smarter than the second tier. They want to buy from more than one insurer. They've figured out we can squeeze their profits once they're locked-in." An independent review was initiated by the project champion who felt his position was threatened. The review came to different conclusions. It revealed that regional and local sales managers and salesforces received most of their pay through a commission scheme. Sales through the terminals were not to be credited to them for commission purposes. Therefore, sales of licences meant increased income today but substantial loss of income in future time periods. On the other hand, senior managers were closely monitoring the sales of licences and achievement of this could effect future promotion or possibly even employment prospects. Hence, they sold the required target number of licences but only to brokers where their commission flow was not significant. As one salesman put it "If I sold licences to all my clients I might have made or beaten my bonus this year but by next I'd be trying to live off my basic [salary without commission], if I still had a job. But the bosses kept on saying you must sell your licence quota. There was a hint I'd lose my job if I didn't do it. So I sold them but not to anybody important. Me and a lot of the salesmen are looking round for other jobs."

The period between launching licence sales and discovery of the true nature of the

problem was approximately seven months. During this period, competitors were able to make up lost ground and so denied the company the normal benefits to be expected from being 'first mover'. Additionally, the morale of the salesforce was adversely impacted.

Despite close performance measurement and feedback, a control system (in this case the sales managers and salesforce's existing and continuing incentive schemes) continued to hold the organization to its previous course and thwarted a major change and opportunity to gain competitive advantage in a fiercely competed market place.

Case Study 2 Summary

Intended strategy:

Use IT to develop and exploit a new product delivery mechanism, and by first mover advantage achieve a lock-in with brokers leading to increased market share and hence sales and profitability.

Realised strategy:

Lost the opportunity for first mover advantage and became a "me too"; one of a number of firms offering this type of delivery mechanism. Large sunk cost investment in IT with minimal return on investment.

Company management's initial analysis:

Customers (brokers) are highly resistant to the new delivery mechanisms.

Researcher's analysis:

The performance measurement and monitoring systems successfully executed one of their control functions. The unexpectedly slow progress towards achieving the intended strategy was identified: targets were not being achieved to the forecast timescale. Senior management response to the data was to apply downward pressure through the managerial hierarchy. Subsequent measures indicated that the pressure had been successful in motivating managers to achieve the targets. A lagging indicator, i.e. sales via brokers, subsequently highlighted unexpectedly low sales through the new delivery mechanism.

Use of the reward tool in this organization appears not to be well understood. It concentrated on short-term earnings of individuals (commission to be earned based on the number of licences sold in the short-term) and ignored the longer-term earnings consequences of such actions. Expectancy theory (Vroom 1964, Nadler and Lawler III 1977) suggests that individuals calculate their effort/reward ratio before deciding upon the effort they will put forth. In this instance, their reward calculation appears to have taken account of the impact on both short- and long-term earnings.

4.3 Case Study 3 - New measures for UK-based project management organization

Key informant: SBU Head of Project Management

In the early 1990s, a leading UK project management and manufacturing organization was managed on matrix management principles. Project managers had responsibility and authority over individual projects, and purchased resources from the functional managers as required.

There is a great deal of uncertainty over the timing and exact configuration of projects that will be won. Over the years managers have developed a series of heuristics ('rules-of-thumb' about decision making) to determine manning levels within their departments. Their estimates have tended to be significantly more accurate than those emanating from the official budgeting and forecasting systems.

The organization imposed a new performance measurement system and its key measure is labour utilisation. This is a ratio of the number of man hours charged to projects divided by attended hours. Attended hours are the number of hours people are present and available to work on projects. The labour utilisation rates are calculated on an individual department basis. In order to facilitate achievement of high utilisation rates the departmental managers are 'incentivised' in three ways; through the reporting system and close monitoring of labour utilisation rates by senior management, by a potential bonus based on achievement of budgeted labour utilisation rates, and managers fear of employment termination if the rates are not achieved.

The fear element was very high and led to some managers booking employees idle-time (time not working on projects) to projects. Discovery of this by a customer's independent auditor led to instant dismissal for the managers concerned, and additional controls aimed at preventing a recurrence of such behaviours were imposed. The nature

of the contract between the company and its client was such that mis-booking could have led to serious financial penalties and other consequences such as being ineligible to tender for future projects. The customer chose to accept that on this occasion the mis-bookings were accidental and that the new control systems would prevent a recurrence.

Employees within individual departments are not homogenous in regard to their skill sets. Managers have developed a set of heuristics for balancing the skill sets within their departments. However, the uncertain and variable nature of the projects means that there are periods when any particular individual may either be on project work full-time or have no work to do. In order to meet the ever more demanding labour utilisation targets, managers began terminating employees employment contracts (making employees redundant) and then re-employing them as required from time to time on a subcontract basis. Redundancy was on a voluntary basis. Generally, the most able employees, usually specialists with high skill levels, chose to leave first. The least specialist employees tend to spend most of their time on project work and hence the utilisation rates increased substantially.

The departmental managers were strongly of the opinion that these decisions were not in the company's long-term interests but were under enormous pressure to comply, to quote " I knew I was making silly decisions but my job was at stake. Some good managers resisted and got fired for not making the utilisation targets. I'm looking for a new job before the whole thing falls apart." Some other managers also indicated they were looking for new jobs.

Increasingly, customers and project managers began complaining about a lack of

flexibility and lengthening timescales. In particular, queries and amendments to designs were taking progressively longer to resolve. This in turn delayed the construction elements of the projects and added significant additional costs both to the organization and its customers. In addition, this adversely impacted on the utilisation rates of other departments leading to the consideration of further redundancies and sub-contracting, a potentially escalating downward spiral.

The newly self-employed subcontractors tended to be the most able employees. To their surprise, many found a ready subcontract market for their specialist skills. The company is now only one of a number of customers and does not have instant access to their skills. Its requirements must take a place in the queue. In addition, the company accounting system only approves payment of invoices against pre-authorised purchase orders. Many subcontractors now refuse to commence work until they receive an authorised order. This causes further delays.

Even if it desired to do so the company may not easily reverse the position. There is not a ready market of available people with the required specialist skills. Training new people would take several years. It has weakened, perhaps fatally, a core competence. The customers are placing considerable pressure on the organization to resolve the position.

Case Study 3 Summary

Intended strategy:

Improve labour utilisation in order to reduce the cost base and hence increase profitability and improve competitiveness.

Realised strategy:

Improved labour utilisation, reduced the cost base and improved short-term profitability whilst unexpectedly and simultaneously eroding a core competence that had been over-looked i.e. flexibility of response.

Company management's initial analysis:

Inflexibility of labour was due to cultural problems.

Researcher's analysis :

Through a combination of reward (potential bonuses) and punishment (threat of unemployment) senior managers motivated middle- and lower-level managers to concentrate on achieving a single performance measure. The performance monitoring system, part of the control system, initially reported failure to meet targets. Senior management response to the data was to apply downward pressure (feedback), partly by increasing the threat component, through the managerial hierarchy. Subsequent measures indicated that the pressure had been successful in motivating managers to achieve the targets. A lagging indicator, timely response to bid requests and requests for design changes, highlighted unexpected side effects. These were mis-diagnosed as inflexibility of the workforce due to

the "culture".

Use of the performance measurement and reward tool in this organization appears not to be well understood, and to be used clumsily. It appears that senior managers were unaware that unintended side effects could result from the actions lower-level managers might take to achieve the emphasized measure. There is no indication that a complete set of measures, covering all the success factors related to the organizations strategy, had been developed.

4.4 Case Study 4 - Change from a government department into an agency

Key informant: Regional Director

During the late 1980s an organization with more than 20,000 employees and 2,000 offices spread across the UK had its status changed from government department to government agency. Whilst it was a government department staffing ratios in individual offices, and terms and conditions of employment, had been determined according to a bureaucratic formula that was strictly adhered to. As a government agency it was contracted to deliver certain outputs in return for agreed sums of money. The agency was given discretion, within agreed limits, regarding how the money was spent in order to achieve its output targets.

The agency determined that flexibility of its employees would be a critical factor in improving the efficiency of the organization and meeting the government's targets. The targets were expected to become more demanding each year.

There was surprise, and no small concern, over the strength of resistance from an employee, supported by the union, when attempting to transfer this employee to an office located a quarter of a mile from their existing place of work. Resistance of this nature from a lowly-graded employee was completely unexpected. Agency management cited this as an example of the "cultural" rigidity and inflexibility of the workforce.

Further investigation revealed the following about the requirement for working location flexibility, ie the possibility of moves between offices,

It was not included in the job advertisement.

It was not discussed during the job interview.

It was not included in the contract of employment.

Employees train in only one office.

Completion of training is normally followed by full-time employment in the office where the individual trained.

These parts of the selection, hiring and training processes did not appear to contribute towards conditioning of individual employees towards acceptance of locational flexibility. This deficiency was not corrected by the performance measurement and reward systems. Performance measures used do not include measures of employee flexibility at the overall

organizational level nor at the level of the individual. The performance measures in use registered improvement, for example

suitable applicants per job advert increased - a measure of job advertisement and targeting performance

percentage of job offers accepted increased - a measure of advertising and interviewing performance

retention of new hires after 12 months increased - a measure of the performances of the selection and subsequent induction processes

There is no tangible reward nor promotion linked to short-term inter-office moves. It is not included as a factor in performance appraisal nor in promotion criteria. Performance appraisal is carried out at the office where the employee was trained. The appraisal factors contain a mixture of those related to development of the skills of the individual and some targets related to personal outputs in the office itself.

This is a clear case of 'hoping for A whilst conditioning for and rewarding B' (Kerr 1975). Organizational induction processes and on-going control systems were consistent with each other but their combination did not result in achieving the complete set of attributes required to support achievement of the business goals.

Case Study 4 Summary

Intended strategy:

Reduce cost base by optimizing labour utilisation across offices i.e. flexible working by employees.

Realised strategy:

Workforce strife and "inflexible" workforce.

Company management's analysis:

"Inflexible" workforce is a manifestation of the organization's culture.

Researcher's analysis:

The performance measurement and reporting systems registered success at all stages of the recruitment and induction process. Measures of performance for individual stages of the process were not integrated to measure their contribution to performance of the system as a whole. A key success factor output from the system, flexibility of employees, was not measured. The systems appear to be neutral, at best, in relation to conditioning new entrants to the firm into desired behaviours that are consistent with the intended strategy. In addition, the reward system played no part in motivating employees to be flexible.

Senior managers were considering extensive and expensive cultural change programmes. Whilst this may ultimately provide a solution for the organization as a whole, without changes to the recruitment and induction, and reward systems, these processes may continue to produce employees that have been conditioned to be "inflexible".

The informants confirmed this analysis and also volunteered that they did not know of any formal or informal attempts at integrating the organization's support and control systems; either with each other or with the business strategic plan.

4.5 Discussion

The case study results are summarised in tables 3 and 4.

All of the organizations in these case studies are of a size (i.e. very large) and maturity (i.e. long established) where it is reasonable to expect scale and learning benefits to have occurred, along with concomitant management coordination and control problem minimisation. These organizations all have specialist, long-established human resources management functions at corporate and business unit levels. Their performance measurement and reward systems have been in existence long enough for learning curve benefits to have accumulated. It is reasonable to conclude that management would be familiar with the operation of their performance measurement and reward systems (Otley 1992).

This study fails to find support for such conclusions. Scale benefits have allowed specialist human resources management functions to be established. However, the existence of long-established specialisation and accrued learning curve benefits do not appear to have been adequate to result in pre-implementation alignment of performance measurement and reward of managers with the business unit strategic objectives.

In cases 1 and 3 changes were made to the performance measurement and reward systems before implementation. Evidence here suggests that these changes may have impeded achievement of the new strategic objectives. In case 2 there were changes made before implementation. However, existing unchanged elements appear to have continued to provide a dominating influence which was at variance to the new strategic objectives.

In case 4, no changes were made. The existing performance measurement system reported success on all measures, and rewards for achievement of targets were made. Subtle elements of existing unchanged operational systems appear to have contributed to impeding the achievement of the new strategic objective. These were undetected by the existing measurement systems. Indeed, by registering success these systems may have contributed towards obscuring the underlying issues and retarding the development of solutions to the "inflexibility" issue.

Mintzberg (1985) described the phenomena of intended-emergent strategies. However, he did not offer sufficient theory to explain all the mechanisms that may lead to the phenomena. In all the cases explored here the performance measurement and reward systems appear to have contributed to an emergent strategy which was at variance with

top management's intended strategy. This suggests that performance measurement and reward contribute to this "strategy gap".

The organisations studied here appear to have developed neither the expertise, nor the learning necessary to successfully align their performance measurement and reward systems with the business unit objectives *before* implementing changes. In other words, scale and learning benefits do not appear to have been adequate to permit pre-implementation alignment of performance measurement and reward.

Similarly, scale and learning curve benefits do not appear to have resulted in the ability to diagnose symptoms arising from flaws in the performance measurement and reward systems. In all cases, initial attributions for the failure to achieve new business unit objectives were incorrect. In two cases the initial diagnosis attributed failure to problems with organisational culture; in the other two failure was attributed to customer resistance to change. All of these are attributions to factors generally beyond management's immediate control.

In discussing the learning curve, Hahn and Mathews (1964) postulate that "the hypothesis is that improvements in technique do not become available from the passage of time as such, but by familiarity with the problems involved. Learning is the product of experience." In all four cases, mis-diagnosis of symptoms apparently stimulated by flaws in performance measurement and reward systems raised questions about learning. These are (1) how does organisational learning about measurement and reward systems take place? (2) what type of learning takes place? and (3) how is such learning communicated

across an organisation? (These questions may be addressed in future research activities but are not directly addressed by this research.)

For example, in cases 1 and 2, senior managers initial reactions to the unexpected outcomes had been to call for the abandonment of the new strategies. In case 4, plans were developed for expensive, and possibly unnecessary, culture change programmes based on the faulty diagnosis. In case 2, the underlying cause was only uncovered by an independent investigation instituted by a senior project sponsor who believed his job was at risk.

In all of the case studies reported here, senior managers initial diagnosis and prescriptions appear unlikely to have eliminated the underlying causes of failure to achieve strategic objectives. Senior managers appear to use the performance measurement and reward systems in a rudimentary manner. There is no evidence to suggest that they considered the possibility that unintended behaviours could arise from the operation of the performance measurement and reward systems.

Successful implementation of strategies in units of large organizations frequently requires complex co-ordinated action across hierarchical and lateral organization chart boundaries in order to succeed. Multiple cross-functional, cross-geographical initiatives or projects may be involved. In such circumstances the cause and effect of change, or lack of change, to control systems may be more difficult to diagnose than the above cases. This would be even more so if management is unaware of the need to be on the alert for such influences. At the current time, there are few, if any, accepted methodologies or tools

for identifying systemic effects caused by flaws in management control systems. Indeed, Daft and MacIntosh (1984) refer to the "poorly understood aspect[s] of organizational control: the nature and use of formal management control systems". *Prime facie,* it would appear that this poor understanding is shared by the organisations studied here.

In 1952 Argyris suggested that "in spite of this unquestioned progress [in development of control systems], there is more and more evidence that making the tool is a far easier task than learning how to use it." The issues uncovered in these case studies lend support to the continuing currency of this assertion. The evidence here suggests that control systems can be critical elements in realising intended strategy, and that they are not well understood. In particular, the evidence here suggests that,

1) control systems are an important factor that should not be ignored when planning for and undertaking strategic change

changed control systems may have impeded realisation of the intended strategy in two cases

unchanged control systems may have impeded realisation of the intended strategy in two other cases

it could be argued that in three of the cases the control systems appeared not only to impede but may have diverted the organization into an unintended strategic direction

2) control systems may not be well understood

unintended effects arising from operation of the control systems appear to have been mis-diagnosed in three out of the four cases

senior management appear to have got what they measured, monitored and rewarded (i.e. what got measured and rewarded got done) but the effects were neither what they predicted nor wanted

3) performance measurement and reward systems may be very significant motivators.

Senior managers appear to use the performance measurement and reward systems in a rudimentary manner. In general, they appear to understand that these systems can have a powerful motivational impact on their managers; that changing these systems can cause changes in managers behaviours and hence outcomes. However, they do not appear to understand the operating characteristics of the systems well enough to ensure that the resultant changes in behaviours will accord with their intent. Nor do they appear to understand the need to be on the alert for unintended outcomes. This can lead to inappropriate usage of the systems, and the mis-diagnosis of symptoms apparently arising from the operation of these systems.

Simons (1994) found that newly appointed chief executive officers utilise the formal

control systems, in particular performance measurement and reward, as one important tool to focus managers' attention on the changed priorities of organizations. Simons' study concentrates on CEO intentions, and does not report the results of such system changes.

In all of the cases reported here, management intended the measurement and reward systems to support their new intended strategy, but the systems did not. In the studies here it appears that alignment of the performance measurement and reward of managers with the business unit objectives may be poorly understood and operationalised. The evidence here suggests alignment failure influenced the lack of successful strategy implementation, thereby contributing to the strategy implementation gap.

Whilst suggestive, and corroborated by the informants, these four exploratory case studies cannot rule out alternative explanations for the failure to achieve business unit strategic objectives. In particular, the post-event perceptual recall of the informants may be selective and faulty. Although the secondary data appears to support their recollections it cannot eliminate this possibility. Much of the secondary data, such as memos and meeting minutes, also depended on the post-event perceptions of their authors and meeting attendees; albeit closer in time to the events occurrences. This points to the need for deeper independent contemporaneous and longitudinal studies in organisations.

Given that, (1) there is a lack of empirical studies into the practices of performance measurement and reward of managers (Bruns ed. 1992), (2) in practice, these systems appear to be very important elements in successful strategy implementation efforts and

(3) in practice, these systems appear to be poorly understood by practising managers, it would appear to support the need for in-depth exploratory case studies. In particular, independent contemporaneous studies would permit development of a clearer understanding of the highly complex relationships between the application of performance measurement and reward of managers and successful strategy implementation. Meaningful theoretical development may be hindered by the lack of such studies.

Chapters 5 and 6 contain the results of two contemporaneous, in-depth, exploratory studies.

Table 3 Case Studies 1 - 4 Organisation Data and Issues	1	2	3	4
Organization Information				
Type	Chain store	Financial services	Project design and manufacturing	Government agency
Ownership	Plc	Plc	Plc	Government
Group turnover greater than £2 billion	yes	yes	yes	yes
Group employs greater than 20,000 employees	yes	yes	yes	yes
Group in existence for greater than 10 years	yes	yes	yes	yes
Compensation system in existence for greater than 3 years	yes	yes	yes	yes
Issues suggested by Case studies				
Incomplete specification of measures of performance	yes	no	yes	yes
Unintended systemic effects upon behaviour	yes	yes	yes	yes
Strong stimulus exerted by 'reward' system	yes	yes	yes	yes
Reward system not aligned with business objectives	yes	yes	yes	yes
Changed control systems impeded achievement of objectives	yes	no	yes	no
Unchanged control systems impeded achievement of objectives	no	yes	no	yes
Senior management closely monitored results	yes	yes	yes	yes
Symptoms initially mis-diagnosed, systemic effects not identified	yes	yes	yes	yes

Table 4 - Case Studies 1 - 4 Summary of Findings

SUBJECT ORGANISATIONS ...	... changed control and/or reward systems *before* implementing strategic change.	... successfully aligned the performance measurement and reward of managers in business units with the business unit strategic objectives *before* implementing strategic change.	... correctly diagnosed symptoms arising from apparent flaws in performance measurement and reward systems.
Case 1 Large Stores Group	Yes - profit margin measurement and reward emphasised.	No - New measures failed to include a key element.	No - Incorrectly diagnosed as "customer resistance" and strategy abandonment considered.
Case 2 Insurance Group	Partial - added and emphasised additional element. Stronger counter-influencing elements unchanged.	No - New measures and rewards not accompanied by revision of existing counter-balancing measures/rewards.	No - Incorrectly diagnosed as "customer resistance" and strategy abandonment considered.
Case 3 Project Management Organisation	Yes - to emphasise labour utilisation.	No - New measures causing unintended erosion of core competencies. But performance measurement reports are indicating success.	No - Incorrectly diagnosed as a "cultural" problem.
Case 4 Government Agency	No - remained unchanged.	No - Human resources management system is contributing to development of "inflexible behaviours" in people - opposite of intentions. But performance measurement reports of system parts are indicating success.	No - Incorrectly diagnosed as a "cultural" problem and expensive culture change programme considered.

Chapter 5 Field Study - Government Agency

5.1 Overview

This chapter reports on the Government Agency (Agency) field study. It seeks to answer the questions,

1) Does the Agency organization, which is undertaking strategic change, seek to align the performance measurement and reward of its managers with the organisation's objectives? and

2) Does lack of alignment give rise to unintended effects?

Section 5.2 provides contextual information about the Agency's parent and the circumstances surrounding the Agency's creation.

Section 5.3 provides a brief description of the Agency organization's intended mission from the perspectives of the parent organisation and the Agency's senior management.

Section 5.4 considers the managers' expressed mental models of the purpose of the Agency. This reveals a number of discrepancies. The managers' expressed mental models are posited as a surrogate for at least a part of the culture, or informal belief system.

Section 5.5 describes the managerial performance measurement and reward system and is largely consistent with the Broderick/Milkovich codification (tables 6 & 7) with one major addition. The addition is an extension to cover the operational and incentive aspects and was designed by the author (tables 5,8 thru 11). In particular, integration with the strategic planning system, and the systems' "liveliness". The intent of the pay system as revealed in formal documentation is also reviewed.

Section 5.6 considers the relationship between the formal job descriptions and formal goals set under the management by objectives system. This reveals that the job descriptions do not appear to be formally related to the goal setting and appraisal processes and are behaviourally silent except when the issues of regrading or newly created positions are being considered. Although the process could facilitate an informal relationship between these, there is anecdotal evidence this does not happen in practice.

Section 5.7 considers the relationship between the strategic (i.e. 5 year) plans, the annual tactical plans, projects and initiatives and the operational reporting systems.

Section 5.8 considers the issues suggested by the short field studies in chapter four. Evidence of similar issues is found to exist within the Agency.

Section 5.9 discusses the findings in sections 5.2 through 5.8 and concludes that

1) the Agency organization, which is undertaking strategic change, does not appear to seek to align the performance measurement and reward of its managers with the organisation's objectives

and

2) this does appear to lead to unintended effects that are detrimental to the achievement of the organisation's objectives.

Consistent with Daft and McIntosh (1984), there was no evidence of any systematic effort at coordinating the various internal control systems; neither within the Agency nor across the group of which it formed a part. By way of contrast with their model, it was observed that the financial control system acts as an overall limiter on aggregate spend levels rather than as a direct influence on other operational aspects of the functional departments within the Agency. This is consistent with the findings of the Euske et al (1992) study of manufacturing plants.

5.2 Agency and Parent Organization

Table 5 contains summary details of the Agency and its parent organisation. The type of services supplied by the Agency had been supplied by the government to large numbers of the adult population for more than 50 years. The immediate forerunner to this government agency had been established as a distinct and separate entity within a government department in the mid-1980s to execute British government policy in relation

to a specific range of services that were delivered to more than one million members of the general public. These services were delivered by more than 20,000 employees located in 2,000+ offices located throughout the British Isles.

In the late 1980s the Thatcher administration introduced the concept of Next Steps Agencies. Their purpose was "to bring about more sustained pressure for improving the delivery of services to the public and to ministers and for achieving better value for money." (Efficiency Unit 1991). The essential theme was "to create much more scope for individual managers to exercise personal responsibility and to account for their actions." This was to be achieved by breaking up departments into distinct and separate elements or groupings that were then categorised as agencies.

Individual agencies contracted annually with the relevant minister and the Treasury to deliver services to agreed quantity and quality criterion in return for a negotiated level of funding; quantitative output targets predominated. The management of the individual agencies were to be given high degrees of freedom both in the way in which they structured and managed their organisations, and delivered the agreed services. This included freedom to change performance measurement and reward systems, with Treasury approval. In this instance Treasury's role was analogous to that of corporate departments at head offices which this researcher had observed within large business organisations. Improvement in delivery of services was expected to arise from agencies becoming more 'customer led' than in their previous organisational forms (for example see Duffy 1990).

For the agency forming the subject of this study, the publics served and services delivered were not materially changed upon becoming an agency.

Similar to the cases in chapter 4, the group, in this case the government department, had specialist, long-established human resources management functions at corporate, regional (divisional), and, in some instances, at local unit level. Systems of goal setting and appraisal of managers had been in existence for more than three years; long enough for learning curve benefits to have accumulated and, in particular, for managers to be fully familiar with their operation (Otley 1992).

Hahn and Matthews (1964) refer to the learning curve as follows "The hypothesis is that improvements in technique do not become available from the passage of time as such, but by familiarity with the problems involved. Learning is the product of experience." The performance measurement and reward issues highlighted below raise, like the cases in chapter 4, questions of what learning actually takes place and where it is accumulated.

This study was undertaken three months after the organisation achieved Agency status.

5.3 Agency Mission

The Agency issued a copy of its mission statement to all managers at the time it became an agency. In essence, the mission was to provide assistance to adult members of the general public requiring its services and, where necessary, to broaden and develop the

agencies scope in response to new policies and programmes introduced by government ministers. The critical element was its emphasis on providing services (assistance) to those people that required it. The mission statement was vague enough to accommodate the four articulations of mission found within the organization and discussed below.

The board perceived Agency status as necessitating a change in their dominant organizational model from administrative to managerial. They defined administration as being concerned with precision in the following of rules and managerial with optimising returns on resources employed. This was intended to be a major paradigm shift that would ultimately impact on every area in the organization.

5.4 Agency Managers' Mental Models of the Agency

Some 300 or so managers from all parts of the UK attended a three day off-site conference at a hotel in the country where the agency's executive board elaborated upon the mission statement and sought to clarify what the agency's published mission and new status meant in practice. This was led by the Agency's Chief Executive who many of the respondents said was a "charismatic leader". A typical comment being "The troops would follow him anywhere." This study commenced less than three months later.

During the conference, the board emphasised the theme of managerial freedoms. This was consistent with the government's theme of "..creating much more scope for individual managers to exercise personal responsibility and to account for their actions" (Efficiency Unit 1991). Managers appear to have taken this literally. Less than three

months later the board advised managers that this "did not mean they had carte blanche to jettison the existing rules". The internal rules and controls had not been changed to match with the desired internal environment. One result of the board action was to demotivate some managers who had been in favour of change. A typical quote, in this case from a manager reporting to a board member, was "First they tell us to increase efficiency by using initiative and we're not to be bound by the rule book. Next thing they tell us is to follow the rules. Nothing has really changed. I'll stick with the rule book. Then if anything goes wrong they'll [the board] will have to support me."

When asked what the organisation's mission was, 67 of the 70 managers (appendix 6) interviewed, most of whom had attended the three day conference, reached for the published mission statement sitting on their bookshelves. When asked how often they read this, they admitted to having given it a cursory glance before consigning it to the bookshelves. Typical of responses was "If I read all the junk that passes through this office I would never get any work done. As long as I get my work done nobody will care whether I read the mission statement or not. Anyway, even if I did read it I can't do anything with it". Only one manager admitted to reading it thoroughly recently; "I read it from cover to cover and studied every page, every paragraph. It was real hard going. I had a promotion panel interview [panel assessing his capability for promotion] coming up and thought I'd better mug up on it just in case they asked me some questions. They didn't, so it was a waste of time." If this is typical of managerial behaviour in large organisations generally, it brings into question the efficacy of CEOs' strenuous efforts, as observed by Simons (1994), to lead change by rewriting and disseminating new mission statements.

However, it was possible that managers' articulations of the organization's mission might be consistent with the published documents and/or with each other. Analysis of the managers responses during the interviews revealed four different and distinct articulations of mission. These were,

delivery of services to assist disadvantaged people overcome obstacles to their progress. This had a caring connotation attached to it.

delivery of services to force people to take action to improve. This had a flavour of "big brother", policing or coercion to it.

delivery of services not only to the people using the agency's services directly but also to other organisations that could speed up the process through a demand pull function. This demanded that liaison, selling and other such activities be employed.

directing the agency's users to other government agencies or departments for special assistance. This removed responsibility from the Agency.

There was no evidence of hierarchical, functional or geographic bias towards any one of the four articulations. This is counter intuitive. It might have been expected that at least the top tier, i.e. the extended executive board, would have achieved a consensus on the organization's mission. The extended board meets monthly to review operational results

against targets and progress on long- and short-term projects. They also function as an internal policy making body for most issues.

All of the agency's 2,000 offices have almost exactly the same decor. The corporate personnel manager paraphrased a statement made about Holiday Inn Hotels when he said "I travel around a lot. I might visit 15 or more offices in several different towns in one week during a really busy period, like when a new policy is being introduced. They all look the same, I swear that even the people begin to look like clones. Sometimes I forget which office and which town I am in. They're so similar I get ****** [disoriented]. I bet if I took one of our customers from Newcastle and sat him in the Bristol office he couldn't tell the difference until they opened their mouths [by their local dialect and accent]." There is a strong similarity in appearance of the individual offices. The programmes they deliver are dictated by head office and there is limited formal authority to amend these locally. Despite these forces for conformity and homogeneity there is strong anecdotal evidence that individual offices are strongly biased more towards one of the four "mission statements" than the others.

In addition to the interview data, the author had the opportunity to run seven critical success factor (CSF) workshops for the Agency. Around 70 managers drawn from multiple hierarchical levels and geographic locations attended. In response to an open question seeking to ascertain the mission of the organization, the above four were identified by participants in all sessions. Typical of comments received were "We kick butt to get the ******* [people using the service] to move." "We work closely with local and national companies to create the right climate." "They can't help themselves,

so we have to carry them [people using the service] and repair them as best we can until they're able to start up again." Interview respondents and workshop members appeared to have little difficulty in placing their office - be it a corporate head office function, regional or local office - into one of the four categories.

During reviews of the findings of the present research, several long serving senior managers said they were not totally surprised by the findings and believed they could identify the sources. Each of the four "missions" could be identified to a particular government minister or significant period in the organisations history during the last 25 years. In effect, the organisation had assimilated at least four missions. The relatively current (three months old) "sales" pitch at the three day off-site conference by the charismatic leader and his team, and the mass of documentation accompanying this, had failed to alter or align the managers' mental models of the organisation's mission. This raises questions about the efficacy of propositions that CEOs change interventions should be led by changing and promulgating the mission statement. As will be observed below, the performance measurement and reward system did not communicate the new mission. It would appear that new mission statements may either take a long time to be absorbed by organizations or fail to be totally absorbed in the absence of changes to other internal systems.

5.5 Managerial Performance Measurement and Reward System, and the Strategic Planning System

This section describes the managerial performance measurement and reward system in a manner consistent with the Broderick/Milkovich codification with major extensions. The extensions covers operational and incentive aspects. In particular, integration with the strategic planning system, and the systems' "liveliness". The intent of the pay system as revealed in formal documentation is also reviewed.

Tables 6 and 7 contain an analysis of the factors revealed by the literature as being important elements of pay system design, which is part of the formal reward system, and is consistent with the Broderick/Milkovich codification. The tables' contents are reviewed in the remainder of this section. The overall pay system design was unchanged from that previously mandated by the Group.

Most staff at all grades, including managerial, belong to a trades union. The Chief Executive is a member of a trades union.

Pay Structure - how jobs are evaluated

The pay scale for managers is termed a pay spine. It is split into a 8 managerial grades with significant overlaps between the salary levels on any two adjacent grades. Each grade has associated with it different levels of benefit entitlement including number of days holiday, pensions and other entitlements. However, the monetary value of moving between grades can be small or even negative where a large amount of paid overtime was worked at the lower grade. Normally, improvement in grade is accompanied by increased rewards.

An individual's allocation into a specific grade is based on the number of points scored under the job evaluation procedure. Job evaluation is the process of determining the relative worth of jobs to the organization as the basis for the payment of differential wages and salaries (Smith 1991). The procedure's event sequence is as follows, a job description is created and agreed between the job holder and his/her manager. It is then approved by the manager's immediate superior and submitted to a job evaluation committee which evaluates the job, based on a points system similar to the well known Hay system (Armstrong and Murlis 1994).

There are three dominant point scoring criteria i.e. staff responsibility (how many people the manager is responsible for), budget responsibility (amount of capital, revenue and/or expenditure responsible for), and specialist technical expertise. The first two categories are particularly strong in placing individuals within the managerial grades. The last category was introduced to enable retention of scarce technical staff in areas such as IT without the necessity of them having to become managers. Prior to this "good technical staff became poor managers" in order to pay them salaries that were competitive with the external market.

A job evaluation committee, comprising representatives from management and the unions, allocates the individual job to a particular grade. The Chief Executive does not over-rule grade allocation decisions of the committee.

Job descriptions are reviewed annually along with an individual's performance appraisal. The job holder or his manager can tender amendments to the job description for changes

in responsibilities that have occurred in the past year or that are to take place in the year ahead. Normally, it is left to the job holder to take the lead in seeking amendments to the job description. At the time of the Agency's creation there had been little alteration to most job descriptions during the previous three years. The exceptions being for new managerial posts resulting from the creation of the Agency, such as in finance and accounting. There was no evidence that allowing job holders to initiate the job description change process led to grading drift. Job descriptions appear to be good indicators of what a job holder's focus was intended to be, or of the current content of any specific job.

Most respondents at all levels in the managerial hierarchy expressed satisfaction with the operation of the grading system and several identified particular instances as illustrating the "fairness" with which it operated. The presence of employee representatives, from their trade union, on the grading committee may account for this. There was however a widespread belief that managers in a small number of unspecified problem offices should be graded higher or otherwise paid extra for the additional effort required and hardship involved. Unfortunately, no-one could adequately define what a problem office was. One regional director in exasperation said "I guess it is what I say it is. An office is a problem office if I say it is a problem office."

Some respondents specifically identified offices in less desirable areas of the country. By way of example, Brixton was regularly quoted, even by individuals who had never visited the office. It appeared to be an accepted mythology within the organization in general. However, this view was not held by the manageress of the Brixton office. She

stated that neither improved grading nor more pay was desired. The regular and varied challenges in managing such an office was a reward in itself. In her opinion, the main drawback of managing a "problem" office was lack of time to attend courses and study for the promotion exams. These formed an essential stage in opening future promotion opportunities.

Some managers expressed the opinion that the Group was strongly hierarchical and grade is associated with status. They suggested that managers in other parts of the Group, and perhaps some within the Agency, would be reluctant to, and in some cases would not, communicate with managers on lower gradings. Therefore, improved grading remained an attractive reward for some managers with high recognition needs even in the absence of increased pay to accompany it.

The divisional personnel director confirmed that promotions to fill vacancies at a higher grade are very rarely considered for personnel more than one grade below. In addition, vacant posts are only accessible to those having passed the necessary written promotion exams and the promotion board interview. This suggests the Brixton manageress's observations of the hidden reward element of time to study for these was well grounded in observed practice.

Pay Structure - skill requirements - specific or general

This seeks to answer the question of whether an organization is attempting to attract and keep people with specialised job knowledge or skills, or people with a more generalized skill base.

The overall design features of the pay system at the time of the study followed that previously mandated by the Group. There were special grading structures for management and scarce technical personnel such as found in the Information Systems area. This was intended to recognise the different skill requirements of these two groups. Hence the overall system design attempted to attract and retain a mixture of specific and generalist skills. It was possible to move between technical and managerial grades. This researcher has observed other companies where rigid application of reward policies led to people with above average technical skills being appointed managers in order to pay sufficient levels of salary to retain them. Unfortunately, in many instances this turned good technical people into bad managers. The parallel technical and managerial gradings were designed largely to eliminate this.

In common with many government departments, the Agency prefers to recruit at a low level and grow its own managers. Movement between functions is commonplace and encouraged. Many of the managers within the Agency were long servers i.e. had been employed by the Agency for more than 15 years.

In summary, the pay structure seems to have largely achieved the goal of recruiting at a low level in the hierarchy and of retaining the required level of technical and managerial skills as employees progress into higher level managerial posts.

Pay Structure - skill acquisition

When a managerial vacancy occurs in the Agency, the managerial pay structure does not play a direct role in filling such a vacancy. It is not designed to attract an inflow of managers from external organisations. It is part of a system designed to recruit at low levels in the hierarchy, train, develop, and then promote from within.

Managerial vacancies are firstly filled from those available from the civil service "pool". This comprises individuals, from within all of the government departments, who are either currently at the vacancy grade and available for redeployment or have passed the necessary promotion exams and promotion boards and are awaiting a promoted post. A short list is presented for interviewing by the Agency.

The pay structure fitted the widely articulated belief system that managers should possess general skills that enable them to manage a wide range of functions and activities. There has been some erosion of this stance in cases where it is acknowledged that specific technical skills are required in order to fulfil the manager's responsibilities. However, it was observed that all the Agency's most senior managers in charge of large technical departments such as IT had come from this generalist background.

Where the pool does not provide suitable candidates the job is advertised internally and candidates who formally apply and meet the base criteria have their capabilities independently assessed against the job characteristics. A short-list of candidates is

interviewed by the relevant Agency managers and a choice made. If no suitable applicants are found then the job is then advertised externally.

At the time of this study, consideration was being given to advertising all vacancies internally on a competitive basis as part of the newly acquired managerial freedoms. Hence bypassing the "pool".

In practice, the majority of managerial jobs appear to be filled from inside the Group, most from inside the Agency. For the most senior levels, promotion appeared to rely more heavily on both internal and external political influences.

At Agency Chief Executive level and one level below, the vacancies are rarely advertised. Appointments are normally made by the minister on the recommendation of senior civil servants. The expectation that the most senior posts will be filled on a non-competitive basis is reported by managers as having encouraged extensive personal networking within and across government agencies and departments.

Pay Level - policy and practice

Although government policy is said to dictate pay levels within the Agency, the author was advised in writing by Treasury personnel that recent studies had found no evidence of any systematic over or underpayment of staff, including managers and scarce technical personnel, versus market rates in general. This may, in part, explain the low turnover and long service of managers within the Agency. However, it is possible that these

studies were serendipitous in their timing. Longitudinal data would be required before any systematic bias over time can be detected.

Pay Mix

In general, base salary and benefits levels of managers within the Agency were in line with market rates at the time this research was undertaken. Benefits include such things as paid holiday entitlements, sick leave, pension schemes and so on. It is extremely unusual in the United Kingdom for reward systems of managers or others to be solely monetary based.

Pay Incentives

Incentive schemes are involved in the exercise of determining people's worth in terms of their performance in the job (Smith 1991). Performance related pay incentives at the Agency come in the form of merit increases and cash bonuses which are made once per annum following appraisal reviews at the year end. The criteria for awards is the level of individual achievement. As explained below, the way in which the scheme operates renders the merit increase element largely ineffective as a motivator.

In the late 1980s the Group decided to introduce a performance related pay system. This was accompanied inter alia by a new grading structure for managers that reduced the

number of grades and widened both the salary band for each grade and the degree of overlap with adjacent grades. There were a number of steps within any one band.

The new system had two key incentive elements, a merit increase element and a cash bonus element. Merit increases are permanent increases to base salary level that are contingent upon levels of "achievement". Once granted, merit increases no longer have a motivating effect for the period ahead. Award levels were based on performance achievement.

Performance was assessed by the individual's manager at their annual appraisal meeting and then approved by the manager's superior. It was assessed based on seven criteria, each of which had equal weighting. Only one of these related to meeting performance goals and objectives that had been set at the last annual appraisal meeting. Most criteria related to qualitative judgements about the job holder's personal skills or attributes. It is unsurprising that these criteria were similar to those examined or assessed for promotion purposes.

The Agency has a so called "box scoring" system. Essentially it has three classes; excellent, meets standard and falls below standard. Excellent leads to an immediate merit award. It was noted that in three years of operation, very few people obtained excellent ratings. "Meeting standard" for three years running leads to a merit increase. Most people were categorised as meets standard. Consistent with the literature on performance appraisal, very few people were given 'fails to meet standard' ratings.

Given the nature of the weighting in the scoring system it is possible for an individual to fail to meet any performance goals set in agreement with their manager and yet still achieve a meets standard rating overall. In practice, three years of failing to meet any personal performance goals can, and does, still trigger merit awards payable from year four onwards.

Managers expressed awareness of "the near impossibility of achieving excellent ratings. Even if I walked on water they wouldn't give me one." There was therefore a low motivational stimulus to put forth extraordinary effort in pursuit of an excellent rating.

In this instance the merit scheme is not an incentive towards higher levels of performance but is a recipe for upwards wage drift.

The government allowed the Agency to spend 1% (one percent) of its wage bill on cash bonuses. The regional directors were given discretion in how to apply this. In some regions the decision was taken that overall results depended on a team effort and everyone was given the one percent. In another region the amount was considered so low that no cash bonus was given. In yet another region the regional director decided to pay a cash bonus only to the comparatively small number of staff who had not joined in a widespread strike action. This led to further difficulties and a new executive board policy that bonuses should not be applied in this way in future.

The pay system literature suggests that the minimum level of incentives required to provide a sufficient stimulus to motivate individuals towards goal achievement lies in the

region of 10% to 15% (Lawler 1990, Moss Kanter 1989). The amounts involved here are insufficient to provide any strong motivational stimulus towards meeting or exceeding agreed goals.

The Milkovich/Broderick codification highlights the existence and some features of incentive schemes but does not identify the success or failure of the schemes operation in practice. In part, this weakness is due to the use of single level survey data from heads of personnel functions. It can be overcome by greater in-depth data collection as used in the present research.

Goal setting and supervisory influence are addressed below.

Administration - Pay Communication

The literature suggests that the way in which information about pay schemes is communicated is important. Some writers suggest that if information about pay scales and/or performance related bonuses is very restricted it removes some of the motivators (Lawler 1990). They suggest that an individual may gain some level of positive intrinsic motivation from achievement of goals and high grades, but the individual would also be denied the extrinsic motivators i.e. the feelings of esteem or prestige that arise from others being in a position to acknowledge this. Also, other managers will not be motivated to emulate desired behaviours if they are unaware that these are being rewarded. It is suggested that to have a positive motivational value information about

pay scales and bonuses should be disseminated through a wide range of communication channels.

By way of contrast, some writers suggest an opposite point of view i.e. that publication of the names of managers achieving high bonuses can lead to withdrawal of cooperation and assistance from other managers who did not receive such large bonuses. Further research is required.

At the Agency, salary scale data and information on how the incentive schemes operate is disseminated to all employees via company handbooks. The only other channel of communication used was via an individual's manager as part of appraisal. Therefore, few channels of communication were used.

As explained above, the key area of interest to employees appeared to be which grade an individual holds and that appeared to be related as much to questions of self-esteem as to monetary compensation. The variable elements of pay were not be significant enough, at the time the research was conducted, for their communication to act as a motivator for others.

Pay Centralization

Some writers suggest that high levels of employee involvement in setting pay policies, particularly in relation to key elements of the pay policy, can have a positive impact on its acceptance (Lawler 1986). This is consistent with equity theory. Agency managers

are highly unionised and the unions negotiate on their behalf with the company in relation to pay policy issues except those related to individual goal setting. In practice, goal setting is largely between manager and subordinate.

The level of involvement by Agency employees could be said to be low - individual managers have little opportunity to influence policy decisions related to their individual pay terms and conditions, or high - the unions to which the managers belong have, in theory, significant ability to influence policy decisions, dependent upon an individual's point of view. Broderick asked personnel department heads to place their organisations on a five point Likert scale between high to low involvement. It is possible that in the absence of additional information survey responses to their questionnaire could be inconsistent and misleading.

Pay Formalization

Some writers suggest that high degrees of pay formalization in the form of rules and procedures create obstacles to achieving the flexibility of behaviour required when undertaking change. The Agency pay scheme was highly formalized with rules and procedures, supported by forms to be completed that covered issues from job descriptions and evaluation through to goal setting and appraisals.

A large part of the rules and procedures in the Agency are geared towards achieving equitable treatment of individuals e.g. an independent grading committee to establish the

grade of individuals. As such they should reinforce confidence in the operation of the system.

In addition, the goal setting mechanism could be used to communicate the flexibility required of relevant managers during change. A review of the goals set and communicated is addressed below.

Pay Standardisation

Some writers suggest that different pay policies are required for different parts of organizations. The usual examples given relate to the different needs of selling versus research and development. However, little is known about what happens at the various managerial levels, horizontally and vertically, in organizations.

It could be argued that a uniform pay policy would provide equitable treatment between managers and hence receive greater acceptance. The agency operates a uniform pay policy for managers below director level. The existing pay policy has high acceptance with more than 95% of managers interviewed expressing satisfaction with the policy and its operation.

Liveliness of Documentation

Goal setting combined with supervisory presence to ensure goal commitment has been highlighted in the literature as being associated with high levels of performance, with or

without performance related incentives (Locke and Latham 1984). The examples given in the literature relate to the supervision of physical activities such as log cutting where the results can be readily observed and quantified. The nature of much managerial work demands a scale of freedom of action and timescale for achievement that renders similar direct physical observations on an hour-by-hour or day-to-day basis infeasible. Therefore, a surrogate for supervisory presence is required.

This section on liveliness of documentation describes the goal setting and appraisal process, and uses liveliness of documentation[9] as a surrogate for supervisor presence to ensure goal commitment. Regular reviews of progress towards goals and objectives, both those highlighted by incentives and others unincentivised but still forming part of the manager's job, could act as a surrogate for supervisory presence as defined in previous studies.

Liveliness of Documentation - job descriptions

Within the Agency, job descriptions are referred to by individual managers infrequently but are updated annually when appraisals take place, or when grading, promotion or disciplinary issues arise.

The updating can be initiated by the manager or subordinate but it is usually the subordinate who takes the lead. The updating most often takes account of changes in the

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[9]Liveliness of documentation refers to the number of times the documentation is normally referred to. For example, a document that is referred to monthly is deemed to be more lively than one referred to annually.

job since the last annual update. Occasionally it takes account of changes to be introduced in the year ahead. There is no evidence to suggest that there is any formal link between the job description update and the personal targets set for the year ahead. This contrasts with Locke and Latham's (1984) prescription that up to date job descriptions form a sound base for goal setting.

The use of job descriptions to align the changing authorities and responsibilities of all managers does not appear to be used within Agency. This is consistent with this researcher's unsystematic observations in other organisations.

There was no evidence of any formal or informal attempt to align the content of the various job descriptions with each other, the department or function objectives, or the organisation's objectives.

Liveliness of Documentation - performance appraisals

Performance appraisal reviews are conducted annually at the end of the Agency's financial year. The purpose is to agree the overall level of performance of individuals, and hence determine their merit award and perhaps a cash bonus. This results in one of three scores i.e. excellent, meets standard or falls below standard. These may trigger payment of a cash bonus (usually very small) or merit increase (see above). A mixture of both qualitative and quantitative achievement is considered.

There was no evidence of systematic formal or informal reviews of progress towards target achievement during the year. Given that meeting targets forms such a small element of the overall annual performance assessment it is not in the interests of the subordinate or the manager to devote substantial on-going effort to this and hence the finding is not surprising.

This does not mean that major initiatives or projects under the responsibility of individual managers are not reviewed regularly. Progress on major projects or initiatives is reviewed at least monthly at departmental and/or executive board meetings. However, these are progress reviews and generally not related back to the performance of individual managers in achieving their targets.

The corporate personnel head observed that most managers within the Agency scored 'meets standard' (the equivalent of scoring average in other bonus schemes) in their appraisals. This is consistent with the results of other research on supervisor appraised incentive schemes (e.g. Medoff and Abraham 1980, Mohrman, Resnick-West and Lawler 1989) i.e. that most personnel tend to receive scores of average or higher because, except in the case of personnel where disciplinary action is being considered, it is not in the manager's personal interest to give a below average score (Moss Kanter 1989).

Liveliness of Documentation - goal agreement and review

Individual targets should be agreed in the fourth quarter of the year preceding the budget year. In practice goal setting and appraisal straddles the commencement of the new year.

This behaviour is another example of hinge behaviour in the absence of robust controls to ensure their application.

A "grandfather", "father", "son" system is in operation. The "son" is the subordinate being assessed or agreeing personal goals for the year. The "father" is his boss. The "grandfather" is the boss's boss. Father and son agree the son's performance targets for the year ahead. Grandfather approves the targets that have been set. In theory, the grandfather can act as arbiter when father and son disagree but no instances of this were drawn to the author's attention. Given the grandfather's approval role it would be possible to ensure alignment of individual's goals downward through the organisation, at least to follow reporting lines. This did not occur and possible explanations included,

> target setting is not always contemporaneous. Father and son may have agreed targets long before grandfather and father agree their's, in some cases months before. Environmental or other changes may have dictated the need for different targets. However, this does not lead to a revision of the sons' targets.
>
> performance targets form a small proportion of any individual's final overall assessment and this leads to giving them cursory attention during appraisals and target setting. To quote one manager, "Here's how the appraisal system works. Your a nice guy. You write pretty. You talk pretty. You network with the right people. You passed the promotion exams. OK so you failed to meet your personal performance targets. Never mind, that's only one small part out of the seven criterion so you've passed. Overall assessment "meets standard" and is

promotable." This is a simplified view of the process but was typical of comments from several other managers.

since most people expect to receive an assessment of 'meets standard' there is little incentive for the subordinate to devote much energy to this.

progress reviews of performance against goals is not carried out between appraisals unless disciplinary action, promotion or a new post is being considered.

There are few multi-year goals. In the main these cover a large £100+ million IT project and some rolling refurbishment programmes.

There was no evidence of goal co-ordination either vertically or horizontally within the managerial hierarchy.

There was evidence that goal communication, co-ordination and implementation appears poor. First, several managers of offices which directly delivered services to the public made the following type of comments, always on the basis that "you won't tell who told you". One manager pointed to a pile of documents that this researcher measured as approximately thirty-two inches in height. This was identified as paperwork relating to new internal initiatives and projects, unrelated to new services and programmes to be offered to "the client's" [general public], during the previous five or six months i.e. approximately three months before and after becoming an agency. "B******* [a general term covering regional and head office managers] don't know what they are doing.

That's why they are trying lots and lots of things and hoping something sticks. We haven't the time to read this lot let alone apply it. We know what's most important by who shouts the loudest the longest. But the b******* have twigged we don't read and action this. Now they run dog and pony shows [call managers to off-site meetings of a half day or longer duration where senior managers explain the initiative they are introducing]. This means we get even further behind with our work. Whatever we do we're bound to fail on something. Many of us take work home and work twelve hour days and it's not enough to cope, without [having to attend to] this rubbish because the b******* can't figure out what to do. Some senior managers say we have an attitude problem. There's no winning." This is consistent with the employee climate survey that showed that managers of these offices were generally demotivated. Interestingly, the same managers talked of the Chief Executive as "charismatic" and a "good man", and attributed their difficulties to the other members of the board.

Second, in all seven of the critical success factor (CSF) workshops the need for co-ordination/integration of initiatives and projects was placed within the top three CSFs. Managers insisted this would significantly improve the organization's performance; more so even than the £100+ million IT project that they did not include in the top ten CSFs.

It can be argued that a key management task is the co-ordination and control of initiatives and new projects, particularly those requiring cross-functional or cross-geographical cooperation in order to succeed. This researcher's unsystematic observations of many organizations suggests that few, if any, co-ordinate well their functionally driven initiatives that depend on cross-functional cooperation for their successful implementation.

The system for setting managers' goals is not used to overcome this within this organization. The performance measurement and reward system appears to play no part in aligning managers efforts.

The goal agreement and review process facilitates deliberate or accidental hinge player behaviours. This was clearly happening at several levels within the organization. Most often articulated were those of neglecting to act due to current local operational priorities.

5.6 Relationship Between Formal Job Descriptions and Management By Objectives.

There was no formal relationship between the job description and the goals highlighted under the management by objectives. Anecdotal evidence suggests that there was also no informal relationship (see earlier discussion of job descriptions). There was no evidence that management by objectives per se led to any regular updating of job descriptions, even though they occurred at the same appraisal meeting. During the year, managers rarely referred to job descriptions other than when pursuing regrading or disciplinary matters.

5.7 Relationship Amongst Strategic (5 year) Plans, Annual Plans, Projects and Initiatives, the Operational Reporting System and the Performance Measurement and Reward System for Managers

Long-term plans were few. They were largely concerned with the IT requirements of the organization. There was no formal, and no apparent informal, attempt to identify the

critical success factors (CSFs) or their equivalent associated with the organization's strategy. The monthly performance monitoring system did not track CSFs or their equivalent.

It is interesting to note that in Simons (1994) study he noted that new CEOs did not monitor their organization's progress towards achievement of critical success factors. Unfortunately, he does not provide sufficient information to ascertain if this was because they also did not systematically identify the critical success factors. It is possible that in the early stages of undertaking strategic change CEOs think only in terms of general strategic thrusts and that systematic articulation or identification of CSFs comes later.

Simons provides no guide as to the use of CSF identification by longer-established CEOs. The Chief Executive of the Agency had been it's head for several years prior to Agency status.

The top ten CSFs identified at the workshops were reasonably consistent across all seven workshops. The long-term plans, annual plans, projects and initiatives, the operational reporting system and the performance measurement and reward system for managers did not focus upon these.

The key annual plan is the financial budget. This is prepared in almost complete isolation from any other planning within the organisation. The budget is driven from the funding and output targets negotiated with the minister and Treasury. Within the limits of these expenditure constraints, individual departments have freedom on how the

resources under their command are utilised. There was no evidence of critical success factors, or their equivalent, nor cross-functional coordination as drivers in the setting of the annual budget.

Financial and output budgets (e.g. number of members of the public successfully assisted by various classes) are established for head office departments and the regions. Generally, the regional directors chose not to pass the output targets to lower levels in their organizations. To quote one regional director "Why bother to pretend that the output targets can be allocated to the individual offices. They can't do anything to stimulate the demand for their services. They respond to changes in demand. Either people need their services or they don't. A lot of this comes unexpectedly. They can't meet the targets if demand is too different from the budget assumptions, which it always is. Staffing, which is a high proportion of our costs, can't be changed much in the short-term."

Agency regions and departments undertake projects or initiatives during the year. These tend to be aimed at improving effectiveness of their function. By way of example, an accounting department initiative may be the introduction of a new costing system to improve cost control. These initiatives were not directly related to the scant longer term plan nor the budget. Equally surprisingly, neither did they appear to be directly related to the management by objectives goals under the performance measurement and reward system for managers. Some of them were reported regularly at monthly executive board review meetings.

An initial review of these findings with one of the executive directors resulted in this response "I'm sure you're right but it looks awfully complicated. Long-term plans related to the mission; strategy and CSFs to support the mission; initiatives and managers' targets related to CSFs. It sounds complex and hard work. I don't think we do things like that here. [the emphasis made it sound like the Agency's managers were not the sort of people that would undertake complex management tasks]. It's a culture thing really."

Having been reviewed by several senior managers, and at the workshops, the findings were then presented to a full meeting of the executive board and accepted. At a subsequent meeting with the Deputy Chief Executive, he advised that the findings were instrumental in,

delaying by several years the introduction of a pay-for-performance scheme for managers that would have greater levels of incentive, until goal setting training was undertaken and a new appraisal system designed inter alia to increase the weighting of goal achievement

actions to clarify the mission statement

actions to define and promulgate the organizations CSFs

new projects and initiatives being reviewed for approval against their contribution to the CSFs

managers being taught goal setting, and new goal setting mechanisms being introduced to carry CSFs and operational goals downwards into the organization.

5.8 Evidence of Issues Found in Chapter 4

Most of the issues found in the short field studies appeared to be repeated in the Agency (table 10). One in particular requires further explanation.

Strong Stimulus Exerted by Reward System

The most desirable reward, financially and status wise, for managers in the Agency is promotion. This is achieved by passing promotion exams and promotion board interviews, and networking, but not from success in meeting goals and objectives relating to the manager's current post. This is reflected in the appraisal system and managers apparent cavalier attitude to the targets set for them.

5.9 Discussion

The board expressed pride in the range of initiatives or projects being undertaken to improve performance. They viewed them as a sensible approach to developing the Agency. One of the programmes was titled the Change Management Programme. According to the board it's purpose was to co-ordinate the various initiatives underway. The board expressed confidence in the team responsible for this, and of the programme's

success. Had the present research stopped at this level of analysis it would not have uncovered the strongly contrasting views of lower level managers.

Many lower level managers who were critical to the success of the change efforts, viewed the change efforts as chaotic and a sign that the board was not in control and was grasping at straws. A very different view from that of the board. This was clearly revealed in the CSF workshops where the top five CSFs included,

clear mission statement - need for clear understanding of the Agency's objectives by all levels of management

clear roles and responsibilities - 1) new internal policies, procedures and practices required, clearly setting out what managerial freedoms mean at all levels in the organization, and 2) to assist in making sense of the apparently conflicting requests made by various groups inside the Agency

co-ordination of change management efforts - to eliminate the chaos being caused by the attempt to simultaneously implement multiple initiatives/projects that require cross-disciplinary effort to succeed.

Although the board had a Change Management Programme, it had also approved several other major initiatives that required cross-disciplinary cooperation to succeed but were run on a functionally managed basis and were outwith the scope of the programme. The existing performance measurement and reward systems could have contributed

significantly to the achievement of these CSFs. This would not have required major changes to the performance measurement and reward systems but would have entailed operating them differently. The issue here appears to be more one of process than of content.

The Agency, which was currently undertaking strategic change, did not seek to align the performance measurement and reward of its managers with the organisations objectives. The lack of alignment gave rise to unintended effects.

The Agency did not make formal alignment attempts in at least four key areas (table 11). First, there was no attempt at aligning the strategic objectives and the performance measurement and reward systems for managers. The performance measurement and reward systems for managers were heavily weighted in favour of development of the personal characteristics of the managers rather than success at the organization level.

Second and third, there was no formal, nor apparent informal, systematic identification of the organization's CSFs (whether by this name or another) and hence no monitoring of these. Given that CSFs are the things the organization must get right in order to succeed, this was surprising but consistent with Simons (1994) findings. Fourth, the performance measurement and reward systems did not emphasise the organization's priorities.

The organization was used to rapidly implementing new programmes that were either devised by ministers or arose at their request. The ability and willingness to react within

a short timescale was of higher importance than the efficiency with which this was executed. In any case, resource distribution to deliver these programmes was largely determined according to various rules and formulae.

The system for setting managers' goals was consistent with the previous organizational requirements. Development of individuals was the prime consideration. The change towards a prime target of strategy delivery makes the existing objective setting and appraisal systems appear woolly and causes the need to reorient the objective setting process.

Given the board's responses to the findings it is apparent that the question of thinking in terms of CSFs and alignment of performance measures and strategic objectives was not hitherto part of their vocabulary. Once they became aware of this they took appropriate actions to change the position. The issue appears to have been one of lack of knowledge. This raises the question of whether this only occurs in government agencies or is a more wide spread phenomena. Do managers in organisations understand the need for alignment of the various systems? and if so, what actions do they take to ensure this occurs?

There was evidence of hinge player activity at several levels in the organisation. For example, the regional directors who chose not to pass targets down into their parts of the organisation, and the office managers who chose to ignore directions from head office until forced into action by those who shouted loudest and longest. This contradicts the "trickle down" theory of the school of thought which suggests that if the Chief

Executive's measures are correct then what is wanted will get done i.e. the "what gets measured gets done school" uses a somewhat simplified model of managerial behaviour in large organisations.

The grandfather, father, son system, combined with formal alignment and monitoring of goals down through the organisation, has the potential to reduce the opportunities for hinge player activities. The existing systems could function in such a manner. There appears to be a process rather than a content issue.

Table 5 Agency - Organisation Data	Agency
Ownership	Government
Group turnover greater than £2 billion	yes
Group employs greater than 20,000 employees	yes
Group in existence more than 10 years	yes
Compensation system in existence for more than 3 years	yes
SBU	
Turnover greater than £200 million	yes
Employs greater than 1,000 employees	yes
Life as current entity at time of study	3 months
Part of group for more than 10 years	yes
Compensation system in existence for more than 3 years	yes

Table 6 Agency - Characteristics of managerial performance measurement and reward systems	Agency
Design	
Pay structure	
how jobs evaluated	Hay's type grading allocation to scale by committee
skill requirements - job specific or general	general
skill acquisition	from civil service "pool" competitive via internal advertisements no suitable candidates, then advertise externally
Pay level	
policy	government policy
actual	market rates
Pay mix	
base salary & benefits	yes
incentives - performance related bonus etc	yes

Table 7 Agency - Characteristics of managerial performance measurement and reward systems	Agency
Design - continued	
Pay incentives	
timing	annual
performance measures	mainly personal skills
performance criteria	mainly qualitative
amount	< 5%
Administration	
Pay communication	
type of information circulated	factual scale data
information channels used	few
Pay centralization	
employee involvement	low
pay policy involved	less important
Pay formalization	
work rules/procedures	many rules
Pay standardization	
pay policy application	uniform

Table 8 Agency - LIVELINESS OF DOCUMENTATION Personal	Agency
Job description read	annually
Job description updated	annually
Performance appraisal reviews	annually
Formal goals for year agreed	crosses commencement of year
Formal goals reviewed (formally or informally)	annually
Informal goals communicated	yes
How are informal goals communicated	randomly
Formal goal consistency assurance	grandfather - father - son (three levels)
Formal connection between strategic plans and personal goals	no
Organization	
Mission statement read	almost never
Response to communications from head office corporate functional departments	"shouts loudest"
Response to communications from Chief Executive	most times
Response to formal policy documentation issued	"shouts loudest"
Strategic plans analyzed into critical success factors	no
Formal connection between strategic plans and departmental initiatives	no

Table 9 Agency - LIVELINESS OF DOCUMENTATION - continued	Agency
Face-to-face meetings	
Formal top team control and coordination meetings	monthly
Informal top team control and coordination meetings	infrequently
Major personal earnings growth potential	promotion - regrading - transfer

Table 10	Agency
Issues suggested by short field studies in chapter 4	
Incomplete specification of measures of performance	yes
Unintended systemic effects upon behaviour	yes
Strong stimulus exerted by 'reward' system	yes
Reward system not aligned with business objectives	yes
Changed control systems impeded achievement of objectives	no
Unchanged control systems impeded achievement of objectives	yes
Senior management closely monitored results	yes
Symptoms mis-diagnosed, systemic effects not identified	yes

Table 11 Agency - Alignment and "Hinges"	Agency
Alignment - Formal	
Formal attempts at aligning strategic objectives and PMR systems	No
Formal identification of critical success factors (or equivalent)	No
Formal monitoring and reporting of critical success factors (or equivalent)	No
Priorities emphasized in formal PMR systems	No
Alignment - De Facto - In Formal Systems	
Parent organisation (government) objectives appear to be reflected in divisional objectives	Unknown
Divisional objectives (department) appear to be reflected in Agency head's formal objectives	Partly
Parent organisation objectives appear to be reflected in Agency head formal objectives	Unknown
Formal objectives for Agency head are reflected in direct reports (level 1)formal objectives	Partly
Formal objectives for level 1 managers are reflected in direct reports (level 2) formal objectives	Partly
Evidence of possibility of hinge functions	
Objectives vertically communicated through formal management by objectives	Partly
Examples of formal objectives regularly over-ridden by managers superiors in hierarchy	Unknown
Anecdotal evidence of deliberate hinge player activities	Yes

Chapter 6 Field Study - Finco

6.1 Overview

This chapter reports on the Finco field study. It seeks to answer the questions,

1) Does the Finco organization, which is undertaking strategic change, seek to align the performance measurement and reward of its managers with the business objectives? and

2) Does lack of alignment give rise to unintended effects?

Section 6.2 provides contextual information about Finco's parent and the circumstances surrounding Finco's creation.

Section 6.3 provides a brief description of the Finco organization's intended mission/strategy from the perspectives of the parent company, divisional management and Finco's senior management.

Section 6.4 considers the managers' expressed mental models of the purpose of Finco and of their departments. This reveals a number of discrepancies. The managers' expressed mental models are posited as a surrogate for at least a part of the culture, or informal belief system.

Section 6.5 describes the managerial performance measurement and reward system and is largely consistent with the Broderick/Milkovich codification (tables 13 & 14) with one major addition. The addition is an extension to cover the operational and incentive aspects and was designed by the author (tables 12, 15 thru 18). In particular, integration with the strategic planning system, and the systems' "liveliness". The intent of the pay system as revealed in formal documentation is also reviewed.

Section 6.6 considers the relationship between the formal job descriptions and formal goals set under the management by objectives system. This reveals that the job descriptions do not appear to be formally or informally related to the goal setting and appraisal processes and are behaviourally silent except when the issues of regrading or newly created positions are being considered.

Section 6.7 considers the relationship between the strategic (i.e. 5 year) plans, the annual tactical plans, projects and initiatives and the operational reporting systems.

Section 6.8 considers the issues suggested by the short field studies in chapter four. Evidence of similar issues is found to exist within Finco.

Section 6.9 discusses the findings in sections 6.2 through 6.8 and concludes that

1) the Finco organization, which is undertaking strategic change, does not appear to seek to align the performance measurement and reward of its managers with the business objectives

and

2) this does appear to lead to unintended effects that are detrimental to the interests of the company and its shareholders.

Consistent with Daft and McIntosh (1984), there was no evidence of any systematic effort at coordinating the various internal control systems either within Finco nor across the group of which it formed a part. By way of contrast with their model, it was observed that the financial control system acts as an overall limiter on organizational aggregate spend levels rather than as a direct influence on other operational aspects of the functional departments within Finco.

6.2 Finco Organization and Parent company

Table 12 contains summary details of the Finco organization and its parent company. The group of which Finco is a part is a very large, long-established (more than 200 years), financial services conglomerate with operations or representation in almost every country in the world. The group is organized into several operating divisions, most of which supply financial services directly to external customers - both organizations and individuals - and one division that supplies information technology (IT) services to the group and to external organizations.

Interviews with the heads of the operating divisions revealed their unanimous expressed belief that the continued introduction of cost-effective new IT was essential to maintain

the competitive capability of the group. The Group Chairman stated in the latest annual report and accounts that organizations in their industry that did not fully exploit the full potential of IT would find themselves disadvantaged as regards both cost base and their ability to meet customer expectations.

Finco is an SBU that lies within the IT services division and is responsible for mainframe operations and related services. The IT services division had been created as a result of a group reorganization less than three years prior to the field study being undertaken. Previously, all IT operations had been run from a very large central department; estimates of its spend levels are in the order of several hundred million UK pounds. The department had been viewed as being unresponsive to the changing requirements of the financial services businesses. Responsibility for applications software design and maintenance, and division-specific hardware requirements, was devolved to the operating divisions. Responsibility for the IT infrastructure, including mainframe computing, networks and such like, was given to a new IT services division.

The previous IT department monopoly had been blamed by many senior managers for the unacceptable level of service to the internal users prior to the reorganization. In order to prevent a recurrence of this an internal market was brought into being. Finco had to compete, on the basis of price and service level, against external IT service providers for the supply of IT services to the operating divisions. In addition, Finco was to compete for IT service business in the external market place. According to the divisional CEO "Finco would either succeed in meeting the rigors of a competitive market place and

hence also win the supply of cost-effective services to the other divisions or, ultimately, die."

Similar to the short field studies in chapter 4, the group has specialist, long-established human resources management functions at corporate, divisional, and, in some instances, at business unit level. Systems of goal setting and appraisal of managers had been in existence long enough for learning curve benefits to have accumulated, and in particular, for managers to be fully familiar with their operation (Otley 1992).

Hahn and Matthews (1964) refer to learning curve as follows "The hypothesis is that improvements in technique do not become available from the passage of time as such, but by familiarity with the problems involved. Learning is the product of experience." The mis-diagnosis of performance measurement and reward induced issues highlighted below raises, like the short field studies, questions of what learning actually takes place and where it is accumulated.

At the time of this research Finco's external business was growing but accounted for less than 5 per cent of its turnover. Finco's mandate as an independent SBU precluded cross-subsidies[10]. Managers within Finco believed this placed Finco at a disadvantage against external competitors seeking entry to the internal market place that was estimated to be

[10]Cross-subsidies occur when one or more products or services are sold to a prospective customer at less than the cost of producing that product or service. Hence, that customer is said to be cross-subsidised from sales to other customers. It is sometimes used as a means of market entry.

worth in excess of £500 million per annum. Despite this perceived handicap Finco had won two large bids for divisional work internally, against fierce external competition.

6.3 Finco Mission/Strategy

The annual report and accounts of the parent company for three consecutive years, including the one in which the study was carried out, all carry references to Finco. The evolution is used as a reflection of the parent company's (Group management's) changing perception of Finco's role.

year 1 — a one line statement that Finco would be selling its services outside the group and generate revenue (Finco as a revenue generator)

year 2 — a one line statement that Finco was formed to be an information systems provider to the Group and sell IT services to the commercial market (Finco as a service provider to the group and a revenue generator)

year 3 — several paragraphs were devoted to the role of the IT division of which Finco was a part, and of the role of Finco.

the IT division's role was restated and of relevance to Finco was the strategic intent to focus on extracting value from IT operations by maximising efficiency, and generating profitable new income streams.

The IT division was highlighted as focusing and enhancing the group's IT activities. The Group Chairman explicitly stated that organizations in their industry that did not fully exploit the full potential of IT would find themselves disadvantaged as regards both cost base and their ability to meet customer expectations.

The IT division was viewed as having both successfully reduced its cost base, and improved the quality of service and customer care.

Finco continued to increase its visibility in the external market place and was setting up alliances with other companies to provide new services.

Finco, like the other companies in the division, would seek to extract further value from the operational businesses and develop new markets.

(Finco as part of division providing a critical internal element of group strategy and as an external revenue generator)

The above is consistent with the interview data which suggests that the original purpose of Finco was to reduce the cost of Finco's services through a combination of internal cost reduction and obtaining additional revenue through selling its services in the external market place. By year three the annual report and accounts were placing greater emphasis on the critical support role to the group. Whilst the previous cost emphasis was retained, an open letter (from the head of operations in one of the divisions) published

in an internal group newsletter revealed that new requirements were emerging from companies within the group. In summary, the requirements were that

> reliability of service had become equally or possibly more important than cost
>
> the businesses now depended heavily on IT and contingency planning for the speedy recovery from unexpected systems problems or failures was becoming more important than cost
>
> "partnership" in planning and working together was essential to capitalise quickly on new technological developments.

The letter also acknowledged Finco's progress towards meeting these requirements.

An interview with the divisional CEO revealed his expressed strategic, 5 to 10 year, objectives for Finco were,

> leverage value inside the Group by exploiting technical capabilities through alliances with other IT service suppliers and by direct external sales, and hence achieve a quarter of all revenues from external customers
>
> low cost producer status and hence run the central computing platforms for the Group on a cost effective basis

through customer focus achieve favoured supplier status in the internal market so that any external supplier would require to be substantially cheaper in order to displace Finco

outsource activities from which no cost-benefit is derived

The divisional CEO set 15 objectives (source: archive copy of Objectives and Milestones for IT division companies), with milestones and performance monitoring, for Finco to achieve during the year the study was undertaken.

1 introducing a comprehensive system of performance measures

5 related to external sales development or increases

5 related to cost reduction/profitability improvement

1 quality (achieving BS 5750)

2 related to product strategy (one to product development and one to product rationalisation)

1 actions to defend internal market share

None of the objectives set by the divisional CEO directly addressed the emerging priorities of the internal market place. The above objectives are tracked against the Finco MD's formal objectives below.

Finco's MD, in presentation of Finco's strategy to the Group Chairman in the middle of the same year, stated (sources: 1. archive copy of Finco MD's presentation; 2. interview with Finco's MD) that

phase 1	- cost reduction by improving internal efficiency was complete
phase 2	- reassessing the business and management development needs was in progress
phase 3	- the drive for scale economies through sales to third parties was underway
phase 4	- gaining revenue from exploiting internal technical developments through external alliances was passing out of the development stage

At another presentation a few weeks later the Finco MD's presentation of Finco's strategic role (source: archival data) contained an additional strategic objective i.e. to enable the Group to maximise the benefits from the application of IT. This implied a closer role with the other group companies and a move in the direction of partnership highlighted above.

In summary, Finco's general strategic thrust as expressed at Group level, IT divisional level, and by companies within the operating divisions had changed emphasis subtly over the thirty months that Finco has been a separate entity.

The objectives set by the divisional CEO for the Finco MD were not reflecting strongly the changing group emphasis. This can be a sign of hinge player behaviour by the divisional CEO or natural delay between changes in mission emphasis and the reaction of the goal setting system. The author did not have access to the divisional CEO's personal performance objectives. However, the Finco MD's strategy presentation is more closely aligned with the emerging group requirements e.g. the adoption of the additional strategic objective to enable the Group to maximise the benefits from IT.

This potentially illustrates a double hinge (IT division CEO and Finco MD) in operation. There is anecdotal evidence to support this. The division CEO stated that "the future depends on cost reduction and IT alliances; to benefit from scale economies by selling services to external customers; by creating new products for the financial services industry [in general]". The Finco MD stated that "The cost reduction phase is pretty much complete and the Group is happy with it. They [the Group] are beginning to understand how important IT is to their future [competitive advantage]. They are going to seek maximum benefits from applying IT within the Group. They didn't care too much about external sales and care even less now. The divisional CEO doesn't see this yet. I don't think he'll be here in a couple of years. It was OK to be out of tune when things needed shaken up. He will become more and more at risk with this obsession of his for external business."

6.4 Finco Managers' Mental Models of Finco and Their Departments

Although Finco had prepared a five year strategic plan during its first year as a stand-alone organization it had never produced a mission statement. Circulation of the five year plan was restricted to the managing director and a few of the most senior managers.

The Finco managers' articulated mental models tended to have two strands to them. One was to view the Finco mission through departmental eyes. The other was of service to the Group in order to avoid being "scuppered by the internal Group politics" and also to enhance future promotion possibilities. Although the detail of the articulations varied from manager to manager, the underlying content within any one department remained reasonably consistent.

The managing director viewed Finco's mission as being to "maximise the Group's benefits from IT. We have to do three things. First, ensure the latest technologies are available to support the Group businesses when they need it. Second, deliver these as efficiently and effectively as possible. Third, develop external relationships to exploit our economies of scale, provide economies of scope in the range of technologies available and make additional profit for the Group." These three elements appeared to be consistent with the Group's philosophy as outlined in the previous section.

"Maybe we are called an independent profit centre. This internal market thing does cause us to compete against third parties and is making us more responsive. But make no mistake, no matter how much we might succeed with third party business and how much profit we make, any failure to deliver internally will set the politics in motion. The barons [heads of the Group's operating divisions] weren't all in favour of this internal

market set-up. Some are only waiting for the chance to try and grab us back into one of their empires."

"In general, I think the three elements are correct but I foresee potential problems ahead. If exploiting technology will give a competitive edge to the operating divisions, then the unrestrained selling of it to our competitors would give away this edge without the competitors necessarily having to pay the development costs."

The managing director also perceived a change in the internal requirements away from an emphasis on cost reduction. "I talk to all of the senior operating division people on a regular basis. They're moving away from beating me over the head to reduce costs. More and more the talk is of the costs [loss of business and profits] from any systems failures. I can foresee the need for 100% systems availability. It would be a whole new ball game. It will require us all to work together more closely than at present."

"We'll have a problem with this. Already there are difficulties with some of the divisions. My account managers tell me that the operating divisions are full of 'Luddites' and this is restricting the flow of essential new technology to them. The operating division people tell me that my people are 'techies' who are trying to sell them the latest bells and whistles that they don't need to do the job. It looks like a clash between two cultures and I can't see any easy way forward."

A fellow researcher was studying the operating divisions within the Group. She collected data on the divisions' performance measurement and reward systems. The author had

noted the mis-attribution of systems effects to culture in several instances when carrying out the case studies reported in chapter four. Hence the author decided to compare her data with data about the Finco account managers performance measurement and reward system in an attempt to ascertain if this appeared to play any role in the 'culture' problem.

The account managers within Finco had a bonus element based on increasing sales in money terms to the operating divisions. This was reasonably consistent with the new technology requirements they foresaw. The 'buyers' within the divisions had a bonus element based on reducing their levels of expenditure with all suppliers. This was consistent with the goals of the operating division. The 'buyers' were giving active consideration to increasing their headcount in order to "manage the techies on the other side."

This is evidence of a Group mandated performance measurement and reward system that is to some extent aligning managers' behaviours within the individual divisions but frustrating the strategic objectives of the organization as a whole. The flaw is not in the system but in its operation. As outlined below, the strictly father/son target setting mechanisms could constrain joint target-setting within individual Group organizations. This was compounded when considering cross-divisional linkages. The researchers presented their conclusions to the managing director. He laughed heartily, called it "****** crazy", then called the managing director of the operating division who also agreed it was crazy and agreed to meet and resolve this.

Although the present research is mainly concerned with performance measurement and reward within individual business units, this example was included to illustrate the strategically important inter-divisional effects that performance measurement and reward systems can have.

The operations department is, in the main, responsible for the day-to-day running of the systems in place. The managers articulated Finco's mission as supplying IT operational services at the lowest costs, and to minimise systems downtime. Reducing costs was the apparent driver. The senior manager of the operations area proposed to the managing director that a business process re-engineering exercise should take place in order to make operations "much more efficient in delivering its services". The intent was to make the existing operations more efficient but did not take account of possible future changes in customer requirements.

The sales and marketing department articulated Finco's mission as maximizing the Group's return on its IT investment. This was to be achieved by introducing new products and services and hence increasing revenue from internal and external sources. The increased revenue from internal sources would be a measure of their ability to knock out third party suppliers. External sales would be a proof of Finco's capability versus a commercial environment. This would require additional support from the operations and product development areas. It conflicted with the operations area focus on reducing costs.

The new product development department articulated Finco's mission as providing products and services that added value to the Group' organizations, and to third parties in order to exploit economies of scale and scope. However, adding value to the Group' organizations was top priority. "If we please the operating divisions they will leave us alone. If we slip for a minute they will gobble us up."

The finance department articulated Finco's mission as maximising the return on the investment in the Group's IT infrastructure. Their preoccupation was with developing costing and billing systems, apparently in isolation from the rest of Finco.

As outlined later in this chapter, the father/son method of agreeing managers' targets for the year and the initiative approval process did nothing to align the managers' mental models.

6.5 Managerial Performance Measurement and Reward System, and the Strategic Planning System

This section describes the managerial performance measurement and reward system in a manner consistent with the Broderick/Milkovich codification with major extensions. The extensions covers operational and incentive aspects. In particular, integration with the strategic planning system, and the systems' "liveliness". The intent of the pay system as revealed in formal documentation is also reviewed.

Tables 13 and 14 contain an analysis of the factors revealed by the literature as being important elements of pay system design, which is part of the formal reward system, and is consistent with the Broderick/Milkovich codification. The tables' contents are reviewed in the following sections. The overall pay system design is mandated by the Group.

Pay Structure - how jobs are evaluated

The pay scale for managers is split into 7 managerial grades with significant overlaps between the salary levels on any two adjacent grades. Each grade has associated with it different levels of benefit entitlement including number of days holiday, pensions and company cars. However, the monetary value of moving between grades can be small.

An individual's allocation into a specific band is based on the number of points scored under the job evaluation procedure. Job evaluation is the process of determining the relative worth of jobs to the company as the basis for the payment of differential wages and salaries (Smith 1991). The procedure's event sequence is as follows, a job description is created and agreed between the job holder and his/her manager. It is submitted to a job evaluation committee which evaluates the job, based on a points system similar to the well known Hay system (Armstrong and Murlis 1994). There are three dominant point scoring criteria i.e. staff responsibility (how many people the manager was responsible for), budget responsibility (amount of capital, revenue and/or expenditure responsible for), and specialist technical expertise. The first two categories are particularly strong in placing individual's in the managerial grades. A divisional job

evaluation committee, comprising representatives from management and employees then allocates the individual job to a particular grade.

Smith (1991) suggests that job evaluation rewards the worth of the job not the contribution of the individual doing the job, and that the evaluation does not provide a workable method of determining incentive payments. Smith does not proceed to define the terms used. In relation to rewarding managers, this raises the important question of does job evaluation reward the worth of the job?

At the time of Finco's creation, job descriptions were created by an external management consulting firm for all Finco managerial jobs. With two types of exception, there had been no alteration to these job descriptions in the three years since the consultant's created them. The two exceptions were where a new managerial post was created (for example, a business development post had not existed at the time that Finco came into being), and a small number of cases where regrading to an "equitable" grading level had been sought.

To quote from Finco's managing director "some cases stood out as being unfair and the employees recognised this, but this was less than a handful of cases. A blind eye might have been [was] turned on efforts to regrade these [by manipulating the job descriptions] but this did not lead to a stampede of other people attempting to be regraded [i.e. have their job descriptions rewritten]. The others recognised the fairness." The managing director did not have the authority to over-rule grade allocation decisions of the committee. Several of the instances identified during interviews were provided on the

basis of confidentiality i.e. that the managing director should not be made aware of them. This suggests the managing director may have had a less than complete view of the full extent of such occurrences.

In unprompted responses to questions about job descriptions, some interviewees expressed satisfaction with the operation of the grading system and several identified particular instances as illustrating the "fairness" by which it operated. For example, one classification of supervisor believed they had been allocated to the wrong grade in relation to the grades of certain other classifications of managers. This opinion was shared by the functional department head. The supervisors met together and drew up a composite job description. This was accepted by the department head and submitted to the evaluation committee. An acceptable grading was achieved. When asked to specify his role, and the role of his department, one interviewee from the supervisory classification that had been regraded stated "the composite job description is probably a good guide to what it should be. Everybody does some of the things but nobody does all of the things it says. We all go about things a bit differently." In contrast to Smith's view above, this suggests that these supervisors were being rewarded for more than the job they did, as individuals, was worth.

This gaming with the job descriptions to achieve desired grades appeared to result from a set of beliefs that is consistent with equity theory. Further questioning suggested that equity appeared to have little relationship with the monetary value of differences between grades. Some managers expressed the opinion that the Group was strongly hierarchical and grade is associated with status. They suggested that managers in other parts of the

Group, and perhaps some within Finco, would be reluctant to, and in some cases would not, communicate with managers on lower grades. This was attributed by one sales manager as a key factor in the job description game played in collusion with his department head.

In two cases of senior managers who reported directly to the Finco managing director, changes in responsibilities led to their jobs being regraded downwards whilst maintaining salary levels and other benefits. The change of responsibilities was due to each being given responsibility for a (different) key element of the new strategy. This was intended to maximize focus on the key priorities associated with implementing the new strategy. However, the changed responsibilities resulted in both managers having fewer staff and significantly lower expenditure budgets to manage, and hence the mechanistic application of the job evaluation procedure triggered a lower grading level. The managers involved expressed the opinion that this could be misconstrued in other parts of the Group as reflecting implicit "failure" and hence restrict future promotion opportunities within the Group. According to expectancy theory expectations were that achievement of the organization's desired results, i.e. the key elements of the new strategy for which they are responsible, would not result in desired rewards i.e. promotion to a level deemed desirable. This is reinforced by an equity theory perspective which is revealed in their expressions relating to their grades and contributions to achievement of Finco and Group strategy in comparison with other managers in other businesses within the Group.

Expectancy and equity theory suggest demotivation is one possible outcome. One manager expressed acceptance of the assurances of the managing director that he will

ultimately arrange satisfactory resolution of the grading issue. The other manager expressed great frustration at the issue and pondered aloud whether a better course of action might be to accept a transfer into his old, higher, grade in a job that was being offered in another division. Both managers had each worked for the managing director for more than 15 years.

The divisional personnel director confirmed that promotions to fill vacancies at a higher grade are very rarely considered for personnel more than one grade below. This suggests the managers expectancies were grounded in observed practice. The lower gradings of the two senior managers appears to have been a surprise to both the managing director and his personnel advisors, all of whom had several years experience of operating the system. In particular, they appear to have underestimated the apparent strength of levels of staff and expenditures managed, as against contribution to the achievement of strategic objectives, in the final grading decision. The managing director and his personnel advisors do not have the authority to change the weighting of the different elements in the group mandated evaluation system.

At the time this research was carried out significant amounts of senior management attention, including the Finco managing director and his boss (the divisional CEO), were being diverted into resolving this. The job evaluation process appears to have at least hindered achievement of some key elements required to implement Finco's new strategic direction.

Job descriptions were therefore suspect, both as indicators of what a job holder's focus was intended to be, and of the current content of any specific job. The above demonstrates that Latham and Locke's (1984) prescription of drawing up job descriptions as the first stage in goal setting is by no means a straightforward undertaking when the job description forms the basis for a job evaluation scheme. Job descriptions appear to be behaviourally silent unless inequities are perceived. Placement into a job grade within Finco appears to be consistent with Hertzberg's (1966) hygiene factors in that it does not of itself appear to motivate individuals towards particular levels of performance but does appear prima facie in some circumstances to act as a demotivator.

When Smith (op cit) expresses the opinion that "job evaluation rewards the worth of the job", the above data begs the question 'in practice, who's perception of worth guides the evaluation of what is an appropriate level of reward?' e.g. the grading committee or an individual's boss? The above is one illustration of a manager's ability to act as a hinge in the deployment of company policy, and to find informal ways of over-riding or corrupting the system. It is formally the grading committee's role in corporate policy deployment within the Group to make grading decisions in a consistent manner based on job descriptions of what people do, not for managers to indulge in gaming where the results of grading do not meet with their approval. Although the managers appear to be motivated by equity considerations, it begs the question of whether these behaviours will ultimately develop into habits that have little to do with achievement of the organization's goals.

The data is suggestive that collusive gaming in relation to reward systems at shop floor levels is a phenomenon that may also exist in relation to reward systems for managers.

Pay Structure - skill requirements - specific or general

This seeks to answer the question of whether an organization is attempting to attract and keep people with specialised job knowledge or skills, or people with a more generalized skill base.

Although the overall design features of the pay system were mandated by Group corporate level, some implementation flexibility had been granted to the IT division. For example, there were separate and parallel grading structures for management and technical personnel. This was intended to recognise the different skill requirements of these two groups. Hence the overall system design attempted to attract and retain a mixture of specific and generalist skills. It was possible to move between technical and managerial grades. This researcher has observed other companies where rigid application of reward policies led to people with above average technical skills being appointed managers in order to pay sufficient levels of salary to retain them. Unfortunately, in many instances this turned good technical people into bad managers. The parallel technical and managerial gradings were designed largely to eliminate this.

Many of the managers within Finco were long servers whose careers had developed along with the Group's IT functions. For example, the managing director had 30 years experience in the Group, all of which were spent in the IT function.

However, the grading system proved to be an obstacle in attracting high quality commercial IT sales personnel. This type of personnel was critical to the strategic objective of selling services externally. They carried low staffing, low capital utilisation and expenditure responsibilities. Hence the job evaluation process allocated them to low grades and hence low salaries on the management grading scale. The technical scales were designed around the needs for IT technical skills and also could not accommodate the sales personnel requirements.

An informal over-ride of the formal systems was instituted by the managing director. Sales personnel were hired on medium-term rolling contracts, and not counted as part of the formal "establishment" headcount and hence were not governed by the grading rules. The new sales personnel tend to have long-established histories of selling IT services and no experience of the financial services industry. The sales personnel viewed the "informal" arrangements as a short- to medium-term solution. Some managers expressed unease at such arrangements.

In summary, the pay structure seems to have largely achieved its goal of recruiting and keeping the managerial skills it desires. One group, small but important to Finco's success, cannot be accommodated within this structure and is currently being accommodated by "informal" arrangements.

Pay Structure - skill acquisition

Most managerial vacancies within Finco were filled via open internal competition from within the Group companies. A job description is prepared and evaluated. It is advertised internally and candidates who formally apply and meet the base criteria have their capabilities independently assessed against the job characteristics. A short-list of candidates is interviewed by the relevant Finco managers and a choice made. If no suitable applicants are found then the job is advertised externally.

At Finco managing director level, and one level below, the vacancies are not advertised. The process of filling these is that Group personnel provide a candidate(s) from within the Group's business units. The balance of power in deciding who fills a particular vacancy is not clear to this researcher. A range of views were expressed from the managing director's direct reports. Some expressed the belief that Group personnel could force their choice candidates onto business units. Others expressed the belief that the managing director ultimately held the power to decide.

The expectation that the most senior posts will be filled from within the organization on a non-competitive basis is reported by managers as having encouraged extensive personal networking.

In summary, most managerial jobs appear to be filled from inside the Group and were based on a fit between individual capability and the expressed requirements of the

vacancy. At more senior levels promotion appeared to rely more heavily on internal political influences.

Pay Level - policy and practice

The Group has a policy of paying its managerial personnel in the upper quartile for its industry sector and appears to meet this objective in practice. Extensive external surveys are used to continually monitor pay levels of the various functional groups within the financial services industry. This may in part explain the low turnover and long service of managers within Finco.

Most managers are members of a trade union. Although the unions in theory negotiate salary levels the personnel director noted the "coincidence that the end result of negotiations always appeared to place the managers base salaries and conditions in the upper quartile".

Pay Mix

The divisional personnel director expressed the opinion, based he says on extensive surveys of practice in the financial services industry, that the base salary and benefits package was "fairly standard" for the industry and in accordance with the objective of being in the upper quartile.

In the late 1980s the Group decided to introduce a performance related pay system. This was accompanied inter alia by a new grading structure for managers that reduced the number of grades and widened both the salary band for each grade and its degree of overlap with adjacent grades.

The new system had two key elements, a merit increase element and a cash bonus element. Merit increases are permanent increases to base salary level that are contingent upon levels of achievement against preset goals and objectives. The notion behind the merit increase element was that a manager entering a new grade would earn 75 percent of the maximum for that grade and 5 years good performance would result in achieving top of the scale for that grade. When the new system came into being, existing managers were allocated to grades and it was then necessary to decide at what level on the scale they would be placed. Most existing managers tended to be placed at the top of the scale for their grade and hence the merit increase element could be expected to be rendered an ineffective incentive for most existing managers at the time the scheme came into being.

The merit pay element may provide a positive stimulus to newly appointed managers or those being promoted into higher grades, all of whom could be expected to enter the lower levels of the scale for any individual grade. The merit pay element would be worth around 5+ percent of salary.

The bonus element is dealt with below.

Pay Incentives

Incentive schemes are involved in the exercise of determining people worth in terms of their performance in the job (Smith 1991). Performance related pay incentives at Finco come in the form of merit increases and cash bonuses which are made once per annum following appraisal reviews at the year end. The criteria for awards is the level of achievement against preset qualitative and quantitative targets. As explained above, the way in which the new pay scheme was introduced immediately rendered the merit increase element ineffective as an incentive.

The cash bonus award is 3% for failure to achieve targets, 6% for achieving target, and 7.5% for beating targets. Given that most managers were placed at the top end of the scales for their bands, the real incentive element is the cash bonus.

The pay system literature suggests that the minimum level of incentives needed to provide a strong stimulus to motivate individuals towards goal achievement lies in the region of 10% to 15% (Moss Kanter 1989, Lawler 1990). Did the system designers consciously decide on a lower introductory level, and if so why? During interviews, the main reason given by the system designers for choosing the low introductory incentive level band of 3% to 6% was managers inexperience in goal setting. The designers were concerned that possible incomplete specifications of performance, resulting from managers inexperience in measuring performance, coupled with high incentives could lead to unintended effects that would seriously disrupt the business. Therefore they wanted managers to gain experience in setting realistic goals before increasing the intensity of the incentive payout

stimulus. At the same time, the designers wanted managers to take the goal setting task seriously and believed the lower level awards would provide a sufficient stimulus to achieve this.

Goal setting and supervisory influence are addressed below.

Administration - Pay Communication

The literature suggests that the way in which information about pay schemes is communicated is important. Some writers suggest that if information about pay scales and/or performance related bonuses is very restricted it removes some of the motivators (Lawler 1990). They suggest that an individual may gain some level of positive intrinsic motivation from achievement of goals and high grades, the individual would however be denied the extrinsic motivators i.e. the feelings of esteem or prestige that arise from others being in a position to acknowledge this. Others will not be motivated to emulate desired behaviours if they are unaware that these are being rewarded. It is suggested that to have a positive motivational value information about pay scales and bonuses should be disseminated through a wide range of communication channels.

By way of contrast, some writers suggest an opposite point of view i.e. that publication of managers achieving high bonuses can lead to withdrawal of cooperation and assistance from other managers who did not receive such large bonuses. Further research is required.

At Finco, salary scale data and information on how the incentive schemes operate was disseminated to all employees via company handbooks. The only other channel of communication used was via an individual's boss as part of appraisal. Therefore, few channels of communication were used.

As explained above, the key area of interest to employees appeared to be which grade an individual holds and that appeared to be related more to questions of esteem than of monetary compensation. The variable elements of pay were not believed to be significant enough, at the time the research was conducted, for their communication to act as a motivator for others.

Pay Centralization

Some writers suggest that high levels of employee involvement in setting pay policies, particularly in relation to key elements of the pay policy, can have a positive impact on its acceptance (Lawler 1986). This is consistent with equity theory. At Finco the managers are highly unionised and the unions negotiate on their behalf with the company in relation to pay policy issues except those related to individual goal setting. Goal setting is strictly between manager and subordinate.

At Finco the level of involvement could be said to be low - individual managers have little opportunity to influence policy decisions related to their individual pay terms and conditions, or high - the unions to which the managers belong have, in theory, significant ability to influence policy decisions, dependent upon an individuals point of view.

Placement on Broderick's five point scale covering high to low involvement by employees is clearly problematical and could be inconsistent or misleading.

Pay Formalization

Some writers suggest that high degrees of pay formalization in the form of rules and procedures create obstacles in achieving the flexibility of behaviour required when undertaking change. The Finco pay scheme was highly formalized with rules and procedures, supported by forms to be completed that covered issues from job descriptions and evaluation through to goal setting and appraisals.

A large part of the rules and procedures in Finco are geared towards achieving equitable treatment of individuals e.g. an independent grading committee to establish the grade of individuals. As such they should reinforce confidence in the operation of the system.

In addition, the goal setting mechanism could be used to communicate the flexibility required of relevant managers during change. A review of the goals set and communicated is addressed below.

Pay Standardisation

Some writers suggest that different pay policies are required for different parts of organizations. The usual examples given relate to the different needs of selling versus

research and development. However, little is known about what happens at the various managerial levels, horizontally and vertically, in organizations.

It could be argued that a uniform pay policy would provide equitable treatment between managers and hence receive greater acceptance. There are two major classifications of pay schemes relating to managers in the Group i.e. an executive scheme and a management pay scheme. The executive scheme includes business unit level CEOs and above. The other covers the managerial grades below this level.

The executive scheme contains performance related pay elements in a manner similar to that for other managers. A key difference is membership of the share option scheme, the benefits of which depend upon increases in values of the share price of the Group over a several year timescale. The shares are traded on the public stock exchange in the UK. This is intended to motivate business unit heads to adopt a longer term perspective. There is also a bonus element that depends upon achievement of annual objectives.

At Finco, a uniform pay policy (in this case the job evaluation element) for managers below Finco managing director level can be seen to have adverse effects re the employment of new types of staff with which the organization has no previous experience (see how jobs are evaluated above).

Liveliness of Documentation

Goal setting combined with supervisory presence to ensure goal commitment has been highlighted in the literature as being associated with high levels of performance (Locke

and Latham 1984). The examples given in the literature relate to the supervision of physical activities such as log cutting where the results are can be readily observed and quantified. The nature of much managerial work demands a scale of freedom of action and timescale for achievement that renders similar direct physical observations on an hour-by-hour or day-to-day basis infeasible. Therefore, a surrogate for supervisory presence is required.

This section on liveliness of documentation describes the goal setting and appraisal process, and uses liveliness of documentation[11] as a surrogate for supervisor presence to ensure goal commitment. Regular reviews of progress towards goals and objectives, both those highlighted by incentives and others unincentivised but still forming part of the manager's job, could act as a surrogate for supervisory presence.

Liveliness of Documentation - job descriptions

Within Finco, job descriptions (see above) are referred to by individual managers infrequently and only appear to be updated when grading or promotion issues arise. They are not referred to during goal setting or performance appraisals. This contrasts with Locke and Latham's (1984) prescription that up to date job descriptions should form the basis on which goal setting is built.

[11]Liveliness of documentation refers to the number of times the documentation is normally referred to. For example, a document that is referred to monthly is deemed to be more lively than one referred to annually.

The use of job descriptions to clarify and align the changing authorities and responsibilities of managers does not appear to be used within Finco, except where promotion or regrading are involved. This is consistent with this researchers unsystematic observations in other organizations.

Liveliness of Documentation - performance appraisals

Performance appraisal reviews are conducted annually at the end of Finco's financial year. The purpose is to agree the level of performance of individuals, against the goals set for them earlier in the year, and hence determine the cash bonus which is paid in the second quarter of the year. This results in one of three scores i.e. failed to meet targets, met targets and exceeded targets. The score achieved triggers payment of a cash bonus. There is a mixture of both qualitative and quantitative targets.

There was no evidence of systematic formal reviews of progress towards target achievement during the year. However, there is evidence that on occasion targets are changed. For example, the managing director on one occasion accepted a large cost saving within the marketing area in place of achievement of external sales goals. This was rationalised by the managing director as necessary because "There was some cleaning and tidying needed because of issues left over from when the new organization came into being". The marketing manager expressed the opinion that this was a "one-off" occurrence and that failure to meet target in the current year would lead to his replacement. His rationale was based on the perceived level of interest by the divisional

CEO in the achievement of external sales. Although, the formal rules do make allowance for targets to be changed, there was no evidence that such a practice was widespread.

The corporate personnel head observed that most managers within Finco scored 'met target' (the equivalent of scoring average in other bonus schemes) in their appraisals. This is consistent with the results of other research on supervisor appraised bonus schemes (e.g. Mohrman, Resnick-West and LawlerIII 1989) i.e. that most personnel tend to receive scores of average or higher because except in the case of personnel where disciplinary action is being considered it is not in the boss's personal interests to give a below average, in this case a not met, score (Moss Kanter 1989).

Liveliness of Documentation - goal agreement and review

The corporate timetable ran as follows, 5 year plans completed by October, the budget for the following year completed by December, and the goals of individual managers included in the sample for this research agreed (between individual managers and their bosses) in January through May of the budget year. The official scheme rules mandated that agreement of goals should be completed in the fourth quarter of the year preceding the budget year. The actual behaviour is another example of hinge behaviour in the absence of robust controls to ensure their application.

There is a short time available between the individual manager agreeing his goals for the year and the year-end. Therefore, in general, it could be expected that managers will only agree to goals that they have already embarked upon in order to ensure that they will

succeed. One way of testing this was to list projects or initiatives underway, or started during the year, by responsible manager, and match these against the relevant manager's goals as agreed with their bosses. Surprisingly no relationship was found between these (discussed further below). During a review of these findings senior managers confirmed that projects and initiatives were approved without consideration of goals that had been set for them or by them.

The official rules mandated that goals were a commitment between boss and the supervised. Only where agreement could not be reached would the goals be reviewed by a higher authority. There were no recorded instances of this within Finco. Possible explanations include the following, none of which were tested during this research,

power in such circumstances lies with the boss. As one individual commented "the boss sets the goals with almost no discussion. If I didn't like them I would still accept them. He could make life really difficult otherwise. In any case, we'll all get the same [performance] score at the end of the year"

the possibility of adverse reactions from subordinates means it is not in the boss's interests to set goals that cannot be met (see Moss Kanter 1989)

thirdly, because of lenient scoring of actual performance when appraisals were carried out. The observation that most managers receive "average" scores of met target appears to lend some credence to this point.

The scoring at the end of the year is agreed between boss and subordinate. Only in the event of disagreement is a higher authority involved. However, the agreed score is notified to the boss's boss for information purposes.

The above provided opportunities for deliberate or accidental hinge behaviour. The boss may accidentally or deliberately refrain from accurately transmitting his/her boss's goals to subordinates. With the exception of financial budget goals which are coordinated (and monitored) by the accountants, there is no independent assessment of the alignment of goals either horizontally or vertically. Consistent with Daft and McIntosh (1984), financial budget goals are little used below department head level. The key exceptions being the financial sales targets which are set for sales personnel.

A review of goals set and their alignment is discussed below.

There were no formal attempts to link the strategic plans to the performance measurement and reward system for managers. The published incentive plan expressed the idea that managers would flow down into the goals of their subordinates, the key elements of the organization's strategy. This provides a very important hinge role for individual managers.

6.6 Relationship Between Formal Job Descriptions and Management by Objectives

The published intent of the scheme was that a manager's objectives should highlight the key areas of his/her job particularly in relation to their part in executing the

organization's strategy. As such, might the evolving nature of a manager's objectives highlight the evolving nature of the managers' jobs?

There was no formal, or apparent informal, relationship between the formal job description and the goals highlighted under the management by objectives. Indeed, the discussion of job descriptions earlier in this chapter suggests they were unsuitable for such a purpose. Likewise, the published scheme indicated that goals were not intended to cover the full ambit of a manager's job. There was no evidence that management by objectives led to any regular updating of job descriptions. As discussed above, managers rarely referred to their job descriptions.

6.7 Relationship Amongst Strategic (5 year) Plans, Annual Plans, Projects and Initiatives, the Operational Reporting System and the Performance Measurement and Reward System for Managers

Major updates of the content of Finco's five year plans are infrequent. At the time of this research the last major update was three years old. Annual revisions tended to be represent fine tuning. A key element of any five year planning effort in Finco was the five year development plans of the other divisions which are major clients of Finco. They represented around 95% of Finco's sales at the time of the study and were still intended to represent around 70% within the five year time horizon. The reduction was intended to come through increases in externally generated sales rather than any reduction in internal activity. A continuing flow of new IT driven services was a critical element of the other divisions' plans (also highlighted in the annual report and accounts).

However, at the time of this research the divisions' abilities to define future requirements were patchy; some were good and some were non-existent. Some provided detailed requirements whilst others were at a less mature stage of development.

Personnel within Finco were discussing the need to move from a responsive to a proactive stance in relation to the internal customers. This was consistent with the move out of the cost cutting phase of Finco's development.

Five year plans were largely concerned with the technology requirements of the business. These were broken down into plans which could be actioned. However other elements associated with development of the business (for example, the need to build a strong marketing and product development capability) were paid scant, if any attention. Marketing and product development capabilities did in fact exist within Finco. There was no formal, and no apparent informal, attempt to identify the critical success factors (CSFs) or their equivalent associated with the organization's new strategic thrust. Unsurprisingly, the monthly performance monitoring system also did not track CSFs nor their equivalent.

It is interesting to note that in Simons (1994) study he noted that new CEOs did not monitor their organization's progress towards achievement of critical success factors. Unfortunately, he does not provide sufficient information to ascertain if this was because they also did not systematically identify the critical success factors. It is possible that in the early stages of undertaking strategic change CEOs think only in terms of general strategic thrusts and that systematic articulation or identification of CSFs comes later.

At the time of the present research Finco was in it's third year of operation as a stand-alone organisation. This raises several questions not addressed in the Simons (1994) study nor the subject of this study. Do organizations identify and monitor their CSFs after undertaking strategic change? and if so, how long after initiation of such change does this take place?

The key annual plan is the budget. This is prepared in almost complete isolation from the five year plan and is based upon targets agreed with the divisional CEO. The key purpose of the plan is to agree sales income and departmental expenditure plans for the year. Within the limits of these expenditure constraints, individual departments have freedom on how the resources under their command are utilised. There was no evidence of critical success factors, or their equivalent, nor cross-functional coordination as drivers in the setting of the annual budget. Cross-divisional coordination was similarly lacking. This was highlighted by cross-divisional disputes during the year about charges for services that had been budgeted by Finco but not by the division receiving the services.

Finco departments undertake projects or initiatives during the year. These tend to be aimed at improving the effectiveness of the department involved. By way of example, an accounting department initiative may be the introduction of a new costing system, a marketing initiative may be the introduction of a new product. These initiatives were not directly related to the five year plan nor the budget. Equally surprisingly, neither did they appear to be directly related to the management by objectives goals under the performance measurement and reward system for managers. They did not form part of Finco's monthly reporting package.

The existence of such initiatives was discovered subsequent to the original study. This was due to this researcher undertaking an assignment to review a specific department within Finco on behalf of the managing director. It was during this process that the resource needs of single-function driven initiatives was uncovered. There had been no deliberate effort to hide the existence of such initiatives.

The managing director could not provide a list of the initiatives underway. Given their nature, i.e. that most would require significant cross-functional support to succeed, this was surprising.

The managing director confirmed the above findings. Subsequent to the field study the managing director defined the critical success factors and established a list of initiatives. He introduced a rule that all future initiatives must be directly related to the critical success factors and the goals established between him and his direct reports in the management by objectives exercise. He advised that this was met by "unexpected and substantial resistance from his direct reports".

This researcher can only speculate on the reasons for this response. It is possible that this was due to similar reasons that managers in some organizations attempt to create budget slack (e.g. Lowe and Shaw 1968). The key reward for managers in this organization was promotion and in particular the regrading associated with it. When managers exceeded their targets this was highlighted by their boss to his boss, in this case the divisional CEO. The divisional CEO was a key figure in appointments at the managing director level. Finco's managing director was due to retire within "a few

years" and often articulated that he "may retire early after the strategic change was complete".

Another possible explanation, is that by excluding such initiatives from the management by contract arrangement it prevented visible failure and a scoring of 'targets not met'.

However, from a Maslow (1964) perspective, it could be construed as self-actualization. It provided a degree of freedom of action for the individual senior manager.

Although the motivational basis for this behaviour would make an interesting research project, for the purposes of this research they are clear examples of behaviour, apparently in response to desired rewards, that were not prevented by the control systems.

6.8 Evidence of Issues Found in Chapter 4

As demonstrated above, most of the issues found in the short field studies appear to have existed within Finco (table 17).

6.9 Discussion

The evidence presented in this report supports the contention that the Finco organization, which was undertaking strategic change, did not seek to align the performance

measurement and reward of its managers with the business objectives. The lack of alignment appeared to give rise to unintended effects.

The designers of the performance measurement and reward systems were located centrally as part of the Group human resources management function. They recognised the potential for unintended effects and used this as one justification for using low incentive levels at the early stages of adoption of the new systems. Their learning, of the potential unintended effects from the operation of reward systems, does not appear to have been shared with Finco. The management team showed no evidence of this learning being shared with them.

Therefore, although scale benefits allowed specialisation of functions within the central human resources management function this appears to have been accompanied by limited learning curve benefits for the Group as a whole. The learning residing within this specialist Group function is only shared with the rest of the Group to a limited extent.

The nature of learning within Finco also was puzzling. The organization possessed the skills that should have made them very sensitive to the integration problems that would be associated with cross-functional initiatives. The nature of the Finco business is such that senior managers have wide experience of successfully introducing new systems, technologies and functions into the Group businesses. More recently, they were also undertaking this work for external businesses. The need to integrate the new systems, technologies and functions with those already existing within organizations is an issue that

they handled on a regular basis. Then why was such learning not utilised when new initiatives were undertaken within Finco?

Some senior managers within Finco have more than twenty years experience in project managing the development and implementation of large, complex, high technology projects that involve coordination across functions, disciplines, geographical and company boundaries. It is interesting to note that the tools used for successful project management were not applied to the coordination and control of Finco as it undertook strategic change. There appeared to be no transfer of learning between the operational and administrative aspects of the business even though many managers were involved in both of these. It was as if managers mentally compartmentalised their work in watertight compartments and were saying to themselves "Now I am an operational manager, I will use my operations management way of thinking". Then later on "Now I am an administrative manager, I will use my administrative way of thinking". All members of the executive team had first hand project management experience.

The internal control systems appeared to either be silent or encourage this behaviour. Consider the control in approving initiatives. Individual initiatives were approved by the managing director and the finance director. The later's role was to ensure the organization did not commit resources beyond the aggregate level allowed by a combination of the budget and current trading conditions i.e. if sales are above budget departments may be allowed to spend more, if below budget they will be allowed to spend less, and the number of initiative approvals will be adjusted accordingly. The level of funds available for spending on initiatives was determined during the budget process.

This amount was approved as a global sum, normally several million pounds per annum. It was not justified by lists of initiatives proposed to be undertaken or already underway, nor by seeking bids from the individual departments for discretionary initiative spending.

There were no formal links between the organisation's strategy and control systems. One outcome of this was the approval of individual initiatives without any assessment of how they contributed to achieving the organization's strategy or, in particular, supported the organizations CSFs. The organization did not formally identify its CSFs, whether by that name or any other. The control systems were silent.

Some simple process changes could have led to improved internal coordination and alignment. By way of example, the approval process could seek justification based on support for the organization's strategy and CSFs. It could also request identification of cross-functional support required for successful implementation and the commitment from the relevant managers that such support would be forthcoming.

As outlined earlier in this chapter, the performance measurement and reward system for managers appeared to encourage the existing behaviours of managers. This was evidenced by the very hostile reaction of senior managers when the managing director introduced the type of changes outlined in the last paragraph. Exceeding performance targets potentially opened the door to promotion, failing to meet target could result in an unofficial but widely recognised bar to promotion. This appeared to encourage senior managers to keep a low profile on initiatives embarked upon and not to include the initiatives in their performance targets. This is consistent with expectancy theory which

essentially considers two elements. Is the reward desirable? In this case the answer is yes, promotion is very desirable. Will the level of effort put forth result in achieving the target and hence the reward. The answer is uncertain. The outcomes of any initiative embarked upon depend on a series of factors, some of which are independent of the amount of personal effort put forth by any individual manager. In these circumstances, managers will seek to exclude things with high degrees of uncertainty e.g. initiatives.

Some unintended effects of this included initiative delays/failures due to the lack of cross-functional or cross-departmental support at critical times. Other departments or functions were undertaking their own initiatives which took up all of their slack resources and hence crowded out support for other departmental initiatives.

It can be postulated that inclusion of initiatives in their performance targets would have encouraged managers to ensure that other managers, of departments necessary to support their efforts, also had their targets adjusted accordingly. This could have highlighted the conflicting resource requirements. One likely result being the prioritisation and integration of the various initiatives. To do this, the managers would likely have applied the operational tools at their disposal. This suggests that the performance measurement and reward system of managers in Finco may have been a contributing factor to why previous learning was not utilised when new initiatives were undertaken within Finco.

It is important to note that the predominant thinking of the managing director and executive team had not been in terms of CSFs or coordinating initiatives. It could be argued that their existing mental models may be,in part, due to the institutionalisation of

previously learned behaviours as influenced by exposure to the performance measurement and reward system. Such behaviours are often attributed to an organization's culture. As such it demonstrates the power of the control systems in engendering cultural change, both intended and unintended, and is a powerful argument for a control systems role in cultural change efforts i.e. cultural change should either be led by, or accompanied with, changes to the control systems.

The managing director responded quickly to the research findings by embracing the concepts of CSFs and initiative coordination. He changed the internal approval rules for initiatives. The initiative approval process would require identification of the CSFs supported and the initiative would be reflected in the appraisal targets of the relevant managers. The managers then moved to utilise existing project management development and control tools and techniques. For example, initiatives were broken into sub-projects and activities. These were then mapped to show resource requirements and interdependencies by initiative and globally.

This suggests that the issue was one of lack of knowledge about how to think about control systems and their effects. One particular control system, the performance measurement and reward of managers, appears to have been an informal but effective blocker to the necessary learning. Unresolved is the question of whether other internal systems, such as management development and training, within Finco are aligned with the strategic objectives.

Whilst the managing director appears to have taken sensible actions to overcome a major problem this does not mean he will succeed. Unresolved is the question of hinge player behaviour at lower levels within the organization. There was some evidence of hinge player behaviour at a number of levels. The process of target setting remains one that is strictly a father/son relationship. This is mandated by the Group. At the conclusion of this research, the managing director was in discussion with Group human resources management department about ways to overcome this.

At the commencement of this research the managing director and his executive team individually were unanimous in expressing opinions to the affect that they had a first class organization and, indeed, would prove to be a shining example of change management success. Some went further and suggested Finco would be an exemplar on management practice. The internal customers, i.e. other organizations within the group, had commented in writing on the vast improvement in service and lower cost since Finco became a separate organization. Finco had beaten some strong household names in the industry to retain internal Group business and to win external business. Benchmarking exercises from leading benchmarking consultancies appeared to support this contention. They showed that Finco was one of the top ten percent of performers in its industry on a wide range of measures.

This demonstrates that, at least in the short-term, it is possible to appear successful whilst achieving less than the optimal level of success that may be possible. It could be argued that improved management of the alignment processes would assist both the rapid implementation of strategic change and improve on an already successful position.

Financial or other measures of the success of organizations do not mean that their performance is optimal nor that it cannot be significantly improved. At present, an index or measure of alignment of internal processes with organizational strategic objectives does not exist.

Table 12 Finco - Organisational Data	Finco
Ownership	Plc
Group turnover greater than £2 billion	yes
Group employs greater than 20,000 employees	yes
Group in existence more than 10 years	yes
Compensation system in existence for more than 3 years	yes
SBU	
Turnover greater than £200 million	yes
Employs greater than 1,000 employees	yes
Life as current entity at time of study	2.5 years
Part of group for more than 10 years	yes
Compensation system in existence for more than 3 years	yes

Table 13 Finco - Characteristics of managerial performance measurement and reward systems	**Finco**
Design	
Pay structure	
how jobs evaluated	Hay's type grading allocation to scale by committee
skill requirements - job specific or general	mixture
skill acquisition	competitive via internal group advertisements no suitable candidates, then advertise externally
Pay level	
policy	market rates
actual	market rates
Pay mix	
base salary & benefits	yes
incentives - performance related bonus etc	yes

Table 14 Finco - Characteristics of managerial performance measurement and reward systems	Finco
Pay incentives	
timing	annual
performance measures	goal achievement
performance criteria	quantitative and qualitative
amount	< min 2.5% max 5%
Administration	
Pay communication	
type of information circulated	factual scale data
information channels used	few
Pay centralization	
employee involvement	low
pay policy involved	less important
Pay formalization	
work rules/procedures	many rules
Pay standardization	
pay policy application	uniform

Table 15 Finco - LIVELINESS OF DOCUMENTATION **Personal**	**Finco**
Job description read	< once per year
Job description updated	infrequent - regrading
Performance appraisal reviews	annually
Formal goals for year agreed	mainly during year
Formal goals reviewed (formally or informally)	mainly annually
Informal goals communicated	yes
How are informal goals communicated	systematically
Formal goal consistency assurance	father - son (two levels)
Formal connection between strategic plans and personal goals	no
Organization	
Mission statement read	infrequently
Response to communications from SBU corporate functional departments	sometimes
Response to communications from MD	sometimes
Response to formal policy documentation issued	sometimes
Strategic plans analyzed into critical success factors	no
Formal connection between strategic plans and departmental initiatives	no

Table 16 Finco - LIVELINESS OF DOCUMENTATION - continued	Finco
Face-to-face meetings	
Formal top team control and coordination meetings	monthly
Informal top team control and coordination meetings	infrequently
Major personal earnings growth potential	promotion - regrading - transfer

Table 17	Finco
Issues suggested by short case studies in Chapter 4	
a) Incomplete specification of measures of performance	yes
b) Unintended systemic effects upon behaviour	yes
c) Strong stimulus exerted by 'reward' system	yes
d) Reward system not aligned with business objectives	yes
e) Changed control systems impeded achievement of objectives	no
f) Unchanged control systems impeded achievement of objectives	yes
g) Senior management closely monitored results	?no
h) Symptoms mis-diagnosed, systemic effects not identified	yes

Table 18 Finco - Alignment and Hinges	Finco
Alignment - Formal	
Formal attempts at aligning strategic objectives and PMR systems	No
Formal identification of critical success factors (or equivalents)	No
Formal monitoring and reporting of critical success factors (or equivalents)	No
Priorities emphasized in formal PMR systems	Partly
Alignment - De Facto - In Formal Systems	
Group objectives appear to be reflected in divisional objectives	Partly
Divisional objectives appear to be reflected in Finco MD's formal (level 1) objectives	Partly
Group objectives appear to be reflected in Finco MD's (level 1) formal objectives	Partly
Formal objectives for Finco MD (level 1) are reflected in level 2 managers formal objectives	Yes
Formal objectives for level 2 managers are reflected in level 3 direct reports formal objectives	Partly
Evidence of possibility of hinge functions	
Objectives vertically communicated through formal management by objectives	Partly
Examples of formal objectives regularly over-ridden by managers superiors in hierarchy	Occasional
Anecdotal evidence of deliberate hinge player activities	Yes

Chapter 7 Discussion, Face-to-Face Survey, Comparison with Reports in the Literature, and Future Research Directions

7.1 Overview

This chapter commences with a discussion of the results of the present research. The original research questions were,

1) Do organizations undertaking strategic change seek to align their performance measurement and reward of managers with their business objectives? and

2) Does lack of alignment give rise to unintended effects?

For the organisations studied during the present research, it would appear that they do not seek to achieve alignment and that this does give rise to unintended affects. Available evidence suggests the effects can be severe enough to be a factor in deflecting organizations away from their intended strategic directions.

Section 7.2 discusses the Agency and Finco studies.

Section 7.3 discusses all six studies.

Section 7.4 reports on a survey of 2O major UK-based manufacturing organisations which suggests that performance measurement and reward of managers forms a missing link between strategic objectives and their implementation.

Section 7.5 compares the results of the present research with other studies published in the academic literature. Studies chosen for comparison fitted the theoretical sampling template adopted for this research. The results suggest that great care must be exercised in interpreting and generalising from the results of many of the earlier studies. Methodological differences, in particular the scope and depth of interviewing e.g. the number of levels in an organisation's hierarchy that are covered, appeared to explain the differing results in some cases and cast doubts over the results of several others. One recent influential publication which purports to present an empirically-based comprehensive theory of control appears to exhibit similar methodological weaknesses.

Section 7.6 sets out an agenda for future research.

7.2 Discussion of the Agency and Finco Studies (Tables 19 thru 25).

One of the attractions in studying the Agency and Finco was their differing lengths of time as stand-alone entities; three months in the case of the Agency and thirty months in the case of Finco. Despite this, there were many similarities, and few differences, between the performance measurement and reward systems for managers in the Agency and in Finco. Both had been carved out of larger departments within their parent organizations.

Goal setting mechanisms had been in place for many years and managers could reasonably have been expected to be familiar with using them. The evidence suggests that insufficient learning had taken place for them to identify correctly unintended effects apparently emanating from the way in which the systems were being operated.

Both the Agency and Finco paid small cash bonuses that were below the generally accepted threshold thought necessary to provide a strong motivational stimulus. However, the motivational stimulus of the appraisal system that generated these bonuses was strong. The appraisal ratings counted towards future-year merit increases within the Agency, and to merit increases and promotion prospects within Finco. This enhanced their attractiveness and the behavioural outcomes were in accordance with the predictions of expectancy theory.

At Finco, the performance measures were against preset business goals. There was evidence of gaming, deliberately understating targets for the year in order to meet or exceed target at the year end. There were two possible reasons for this, to ensure exceeding target at year-end or to avoid underperforming on difficult targets. Exceeding target was perceived to assist in gaining desired promotions, whilst underperforming was perceived as a blocker to future promotion. It is likely that the specific stimulus varied from individual to individual and in some cases both stimuli were probably operating at the same time. The gaming is consistent with expectancy theory predictions.

A close review of the elements managers gamed out of (excluded from) their targets suggested that, in the main, these required cross-functional or cross-departmental cooperation in order to succeed. Since this was not within the control of the sponsoring manager it significantly increased the risk of failure to complete within estimated timescales. The existing father/son target setting system operated in such a manner that whilst the target appeared in the sponsors' targets it did not necessarily appear in the targets of other managers critical to successful implementation. Hence, it appeared to reduce overall commitment within the organization and increase the risks of failure to successfully complete within timescale. The managers actions in target setting were consistent with expectancy theory predictions.

At the Agency, most of the performance measures were related to the personal qualities of the person being appraised, with a minor weighting being given to actual performance against objectives. Also, promotion prospects related to personal characteristics rather than performance against objectives. Managers in the Agency valued opportunities to improve on these personal characteristics. They paid scant attention to aligning the targets of their subordinates with their personal targets. This is consistent with predictions based on expectancy theory.

In both the Agency and Finco there was evidence of both intentional and accidental hinge player behaviours. This occurs where a manager (father) agrees personal targets with his/her superior (grandfather), or has them imposed, and either chooses not to, or inadvertently does not, align the targets of his/her subordinates (sons) with these personal targets. In the Agency there is a grandfather/father/son goal setting and approval mechanism that could help prevent some of this but it was not used. This is an operational or process issue that awaits resolution. At Finco, the existence of a father/son mechanism helps facilitate hinge player behaviours. Here the issue appears to lie in the systems design, a type of content issue. Adding an 'active grandfather' would appear to be one solution. This could help make the 'trickle down' goal setting mechanism work better but would leave unresolved the cross-functional, cross-departmental targets issues. Clearly, new mechanisms would be required to address these.

In both the Agency and Finco the performance measurement and reward systems appeared to have a strong impact on managers' behaviours but not as senior management may have intended or desired.

The literature suggested that active supervision leads to higher levels of goal achievement with or without the presence of incentives. This was based almost exclusively on field studies of physical activities. In the present research liveliness of documentation was used as a surrogate for active supervision of managers. If there is a formal or informal review regularly, eg weekly or monthly, a document is said to be highly lively; if annually then a document is said to have low liveliness. In both cases there was generally a low level of liveliness of documentation. Job descriptions were rarely read or updated. Progress towards achievement of personal targets was rarely reviewed between initial goal setting and performance appraisal approximately one year later.

Mission statements were rarely read and appeared to play little or no part in aligning the managers interests with those of their organizations. This throws some light on the debate about whether organizational change should be culture or control systems led. It would appear that the control systems are not only an artifact of culture but also play an active part in determining behaviours that are frequently attributed to culture. In the absence of changes to the control systems it may be extremely difficult to change the culture. By way of examples, any attempt to change the Agency's culture towards being

a goal-achievement oriented organization is likely to fail whilst the performance measurement and reward systems continue to de-emphasize goal achievement in favour of personal skills and capability development. Any attempt to change Finco's culture from functional to cross-functional/departmental teamworking would likely be hindered while the control systems continue to reward individual goal achievement in the absence of goal linking or integrating mechanisms. It seems reasonable to conclude that at a minimum, culture change efforts must be accompanied in parallel by changes to the control systems.

There was additional anecdotal evidence that runs contrary to the 'trickle down' theory of management. Analysis of the interview notes for both organizations produced similar results. Managers do not passively comply with formal or informal communications from their managing director or centralised head office departments. The mechanisms that produced responses included "who shouted loudest and longest". Managers appeared to use determination and consistency as a surrogate for indicators of the importance and priority of communications and policy notifications they received.

In both the Agency and Finco, there was no evidence of attempts to identify the critical success factors necessary to ensure strategic success. Nor was any formal connection between their strategic plans and initiatives formulated and implemented.

Was it possible that some undetected mechanism led to the alignment of managers' objectives within the managerial hierarchy? Examination of managers formal goals at several layers did not reveal any evidence to suggest that alignment had taken place. On the contrary, this suggested that objectives were only partly transmitted to lower level managers through the performance measurement and reward systems.

In the two major studies it appeared that process issues (the way the systems were operated) related to the performance measurement and reward systems were a major factor in unintended effects arising. It can be argued that changes to the internal control systems could have eliminated many of the unintended side effects.

In both the Agency and Finco, the most senior management reacted to the results of the present research by instituting actions to overcome the perceived performance measurement and reward systems contributors to causes of the unintended effects. It appeared that prior to this they lacked the knowledge necessary to think about and correctly diagnose the causes of the unintended effects. This is consistent with Senge's (1990) postulation that managers in general do not think systemically about symptoms that confront them.

The present research suggests a very limited amount of learning was taking place in relation to the performance measurement and reward systems. It did not seem to matter

whether they had been stand alone entities for 3 months or for 30 months. The Finco study suggested that where learning had taken place there were no mechanisms for sharing this across the organizational boundaries.

The evidence in the two case studies, as in the four short cases, suggests the foreword to Argyris (1952) remains apt; "in spite of unquestioned progress [in development of control systems], there is more and more evidence that making the tool is a far easier task than learning how to use it." Little progress would appear to have been made in the intervening period.

The present research commenced with four short field studies and then added the two in-depth studies discussed above. The following section discusses all six studies.

7.3 Discussion of the Six Studies

All of the organizations studied were of a size and age that scale and learning curve benefits could have been expected to have accrued. Scale benefits were evidenced by the existence of specialist human resources management functions. However, learning curve benefits do not appear to have accrued to any great extent in relation to the systems studied in the present research.

In five of the six cases, measures of performance were incomplete (table 26). In the Agency and Finco studies the key measure was financial. Provided overall financial targets were met there was little pressure from their parent organizations. The same was true at the highest departmental levels within the business units. It can be speculated that had a wider range of non-financial measures been added and emphasised there would have been greater pressure to trickle these down and hence less room for hinge manoeuvres. It may have forced managers to dovetail their individual targets more closely together if all were to achieve their personal targets. Through time this would result in an improved understanding of the cross-functional/departmental influences on the outcomes of any particular department. It would have facilitated learning within the organization.

In all six cases unintended effects upon behaviour appeared to have arisen, at least in part, from the strong stimulus exerted by the 'reward' system. Rewards included promotion. In the Agency and Finco cases, promotion was the most highly desired reward for most managers. Promotion brought both financial and status/recognition benefits.

In all six cases a key control system, the performance measurement and reward system for managers, was not aligned with the business objectives. In two cases, changes to the control systems are implicated in impeding the achievement of the organisation's strategic

objectives. In four other cases, unchanged control systems were implicated in impeding such achievement. It would appear that, in times of strategic change, control systems are not silent and can have a significant impact on the successful outcome of such efforts. Changing them may be problematical, but the evidence suggests that leaving them unchanged can prove equally damaging.

In four cases it is reasonably certain that senior management closely monitored the on going results of change efforts. However, they do not appear to have understood the causes of performance deviations.

In all six cases the causes of symptoms associated with frustrated strategic change efforts were, at least initially, mis-diagnosed because the underlying systemic effects were not understood and hence not identified. Inappropriate and costly responses were considered as a result of the faulty diagnosis. In a number of cases the symptoms were mis-attributed to culture in a way that suggested culture was beyond the managers locus of control. The Agency and Finco studies suggest that control systems play a role in the shaping of an organization's culture.

Although this research did not commence with the aim of hypothesis testing, the six studies included in the present research provide disconfirmatory evidence to certain

propositions relating scale and learning curve effects to the management of performance measurement and reward systems for managers during strategic change, e.g.,

P1 Managers in large, long-established organisations successfully align the performance measurement and reward of managers in business units with the business unit strategic objectives before implementing strategic change. and,

P2 Managers in large, long-established organisations correctly diagnose symptoms arising from apparent flaws in performance measurement

However, unanswered was the question of whether the cases constituted a generalisable sample or represented a number of special cases. In particular, was the apparent lack of understanding about the impact of control systems on strategic change efforts a wide spread phenomena in practice? One method of attacking this issue could be to replicate the two major studies in a large number of other organizations. The uncovering of the lack of hierarchical or vertical goal alignment in the above cases depended on multi-level interviewing within the organizations. At least in the short-term, the multiple replication approach was rejected due to time constraints and the limited resources of this researcher. A longer term aim will be to utilise the results of the present research towards the development of an improved survey questionnaire to ease the data collection process.

Another research approach was considered. CEOs of large organisations who also had experience of managing business units during their careers would either consider it important to alter the management control systems, including the performance measurement and reward systems for managers, when undertaking strategic change efforts or would not. If they did, it may form part of their strategic change approval and review processes. A second reason for its conclusion in the approval process would be the potential costs. Earlier in this thesis, reference was made to the potentially high cost of undertaking such changes because of the large number of connections with other organizational systems that would also require adjustment.

The issue of gaining access was resolved by the opportunity to join a related project exploring UK-based manufacturing industry attempts to become world-class or globally excellent (Stopford et al 1994). The author contributed to the study design and personally undertook the interviewing of 20 Group CEOs and the top teams of one Group-CEO-nominated SBU from most of their organizations. At the request of the author and a fellow researcher, the opportunity was granted to interview a selection of managers from the Group CEO to the SBU shop floor in several cases. All Group CEO profiles matched the requirements established in the last paragraph.

A large number of the interviews were carried out jointly with another researcher which provided the benefits outlined earlier in the methodology section (chapter 3). The author

of the present research was also joint-author of the final "Building Global Excellence" report.

7.4 Face-to-face Survey of 20 Major UK-based Manufacturing Organisations

After completion of the six case studies the author arranged to have relevant questions included in a larger related study. This study included personally interviewing the Group CEOs of 20 very large UK-based organizations. The profile of the CEOs' companies fitted the theoretical sampling frame used for the earlier case studies.

The author was allowed to include some questions related to the present research project. The Group CEOs were asked the open-ended questions "What factors are taken into account when strategic decisions are being 1) taken and 2) implemented?". Following the methods of inductive research, the questions were supplemented with ones that seemed fruitful to pursue during the interviews.

The initial responses of all CEOs varied slightly in content but carried the same message. To quote one Group CEO "We consider everything. If it is strategically important we ensure every effort is made by the SBU people [management] to think through all of the important implementation issues". Following a brief discussion of management control

systems, approximately 18 Group CEOs revised their position. Typical was the comment "oh, oh, almost everything". Several then provided instances where the current performance measurement and reward systems of business unit managers had been, or were currently, causing the Group CEOs difficulties in implementing their multi-national strategies. Some described it as "like a light bulb going on", and reflected that now they thought they understood why several past change efforts as head of SBUs had failed to meet expectations. Whilst interesting, this evidence was largely anecdotal. The key finding here is that Group CEOs with experience of hands-on management at SBU level did not appear to have been aware of the need to re-align their control systems when changing strategies.

SBU heads responded to the questions with similar answers. There was anecdotal evidence of hinge behaviours at SBU head level and below. Within the confines of this research exercise it was not possible to ascertain if these were triggered by the control systems or if the control systems were silent in relation to these.

Building on work from the six earlier studies, a simplified test of shared mission was undertaken. Group CEOs were asked to categorise their ambitions for their designated SBU under one of four headings and their confidence level that the SBU would achieve this. The SBU heads were asked to carry out the same exercise. Of the fourteen firms where the results were clear, comparison between Group CEO and SBU heads revealed

clear disparities in eleven cases. Generally, the SBUs had lower ambition levels. By way of example it seems clear that an SBU head who views the mission of his organisation as purely survival is unlikely consider putting in place the programmes that will ultimately lead to realising a Group CEOs mission to become world-class.

The predominant measure of SBU heads performance was financially based. Most had significant bonus elements, i.e. in excess of 15% of base salary, dependent on achieving their targets. Measures of absolute profit levels, return on investment and cash flows were common place. There was little evidence of the identification of CSFs or of measures of these being included in the measures of SBU performance. Group CEOs articulated long-term aims but, paradoxically, concentrated on measures of short-term performance.

The nature of much of the evidence here is anecdotal and would benefit from greater access to data within these organizations in order to provide confirmatory or dis-confirmatory supporting evidence. However, it does provide suggestions that a contributory factor to the lack of a shared vision may be conflicting messages between what the Group CEO articulates and what the control systems demand in practice. In such an instance the control system is shaping the SBU culture and strategic direction in ways that are unintended by the Group CEO; another example of the unintended effects of control systems in practice.

The results of the face-to-face survey appear to support the contention arising from the six case studies i.e. that most senior managers do not understand the need to align the performance measurement and reward of managers with their business objectives when undertaking strategic change. Indeed, it seems questionable whether even managers in organizations that are not undertaking strategic change understand the need for such alignment. The survey provides weak support for the contention that lack of alignment gives rise to unintended effects. Further research would be needed to establish the strength of such links in these particular cases.

It would appear that in practice management controls, and in particular the performance measurement and reward systems of managers, may form an essential and largely forgotten (or unknown?) link between strategic objectives and successful implementation.

7.5 Discussion of The Present Research and Reports in the Literature

Some writers on strategic control systems advocate segregating expenditures related to activities with a longer term strategic importance and making the budgets for such activities sacrosanct (e.g. Lorange and Vancil 1977). However, this may be to treat a symptom whilst the disease continues unabated. The writers cite activities such as new

product development. From this researcher's long experience in financial management of a number of organizations, it is not immediately clear how this could be made to work in practice. New product development efforts have to be linked and coordinated with sales and marketing efforts. Would these writers also recommend segregating these expenditures and if so how would they derive formulae to split the day-to-day selling and marketing activities to do so? They provide no guidance on how to achieve this. There are also links between sales and marketing and other functions and so on. The whole process can become unmanageable. A lack of understanding of how businesses operate as integrated systems will not be enhanced by following prescriptions to arbitrarily segregate, in a non-systemic manner, things apparently related to longer term strategic interests.

The present research suggests that management control systems may in practice be operating as strategic control systems. In this case what is needed is to overcome the preoccupation with symptoms as above. The issues raised in Argyris (1952) work are apt, it is necessary to learn how to use the tools properly. One promising approach uses the systematic identification and prioritisation of an organisation's CSFs to guide activity, investment and expenditure prioritisation and controls (Roberts and Pitt 1990). The management control systems can then execute their rightful role in guiding organizational behaviours to achieve these.

Euske et al (1992), in a study of organizations which fit the sampling template adopted by the present research, highlighted the existence of hinge function players at plant manager level in manufacturing organizations. The present research extends Euske et al's observations by pointing to the existence of multiple hinge activity at a range of levels and functions within organizations. Some arise from the well known agent-principal issue highlighted in the economics literature. Others appear to be unrelated to this phenomena i.e. the agent may accidentally act as a hinge player even where the agent is giving of his/her best efforts to achieve the principal's objectives and no conflict of interest exists. The management control systems have a role to play in clearly articulating the principal's objectives and guiding the agent towards achieving these.

Bruns and McKinnon (1992) set out to explore two questions in their study of organizations which fit the sampling template adopted by the present research,

1) Does a well-defined and understood performance evaluation scheme enable and assist managers to be more specific in describing their roles, tasks and activities?

2) Does incentive compensation based upon individual performance evaluation succeed in motivating managers to focus more specifically on tasks and activities comprising their jobs?

They reported that their findings, based on usage of a largely judgemental naive scoring system, appeared to support the conclusion that a scheme for individual performance evaluation increases managers' specific understanding of their job and the specific tasks and activities that comprise their jobs. Both the Agency and Finco managers had well-defined and understood performance evaluation schemes. In the authors judgement, the managers were reasonably specific in articulating their roles, tasks and activities.

However, in the case of the Agency the individual performance measures were weighted in favour of personal attributes with scant attention being paid to the tasks and activities comprising their jobs. Therefore, it is unsurprising to find that, in contrast to Bruns and McKinnon, there is evidence that the performance evaluation scheme did not appear to motivate managers to focus more specifically on tasks and activities comprising their jobs. It did appeared to motivate them to focus on improving the factors and skills related to the personal attributes that could lead to their desired reward of promotion.

Therefore, it seems reasonable to tentatively extend Bruns and McKinnon to read as follows; 'a scheme for individual performance evaluation may increase managers' specific understanding of their job and the specific tasks and activities that comprise their jobs provided the performance measures strongly reflect these.' Non-systematic observation by the author suggests that the ability of managers to articulate the tasks and activities comprising their jobs does not necessarily mean that they focus on these.

Bruns and McKinnon give weak support to the notion that effective managers get promoted; "We made no attempt to determine if they [the managers in their study] were effective managers, though most had been promoted to present responsibilities after several years of experience in their company." The Finco and Agency studies, and the author's long experience in organizations similar to those in the Bruns and McKinnon study, suggests that above certain levels in the managerial hierarchy political skills are equally, possibly even more, important than being effective in the job.

Murphy (1992) reports about Merck and Co., Inc's attempts to get its managers to force fit evaluations of their subordinates into a forced-distribution rating system. Merck fits the sampling template adopted for the present research. A forced-distribution rating system demands that managers place specified percentages of their employees within specified rating bands. For example, a forced distribution table could look like this,

Rating band	Percentage of employees
excellent	5
above average	25
average	40
below average	25
need to replace	5

A manager with 100 subordinates must rate 5 into the excellent category, 25 into the above average category and so on.

Citing Medoff and Abraham (1980), Murphy states "A common malady in performance appraisal systems is managers tendency to assign uniform ratings to employees regardless of performance." Murphy continues ".. the difficulty in getting managers to reveal what they know about subordinate's performance may explain the relative paucity of successful incentive compensation schemes in large organizations.... managers have access to private information about the true performance of subordinates."

The present research suggests that managers are not good at specifying measures of performance for their subordinate managers, nor at identifying the unintended effects arising from the operation of, or changes to, the performance measurement and reward systems for managers. Whilst managers may have access to private information, the existence of unintended effects suggests they may have inadequate models of what constitutes 'true performance' of subordinate managers i.e. their private information, or individual information processing capabilities, may be incomplete.

Murphy prescribes that "performance appraisal systems can be made more effective by structuring incentives so that managers find it in their best interest to conduct careful and informative performance evaluations." He concludes that "managers be effectively "told"

to differentiate among employees by making the managers compensation, promotion, and continued employment conditional on observable characteristics of the evaluation, such as the distribution of assigned ratings." It is not immediately apparent how such a prescription would have improved the outcomes noted in the six case studies in the present research. Indeed, it appears likely that such an approach could have exacerbated the problems arising and hindered subsequent identification of the causes.

Provided an organization has capable recruitment, selection, people development, and managerial and supervisory processes, it would not be surprising to find high degrees of uniformity in managers' performance levels. Nor would it be surprising to find the vast majority of managers were able to meet the required standards. In such a situation it is not immediately obvious what additional benefits would arise from introducing a forced-distribution rating system. Indeed, even where such processes are less than perfect there is evidence to suggest that a forced-distribution rating system is unlikely to lead to improvement.

There was evidence of gaming by the Finco managers in response to a forced-choice appraisal rating system, even without the added impetus of a forced-distribution system. Essentially, managers were graded as exceeding targets, meeting targets, or failing to meet targets. If the appraisers were also forced to place specific numbers of subordinate managers into specified performance bands in Finco, it seems reasonable - based on the

evidence in chapter 6 above - that subordinate managers would change their approaches with the distinct possibility that strategic performance would suffer. For example, individuals could only achieve excellence by exceeding their peers and one way to do this would be to indulge in behaviours that are diametrically opposed to good team working. Why help a fellow manager who is in trouble? If the fellow manager performs below average this helps the rating of the other manager. At Finco, where managers already "hid" new initiatives and experienced reduced teamworking because of the forced-choice appraisal rating system, the introduction of forced-distribution would likely exacerbate these 'beggar my neighbour' behaviours.

In the management of managerial performance, Murphy's earlier comment appears relevant to the cases studied in the present research "Forced distribution systems ... in which managers are forced to adhere to a specified distribution of performance, mitigate managerial tendencies to assign uniform ratings but may generate important counterproductive side effects." The author predicts that Merck's apparent improvement in performance upon introducing a forced-distribution appraisal system will be short-lived.

Merchant and Riccaboni (1992) carried out an evaluation of performance-based management incentives at the FIAT Group in Italy. FIAT fits the sampling template

adopted for the present research. Merchant and Riccaboni's results are compared with Finco's.

The FIAT Group and the financial services Group of which Finco is a part, may come from different industries but share many common features. Both have

1) undertaken extensive cost reduction programmes

2) created new operating companies

3) made strategic decisions to focus on their core businesses and have withdrawn from some markets

4) increased their share capital by a large amount which was then used to develop new product and market thrusts

5) rationalised production facilities and procedures. FIAT in manufacturing; the financial services group in retail outlets, support services and IT "production" facilities

6) implemented formal performance-based incentive systems.

The performance measures adopted are also similar as follows,

1) financial measures predominate at profit centre and cost centre levels

2) many types of non-financial measures are used within the operating entities and cover areas directly under managers' control

3) senior managers have an element related to performance of a higher level entity. In Finco this is the Managing Director's share options that depend on the performance of the group as a whole

4) important measures are weighted i.e. profit centre managers have a high profit element content in their performance measures, cost centre managers a high cost element.

Additional similarities were,

short-term orientation of targets under the incentive schemes. Usually to the end of the budget year

many objectives. The 16 to 20 of the MD of Finco was matched by corresponding levels for FIAT managers

many qualitative measures and few quantitative measures

objective or target setting finalised during the budget year to which they apply

once targets were set very, very few adjustments were allowed.

The FIAT Group incentive scheme covered only 521 managers. Given that at the time of Merchant and Riccaboni's study the FIAT Group was the fifteenth largest corporation in the world in terms of revenues, it seems probable that the 521 managers were at the level of the MD of Finco and, perhaps, some of his senior executive team.

Merchant and Riccaboni's study covered only 19 managers, the majority of whom were at a senior corporate level. Only two were line managers. There were no views from below this level to triangulate the senior managers' perceptions. Earlier in this thesis, the author reviewed the question of the mis-perceptions of senior managers. For example, based on interviewing predominantly very senior managers within Plessey Plc, Goold and Campbell appear to have been mislead into mis-classifying Plessey as a strategic control rather than a financial control style organization. Interviewing

extensively at slightly lower managerial levels would have elicited this information. Similarly, the Broderick/Milkovich research was criticised for the same failing. The Finco, Agency and Global Excellence studies discussed earlier all contained many examples of the differing perceptions of senior management and their subordinates in the business units.

Merchant and Riccaboni state that managers, there were only 19 interviewed, think the management by objectives program contributed significantly to the FIAT Group's success. Corporate managers acknowledged the potential for operating managers to engage in games designed to increase their bonuses at the expense of the corporation's good, but they have seen little evidence of such games. A review of notes of more recent interviews with senior managers in the group of which Finco is part reveals similar sentiments. Senior managers in both organizations attribute the lack of visible gamesmanship to the fact that such activities are rare due to,

> strong reporting relationships throughout the financial organization group-wide
>
> the sense of responsibility of the managers who mostly identify themselves with the group.

The evidence within Finco suggests that hinge behaviours take place at multiple levels within the managerial hierarchy of the organization and that much of this is invisible to senior management. Hinge behaviours can arise from gaming. One limitation of this study of a very large group like FIAT is that only 19 managers were interviewed. In the absence of interviewing at lower levels within Finco it is doubtful that the hinge behaviours would have been identified within the organization.

Another reason given by senior managers for the lack of gamesmanship within FIAT is that the sustained period of good performance decreased the incentive to boost performance. However, Merchant and Riccaboni noted that there were severe penalties for failure to achieve target including loss of bonuses and possible job loss. A similar combination of push/pull pressures within Finco led to gaming. Pull coming from the positive incentives associated with potential promotion, push pressures coming from loss of promotion opportunities and perhaps job loss for failure to meet targets.

In such circumstances it would be surprising if some form of gaming was not in operation. The author has many years experience as the senior financial manager in several subsidiaries of large multi-national organizations and is aware of the ability of managers in similar positions to engage in gaming that is all but invisible to group senior management and even, on occasion, to the subsidiary Managing Director. The Merchant and Riccaboni study has insufficient levels of interviewing to rule out such a possibility.

The question of possible hinge behaviours below the 521 managers in the incentive scheme cannot be ruled out. Indeed, it would be surprising if this did not occur. The question is to what extent this does occur. How closely are business unit managers following the strategic intent of the senior managers?

The present research suggests that managers frequently mis-attribute cause and effect. Senior managers think the management by objectives programme contributed significantly to the success of the FIAT organization. It would be in the interests of senior management to make such attributions for many reasons. By way of example, senior management would have approved the significant expenditures necessary to bring the scheme into existence. They are unlikely to wish to believe it was less than successful. And they have the "proof" i.e. the organizations performance improved significantly. Alternative explanations cannot be ruled out. For example, the massive investment in new machinery, new product development and so on, combined with significant downsizing in labour numbers and corresponding fear of possible employment termination, and increasing external demand pull for products on the back of expanding national economies could equally well explain the improved results.

The present research casts doubt on the assertion that the incentive schemes contributed significantly to the success of the organization. In the absence of more information it is impossible to tell. Although the organization appears to have been successful, it is

possible that the results are poor compared to the potential of the organization and that senior management have not hitherto perceived this. In this regard it is interesting to note that planned changes to the FIAT scheme include giving it a more long-term orientation and considering shared versus individual objectives. This suggests that at the time of the study the scheme may not have engendered enough motivation towards longer-term strategic issues nor towards teamworking. If so, this could be another case of a lack of links between the organization's strategic objectives and the performance measurement and reward systems for managers. As such it would be consistent with the Agency and Finco studies.

Otley (1992) carried out a study on the implementation of a performance-related reward scheme in United Bank, an organization with many similarities to Finco. United Bank fits the sampling template adopted for the present research. Like Finco, the most important reward for managers in United Bank was the possibility of promotion.

The Group of which Finco was a part, operated performance-related reward schemes across all of its operations. The two major elements of merit increments and bonus payments are similar to those of United Bank, albeit that the levels of incentives were lower. Otley states that "It seems likely that adding monetary rewards [to achieving targets] would increase the tendency to stress the short term at the expense of the long, and that dysfunctional behaviour would be more likely to be observed. Alternatively,

Merchant's (1989) work suggests that in such circumstances the performance targets themselves will be manipulated so that they are relatively easy to achieve: managers will be able to obtain reasonable bonus payments without being stretched to attain more demanding targets."

The initiatives devised and implemented by managers within Finco did not appear to demonstrate a short term orientation in the managers thinking at the expense of the long. It may be that the comparatively small cash bonuses provided insufficient stimulus to engender such behaviours. However, the appraisal system was the route to a more valuable reward. "Exceeding targets" was perceived to open the possibilities of future promotion, whilst failing to meet target was perceived to close out promotion opportunities and possibly, ultimately, lead to job loss. Exceeding target demanded managers stretch themselves. In general, to exceed target managers required to achieve an initiative that was not in their targets and that, most often, would require cross-functional/departmental assistance that was not controlled by them, nor committed to them, in order to succeed. Although the "meets target" rating was easier to achieve without including the initiatives, the desired rating of "exceeds target" was demanding to achieve. It is not clear whether failure avoidance or opportunity seeking drove managers not to include initiatives in their targets. Perhaps it was a combination of both.

By way of contrast to Merchant, although managers manipulated their targets there is evidence to suggest that in practice managers did stretch themselves to attain more demanding targets. Whilst the managers did not appear to stress the short term their behaviours were dysfunctional. Multiple initiatives requiring cross-departmental/ functional support were being undertaken in an uncoordinated manner. This could be dysfunctional to the organization as a whole.

Otley was not seeking, and therefore did not test for, dysfunctional effects across different areas of the organization triggered by the new scheme. He notes that "The measurable targets were easier to set for branch managers than for colleagues in support divisions and this caused some dissatisfaction, for changing circumstances were more easily taken into account where target achievement was only subjectively measurable." It remains to be seen how managers gave vent to their dissatisfaction. If this resulted in reduced cooperation between the two groups it could be to the ultimate detriment of the organization as a whole, notwithstanding the apparent short term improvements.

The report on the United Bank does not indicate whether the same scheme was introduced across all areas of the bank. If so, it is possible that whilst the scheme appears to succeed in the area studied by Otley it may be causing problems, such as encountered by Finco, in other areas of the organization (Vagneur and Roberts 1995). Indeed, the

appearance of success could be hiding behaviours that are taking the bank away from its strategic direction overall, as happened at Finco.

Simons (1995) proposes a " new, comprehensive" theory for controlling strategy (p3). This is based on a study of the actions of 10 newly appointed CEOs of SBUs of USA-based organisations during the first 18 months of their tenure (p129). All of the organisations studied by Simons met the requirements of the theoretical sampling frame utilised in the current research.

Simons relies heavily on perceptual data from the CEOs and a limited number of their subordinates. His methodology differs markedly from the research reported earlier; in particular, Simons does not seek independent verification of the success of the CEOs efforts by carrying out larger sample studies at multiple hierarchical levels within the organisations he studied.

Simons "comprehensive" theory postulates that control of business strategy is achieved by using four basic levers i.e. 1) beliefs systems, 2) boundary systems, 3) diagnostic control systems and 4) interactive control systems (p4). "The power of the control levers [these systems] does not lie in how each is used alone but in how they complement each other when used together" (p153).

Beliefs systems are said to be about the basic values, purpose and direction for the organisation. Like the Agency and Finco CEOs, Simons' newly appointed CEOs were said to spend a considerable amount of time creating mission statements and other statements of purpose, and in explaining and otherwise disseminating the content of these to lower level staff (p134). Simons argues that the purpose of these activities is to increase employee commitment to organisational goals. Given the importance attached to this by these CEOs, it is surprising that Simons did not carry out any studies to ascertain whether or not such activities were successful. Although not specifically designed for this purpose, the Finco and Agency studies provide some useful indicators.

The Agency study was carried out some three months after a change in strategy. The CEO had been in post for many years and could reasonably be expected to understand how the organisation operated. The change in strategy was accompanied by redefinition of the Agency's mission and strenuous efforts to disseminate this (see chapter 5). The study showed that within as little as three months these efforts had failed to achieve their objectives i.e. although some managers in the organisation had internalised and could articulate the new mission, many had not and instead articulated any one of three alternative and potentially conflicting missions. Although the beliefs of many managers had not changed, it was possible that the other control systems might compensate for this deficiency.

By way of contrast, the Finco study was carried out almost three years after the change in strategy. The CEO had been in post for many years and could reasonably be expected to understand how the organisation operated. Despite this, managers' articulations of the Finco mission appeared to be heavily influenced by their functional roles. Several potentially conflicting missions were articulated. It was possible that other control systems might compensate for this deficiency.

Simons study covered a period of eighteen months and was almost mid-way between the Agency study (three months) and the Finco study (three years). The Agency and Finco studies demonstrate how difficult it is to change, let alone align, belief systems in the short- to medium-term. These studies throw doubts on the efficacy of this element of the efforts of Simons newly appointed CEOs. Unfortunately, Simons does not provide sufficient data to more accurately judge their efforts.

In contrast, boundary systems are said to constrain the scope of an organisations activities. No effort was made to test for this in the Finco and Agency studies.

Diagnostic control systems are said by Simons to be used to "motivate, monitor and reward achievement of specified goals" (p7). Diagnostic control systems "create constraints and ensure compliance with orders" (p9). They are designed to "gain coherence over the multiple functional strategies that coalesce into realized strategies"

(p155). "Today diagnostic controls are ubiquitous. These systems assist in the monitoring and accomplishment of critical performance variable goals, financial and non-financial, by ensuring an explicit top-down linkage of intended strategies to lower-level goals and the coordination of resources and action plans" (p90). The evidence from the current research is consistent with other earlier published research which runs contrary to these assertions and suggest that explicit top-down linkages are unusual in practice.

The performance measurement and reward systems for managers studied during this research fall within the above definitions for diagnostic control systems. The evidence gathered in the Agency and Finco studies suggests that in practice there are few, if any, explicit top-down linkages between intended strategies and lower-level goals included in these systems. For example, there was no evidence of the systematic identification of critical success factors, either in Simons studies or the studies which form the core of this research, that would appear to be a pre-requisite for such an effort. The evidence is that neither the Agency nor Finco explicitly attempted to create any form of top-down linkages. There was also no apparent evidence of informal attempts to do this.

Simons indicates that CEOs pay little attention to the diagnostic control systems, "staff functions control this". The face-to-face survey with 20 CEOs in the UK as reported above suggests this is common practice. Perhaps CEOs should pay greater attention to this area. The current research provides strong indications of unintended outcomes from

goal setting and reward policies (one type of diagnostic control system) and change initiatives, the results of mis-alignment between diagnostic control systems and strategic intent being frequently mis-diagnosed, lack of integration between support systems, that misalignment reinforces barriers to change, and that managers can choose to act as hinge players and frustrate top-down initiatives. All of these can result in realised strategies being different from those intended. Importantly, CEOs appeared to be unaware that such situations occur regularly and frustrate achievement of their strategic goals. It would appear that greater attention to the operation of the diagnostic control systems may give CEOs improved control over the realisation of their intended strategies.

In direct contrast to their lack of interest in and usage of the diagnostic control systems, CEOs are said by Simons to devote considerable amounts of time to using interactive control systems. These systems are said to be used to stimulate organisational learning and the emergence of new ideas and strategies. The notion behind this is that CEOs devote a large amount of attention to focusing their subordinate managers attention on finding solutions to the strategic uncertainties the CEO perceives the organisation is currently facing. They may do this by using one or more existing systems (including the diagnostic systems) to focus managers attention, hence any system can potentially become an interactive control system, or may draw managers attention to issues not covered by these. Simons does not test for the efficacy of such efforts.

There is evidence in the current research to suggest that it may be easier to achieve the appearance versus the reality of getting managers below CEO level to respond adequately to the interactive control systems. The existence and actions of hinge players suggests that in the absence of changes to a range of diagnostic control systems and their operationalisation, many managers may only give the appearance of changing their focus of attention. For example, managers in the Agency and Finco appear to be highly motivated towards actions that improve the possibilities of personal promotion. Often this results from achieving or exceeding some well understood criterion; in the Agency this mainly took the form of achieving certain personal skills and characteristics; in Finco this involved exceeding goals set. The evidence suggests that most managers in these organisations will give only lukewarm support to the CEOs intent behind activating an interactive control system if this is not seen to enhance the individual manager's promotion possibilities. One exception may be where there is strong policing of the managers efforts and lack of support threatens promotion or continued employment.

Simons asserts that "The power of the control levers [these systems] does not lie in how each is used alone but in how they complement each other" (p153). The current studies provide evidence that in practice no formal efforts take place to ensure these systems compliment and do not contradict each other. The evidence here is that it may be more likely to find contradictions than complementarity. Indeed, the evidence suggests that CEOs have a poor grasp of the systemic nature of the operation of the various control systems.

Simons presents an intuitively appealing set of "Levers of Control". He suggests that these are supported by empirical evidence obtained from studying the actions of newly appointed CEOs. However, the empirical evidence from the current research suggests that CEOs and managers have a very poor, and often woefully inadequate, understanding of how to handle and integrate these controls effectively. Simons provides insufficient data to ascertain if the actions of the CEOs studied by him were successful. The balance of evidence appears to indicate that had Simons extended the scope of his studies to seek verification by interviewing at multiple hierarchical levels within the organisations studied by him, he may have discovered hierarchical disconnects between the CEOs and operating managers and that his theoretical model was not supported by empirical evidence. Indeed, lack of integration and contradictions between the systems would appear to be a more likely norm for organisations currently.

In summary, Simons provides a theoretical control framework that he contends is based on empirical research. The present research reported in this thesis does not support his contentions re the efficacy in practice of his model or its major elements. Indeed, although his theoretical model is interesting, the present research suggests that it does not correspond to the current practices within organisations. It is hypothesised that divergence between Simons findings and the current research is due to the limited base from which Simons data was collected and that multiple hierarchical level interviewing

within the organisations studied by him may have produced very different results. Simons does not provide sufficient data to be conclusive about this issue.

The research reported in this thesis begins to demonstrate the subtle, complex and powerful effects of the management control systems on the successful implementation of strategy. It raises questions about the efficacy of Galbraith and Kazanjian's (1986, 1978) prescriptions for reward systems that "... the primary concern for purposes of strategy implementation is the reward system for senior managers". The notion that aligning the senior managers' objectives will automatically lead to alignment of the objectives and interests of their subordinate managers, seems suspect at best. The evidence suggests that senior managers do not understand the need to align the internal control systems. Indeed, there is some evidence to suggest that they may never have been aware of this. One consequence has been to mis-attribute, frequently to culture, the unintended effects from the operation of the management control systems.

Similarly, Locke and Latham (1984) and Galbraith's (1973) contention that it is easy to operate management by objectives vertically through organisations requires re-appraisal. The evidence here does not support this contention.

Patten and Fraser (1975), Daft and McIntosh (1984) and Hax and Majluf (1984) refer to the lack of congruency of organizational systems and of integrating mechanisms. The

present research is consistent with their findings and suggests this phenomena is wide spread.

The present research suggests caution should be exercised in responding to the Baden-Fuller and Stopford call for new performance measurement and reward systems. The evidence here suggests that the main problem may not lie in the systems per se but in management's ability to operate these. Senior managers appear to be unaware that apparently small changes to these systems could provide substantial benefit to their organizations.

There is some support for the interplay between culture and the performance measurement and reward systems. Although more research is required, it appears likely that major cultural change could be difficult to achieve in the absence of changes to the performance measurement and reward systems. However, there are suggestions that reward and performance measurement led change efforts may be promising. Unfortunately, the present state of knowledge about performance measurement and reward systems in practice suggests that few managers may have the ability to use this tool correctly.

Rather than new prescriptions and chasing the latest new fad, managers would do well to learn how to master the management control systems already at their disposal. If

managers believed that management control systems were in reality strategic control systems then greater progress might be forthcoming.

7.6 Future Research Directions

The present research raised an apparently very important issue for management researchers and practitioners alike; the mis-alignment of the performance measurement and reward of managers with an organisation's strategic objectives. The research appears to indicate that managers are unaware of the unintended effects that arise from systems that are out of alignment, and that managers do not take deliberate action to ensure that alignment occurs. There are a range of other internal support and control systems e.g. management development and training. The present research could be usefully extended to ascertain whether organizations take deliberate action to ensure that these are aligned with their strategic objectives.

As can be expected at the present exploratory stage of the research, it raised as many questions as it answered. Though not immediately apparent that it is directly relevant to this research, the reasons for the Agency's four co-existing missions is worthy of deeper research. Is this associated with control systems in operation at the time each of these missions was dominant, hence institutionalising a belief set in particular individuals and if so which and why? (if indeed any one mission has ever been dominant). Was it related

to age on entry to the organization? education? position held at the time? other factors?

Our current definitions of control systems are in the main dominated by financial control systems (Hofstede 1978, Otley,Berry and Broadbent 1995). The present research lends some support to the call for a wider range of control measures (e.g. See Eccles 1991).

There is a need to replicate and extend the present research. Although the present research attempts to explain cause and effect are intuitively appealing, there may be other controls or mechanisms driving the observed behaviours. This is analogous to the statistical problem of collinearity.

Research efforts would be enhanced by the further development of the Broderick/Milkovich/Roberts codifications. In particular, further incorporation of content and process elements may assist in the development of diagnostic tools.

Table 19 Organisational Data	Finco	Agency
Ownership	Plc	Government
Group turnover greater than £2 billion	yes	yes
Group employs greater than 20,000 employees	yes	yes
Group in existence more than 10 years	yes	yes
Compensation system in existence for more than 3 years	yes	yes
SBU		
Turnover greater than £200 million	yes	yes
Employs greater than 1,000 employees	yes	yes
Life as current entity at time of study	2.5 years	3 months
Part of group for more than 10 years	yes	yes
Compensation system in existence for more than 3 years	yes	yes

Table 20 Characteristics of managerial performance measurement and reward systems	Finco	Agency
Design		
Pay structure		
how jobs evaluated	Hay's type grading allocation to scale by committee	Hay's type grading allocation to scale by committee
skill requirements - job specific or general	mixture	general
skill acquisition	competitive via internal group advertisements no suitable candidates, then advertise externally	from civil service "pool" competitive via internal advertisements no suitable candidates, then advertise externally
Pay level		
policy	market rates	government policy
actual	market rates	market rates
Pay mix		
base salary & benefits	yes	yes
incentives - performance related bonus etc	yes	yes

Table 21 Characteristics of managerial performance measurement and reward systems - Design (continued)	Finco	Agency
Pay incentives		
timing	annual	annual
performance measures	goal achievement	mainly personal skills
performance criteria	quantitative and qualitative	mainly qualitative
amount	min 2.5% max 5%	< 5%
Administration		
Pay communication		
type of information circulated	factual scale data	factual scale data
information channels used	few	few
Pay centralization		
employee involvement	low	low
pay policy involved	less important	less important
Pay formalization		
work rules/procedures	many rules	many rules
Pay standardization		
pay policy application	uniform	uniform

Table 22 LIVELINESS OF DOCUMENTATION **Personal**	**Finco**	**Agency**
Job description read	< once per year	annually
Job description updated	infrequent - regrading	annually
Performance appraisal reviews	annually	annually
Formal goals for year agreed	mainly during year	crosses commencement of year
Formal goals reviewed (formally or informally)	mainly annually	annually
Informal goals communicated	yes	yes
How are informal goals communicated	systematically	randomly
Formal goal consistency assurance	father - son (two levels)	grandfather - father - son (three levels)
Formal connection between strategic plans and personal goals	no	no
Organization		
Mission statement read	infrequently	almost never
Response to communications from SBU corporate functional departments	sometimes	"shouts loudest"
Response to communications from MD	sometimes	most times
Response to formal policy documentation issued	sometimes	"shouts loudest"
Strategic plan analyzed into critical success factors	no	no
Formal connection between strategic plans and departmental initiatives	no	no

Table 23 LIVELINESS OF DOCUMENTATION - continued	Finco	Agency
Face-to-face meetings		
Formal top team control and coordination meetings	monthly	monthly
Informal top team control and coordination meetings	infrequently	infrequently
Major personal earnings growth potential	promotion - regrading - transfer	promotion - regrading - transfer

Table 24 Alignment and Hinges	Finco	Agency
Alignment - Formal		
Formal attempts at aligning strategic objectives and PMR systems	No	No
Formal identification of critical success factors (or equivalent)	No	No
Formal monitoring and reporting of critical success factors (or equivalent)	No	No
Priorities emphasized in formal PMR systems	No	No
Alignment - De Facto - In Formal Systems		
Corporate objectives appear to be reflected in divisional objectives	Partly	Unknown
Divisional objectives appear to be reflected in SBU head's formal (level 1) objectives	Partly	Partly
Corporate objectives appear to be reflected in SBU head's (level 1) direct reports formal objectives	Partly	Partly
Formal objectives for SBU head are reflected in direct reports formal objectives	Partly	Partly
Formal objectives for SBU head's direct reports reflected in their subordinate managers formal objectives	Partly	Partly
Evidence of possibility of hinge functions		
Objectives vertically communicated through formal management by objectives	Partly	Partly
Examples of formal objectives regularly over-ridden by managers superiors in hierarchy	Occasional	Unknown
Anecdotal evidence of deliberate hinge player activities	Yes	Yes

Table 25	Agency	Finco
Issues suggested by short case studies in Chapter 4		
a) Incomplete specification of measures of performance	Yes	Yes
b) Unintended systemic effects upon behaviour	Yes	Yes
c) Strong stimulus exerted by 'reward' system	Yes	Yes
d) Reward system not aligned with business objectives	Yes	Yes
e) Changed control systems impeded achievement of objectives	No	No
f) Unchanged control systems impeded achievement of objectives	Yes	Yes
g) Senior management closely monitored results	?No	?No
h) Symptoms mis-diagnosed, systemic effects not identified	Yes	Yes

Table 26 Summary	1	2	3	4	5	6
Organizational Data						
Type	Chain store	Financial Services	Project design and manufacturing	Government agency	Finco	Agency
Ownership	Plc	Plc	Plc	Government	Plc	Government
Group turnover greater than £2 billion	yes	yes	yes	yes	yes	yes
Group employs greater than 20,000 employees	yes	yes	yes	yes	yes	yes
Group in existence for greater than 10 years	yes	yes	yes	yes	yes	yes
Compensation system in existence for greater than 3 years	yes	yes	yes	yes	yes	yes
Issues suggested by Caselets/Field studies						
Incomplete specification of measures of performance	yes	no	yes	yes	yes	yes
Unintended systemic effects upon behaviour	yes	yes	yes	yes	yes	yes
Strong stimulus exerted by 'reward' system	yes	yes	yes	yes	yes	yes
Reward system not aligned with business objectives	yes	yes	yes	yes	yes	yes
Changed control systems impeded achievement of objectives	yes	no	yes	no	no	no
Unchanged control systems impeded achievement of objectives	no	yes	no	yes	yes	yes
Senior management closely monitored results	yes	yes	yes	yes	no	yes
Symptoms mis-diagnosed, systemic effects not identified	yes	yes	yes	yes	yes	yes

Chapter 8 Contributions to Knowledge and Recommendations

8.1 Overview

This chapter discusses the contributions to knowledge made by this research and makes recommendations for researchers and practitioners.

Section 8.2 outlines the main contributions to knowledge.

Section 8.3 contains recommendations for academics and practitioners.

8.2 Contributions to Knowledge

Reference the research questions addressed by this research, the evidence presented in here suggests that

1) Organisations undertaking strategic change do not seek to align their performance measurement and reward of managers with their business objectives, and

2) Lack of alignment can give rise to unintended effects that may impeded achievement of the intended strategy.

The research design allowed testing for the extension of existing theory into an area not hitherto addressed (Chapter 2, section 3.4). In theory, scale and experience/learning curve benefits could apply to the management processes of establishing and revising

performance measurement and reward systems on an on-going basis. Large, long-established organisations could be expected to achieve scale benefits and through time minimise management coordination and control problems through accumulated learning curve benefits. This had not been tested prior to this research.

Whilst there was evidence of specialisation arising from scale benefits, for example the existence of specialised human resource management functions, there was disconfirmatory evidence of accumulated learning benefits. In particular, although these functions had been long-established the organisations studied did not appear to have learned how to identify the sources of unintended consequences arising from changes to existing systems, or of not changing them, on strategic change efforts (Chapters 4, 5 and 6, also summaries in tables 4 and 26).

The research presented here provides empirical data in an area where limited data existed previously and where a number of management disciplines called for detailed studies (Chapter 1). The studies assisted in tackling a major gap in the literature i.e. the systematic collection and reporting of contextual data on the performance measurement and reward of managers and realisation of intended strategies in practice.

The research resulted in the extension and modification of existing methodologies and the creation of new ones. The research design followed a framework developed by Eisenhardt in order to facilitate development of theory as further data is accumulated in future (Chapter 3). However, it also significantly extended and modified methodologies for analyzing managerial performance measurement and reward systems and fit with

strategy type that was recently developed by Broderick and Milkovich (Chapter 1, p27 and Chapter 2, p33-5). Tables 19 through 26 in chapter 7 will be used to illustrate the extensions, modifications and newly created approaches.

Table 19, Organizational data - was developed by the author to provide contextual data on organizations being studied. This supports testing of whether organisations fit the theoretical sampling framework used in this research.

Tables 20 and 21, Characteristics of managerial performance measurement and reward systems - this utilises characteristics identified by Broderick/Milkovich. However, the framework was developed solely by the author to facilitate inter-organization comparisons.

Tables 22 and 23, Liveliness of documentation - were developed by the author primarily as surrogates for supervisory presence in the managerial hierarchy. It addresses some process issues, as against the largely content issues of tables 20 and 21, and seeks to identify key sources of financial rewards.

Table 24, Alignment and hinges - was developed by the author to provide data on formal methods of aligning the performance and reward systems for managers with the strategic objectives. It also provided data on whether informal systems might overcome any lack of formal systems. Lastly, it sought to provide limited data that might indicate the possible presence of hinge players whose presence

could, in practice, cause failure of alignment even if adequate formal and/or informal alignment processes appeared to exist.

Table 25, Issues suggested by short case studies - was developed by the author to summarise some key issues found in the pilot studies and ascertain if these existed in the major case studies. This facilitates inter-organisation comparisons.

Table 26, Summary - was developed by the author for inter-organization comparison purposes.

The author developed multiple hierarchical interviewing as a means of establishing how systems operate in practice versus how they may be intended to operate i.e. intended versus realised systems operation (Chapter 3, p83-5). This operationalisation was different from that of the Broderick/Milkovich methodology because of weaknesses in the latter that led the author to reject their test of fit between the reward system and strategy type being followed (Chapter 1, p33-5). Broderick/Milkovich relied on mail survey data from the senior human resources manager in organisations. This research demonstrated the weaknesses in such an approach and utilised face-to-face interviews covering all layers of the managerial hierarchy, and feedback from the organisations studied on the conclusions being drawn, in order to achieve a greater degree of objectivity, confirmatory evidence, and hence confidence in the interpretation of the perceptual and other data collected.

The research indicates that in practice management control systems can operate as strategic control systems (Chapters 4, 5 and 6, also summaries in tables 4 and 26). There were strong indications that they can be responsible for divergence between intended and realised strategies.

This research leads to rejection of an implicit hypothesis that is widely accepted in the literature i.e. alignment of suitable incentivised SBU CEO's goals and objectives with corporate's will automatically lead to alignment of those of SBU CEO's subordinate managers. It extended a previous study on hinge player activity in organisations. It provides evidence of multiple hinge player activity at multiple levels of the managerial hierarchy and suggests that the apparent ease of aligning the goals and objectives of managers vertically within the same hierarchy is deceptive (Chapters 5 and 6).

The research provides strong indicators that the impact of the performance measurement and reward systems for managers on strategic change efforts is poorly understood by senior managers. In the cases studied there were many examples of unintended effects caused by changing, or not changing, these systems being mis-diagnosed leading to inappropriate remedial actions being considered. For example, unintended effects were regularly diagnosed as being due to "culture" or customer behaviours rather than internal systems-driven behaviours (Chapter 4, see table 4 p123).

The research throws doubt on the interpretation of many studies published in the literature (Chapter 7, pp240-65). In particular, results which may appear good at one level of analysis are sometimes portrayed as suggesting they are contributing to the overall

success of an organisation. The current research suggests that in many cases such appearances are deceiving and that the apparent good results at one level can in fact be detrimental to the organisations as a whole and pushing it away from its intended strategic direction.

The research indicates hierarchical disconnects occur in organisations, and can occur at multiple hierarchical levels within a single organization (Chapters 5, 6 and 7). For example, Group CEOs and their subordinate SBU CEOs are, unknown to the group CEOs, frequently in disagreement about the SBU's mission and key objectives (Chapter 7, pp 238-9). There is evidence that this leads to actions of which the Group CEOs would strongly disapprove but that the Group CEOs lack appropriate mechanisms for detecting these.

The research provides evidence that the performance measurement and reward systems for managers can play a critical role in successful strategic change efforts, and that attempts at changing beliefs systems (culture) through articulating and disseminating new mission statements are likely to achieve poor results (Chapters 5 and 6). It does not provide conclusive evidence in favour of reward led change versus cultural led change. However, it strongly indicates that culture led change on its own is likely to be inadequate. Changed or unchanged performance measurement and reward systems were implicated in failed strategic change efforts in many of the studies. It is not apparent how culture led change programmes could overcome these. It would appear that, at a minimum, culture led change programmes must be accompanied by parallel changes to performance measurement and reward systems of managers. At the present time there

have been no published studies of performance measurement and reward led change efforts but there is strong evidence in the above research that such approaches may be superior to culture led change efforts. In addition, strenuous efforts at reformulating and disseminating mission statements failed in the Agency study i.e. within three months of such efforts managers in the Agency were articulating any one of four different and conflicting missions (Chapter 5).

8.3 Recommendations

The recommendations fall into four sections. First, to researchers concerned with the relationship between performance measurement and reward of managers (or other systems) and achievement of business objectives. Second, to CEOs concerned with achieving their strategic intent. Third, to business planners and strategists. Lastly, to audit committees of large corporations.

Recommendations to Researchers

If meaningful theoretical development that is useful to practitioners, management teachers and other researchers is to occur within the management control, strategy implementation and allied disciplines several things must occur. There is a need for in-depth, cross-disciplinary, contemporaneous studies of the evolving relationships in practice between the various control systems and realisation of strategic intent over long periods of time. The time and cost of this may appear to be in conflict with the emphasis on short-term publishing that appears to be prevalent at the current time in many Western management

schools. However, the alternative is for a continuation of the present situation with short-term, surface-level studies leading to "theoretical models and solutions" that are incompletely grounded and hence provide spurious generalisations that practitioners, consultants and teachers so often complain about. Ultimately, continuation of this is likely to lead to large numbers of such models and solutions that are seen to fail in practice, which in turn will lead to reducing numbers of organisations providing access for research, rejection of management research because it is viewed as not contributing to resolving the issues faced by organisations, and finally reduction or elimination of funding for future research in this area.

There is a need to extend the methodologies used in a manner that accumulates knowledge and leads to sound empirically-based theory development. One useful step would be the collection and publication of contextual data within a generally agreed framework that could be extended to meet individual researcher's needs. This would facilitate the development of data bases similar to those currently used by economists. The tables developed for this research are an example of how such approaches can be developed. Although there is room for much development of these, they can facilitate the exchange of data between researchers and assist in its interpretation. The comparisons of the literature in chapter 7 would have been substantially improved had such information been available.

Recommendations to CEOs and Senior Managers Responsible for Achieving an Organisation's Strategic Goals

Responsibility for alignment or re-alignment of an organisation's resources with its strategic intent lies with the CEO and his senior managers. In large organisations it not possible for them to consider the many detailed resource allocation and alignment issues that arise every day. Therefore they are responsible for the establishment and monitoring of policies, procedures and systems to achieve this. However, the evidence presented here suggests that they, and other managers, often have an insufficient grasp of the systemic nature of their businesses to correctly identify the source of unwelcome changes in their operations. They seem particularly poor in identifying the unintended effects arising from the operation of their systems. If inappropriate responses that may lead to abandonment of sound strategies are to be avoided, CEOs should ensure that all managers are trained in the systems thinking skills necessary to clearly identify the true sources of cause and effect.

When considering requests or proposals for strategic change or major decisions in general, CEOs and senior managers should insist on the inclusion of a review of the necessary control system changes that will be required to assist in achieving a successful outcome.

CEOs should insist that the performance measurement and reward of managers at all levels be reviewed regularly to ensure these are aligned with the business objectives and each other. Other control systems should similarly be reviewed regularly. The evidence in the present research is that it appears that everyone assumes this happens but no one takes responsibility for it. The CEO should delegate to one particular function, with multi-functional assistance if need be, responsibility for the regular review of these

systems. It is not immediately apparent that any functional grouping currently has the skills necessary for this. However, given its importance, the need to overcome hinge player activities, and the need for independence and integrity, it may be useful to extend internal audit to cover this new requirement.

CEOs and others considering cultural change programmes and initiatives should ensure that the various performance measurement and reward and other control systems are aligned to assist their efforts. This should form a distinct element of such change efforts.

Recommendations to Business Planners and Strategists

Mintzberg and others have often criticised the efforts of business and strategic planners. This has been based on the observation that many of their plans proved to be unachievable in practice. However, it has been observed earlier in this thesis that mis-alignment of control systems is regularly implicated in the reasons for such failures. This suggests that with proper attention to the implementation issues a higher success rate should be possible.

It is not the purpose of this thesis to provide a critique of business and strategic planning, merely to relate aspects relevant to the performance measurement and reward of managers. Business and strategic planners should ensure that allowance is made for the potential need to realign the control systems and build into their plans and implementation schedules related cost and time elements.

Recommendations to Audit Committees of Large Corporations

Much audit work revolves around control systems designed to safeguard an organisation's assets and manage risk. The above research indicates the difficulty in establishing whether control systems such as performance measurement and reward systems are working as intended. Mis-diagnosis of unintended effects and hinge player activities are only two of the problems that get in the way of establishing whether the realised and intended control strategies are the same. The author is not aware of any audit committee that has in place policies, procedures and systems to monitor this important issue on an on-going basis. The audit committee should ensure these are in place and reviewed regularly.

The deployment and redeployment of resources in pursuit of an organisation's strategic goals is a high risk that businesses accept if they are to respond to environmental and other changes and hence survive or grow. However, the present research suggests that the risk might be managed better if the senior management team takes into account control and other systems requirements when it is making major decisions. The audit committee should be responsible for ensuring that the major decision making processes include adequate reviews of such factors.

8.4 Summary

The present research provides a tentative first step towards a greater understanding of the interaction of control systems and realisation of strategic intent. Examination of one

particular control system, the performance measurement and reward of managers, in organisations undertaking strategic change demonstrated the importance of this research and revealed some of the complexity of the issues involved. In a rapidly and continuously changing business environment where few, if any, markets are left uncontested it is likely that success will be achieved by those organisations which can best manage the strategic change and implementation processes. The evidence in this thesis is that the management of the control systems and processes may well form a key element of this but that at present organisations exhibit a poor understanding of these. This should provide opportunities for those organisations that gain "first mover" advantage by establishing such capabilities.

Appendix I ABI database search

The ABI data base (1970-94) contains abstracts of articles from more than 800 academic and practitioner magazines and periodicals world-wide, covers a period in excess of 20 years, and is a comprehensive data base. It includes all of the leading academic management-journals.

A brief guided review of the literature, and some experimentation with the data base, led to refinement of the search terms. The data base searches for the selected terms in the title, classification system, and body of text in the abstract. When using multiple search terms this provides superior results than systems which are limited to searching solely for terms contained in titles. Titles only highlight an author's specific interest area and/or the specific audience he/she sought to address.

An example of one matrix search pattern is shown in the table, at the end of this appendix, and covers the period January 1990 through January 1994. Experimentation with additional search terms failed to generate significantly different results. Extending the search backwards over a 20 year period provided similar results i.e. cells with low numbers of hits in the 1990/94 period, such as change management, tended to have a small number of hits in the 1970/89 period.

Each cell contains both of the terms at the heads of the intersecting row and column. For example, the cell containing the search terms relating to performance measurement <u>and</u> strategic change contains 2 articles. Also, by the nature of the technology and search strategy an article can be counted in more than one cell.

The cells of interest to this research effort tended to contain small populations of articles. For example, during the period January 1990 to January 1994 inclusive,

878 articles were identified containing terms related to performance measurement, of these,

only 9 articles (including one double count) contained terms potentially referring to strategic change. Further examination of the 8 relevant articles (excluding double count) revealed 1 was not related, 1 systematic empirical case study, and 6 prescriptive articles mainly by practitioners. This suggests there may be a gap, particularly in systematic empirical research, in the literature relating performance measurement to strategic change.

only 8 (including one double count) articles contained terms potentially relating to strategic or management control. Further examination revealed that 2 were unrelated articles, 4 prescriptive articles and there were no systematic empirical articles. This suggests there may be a gap in the literature relating performance measurement to strategic or management control.

26,917 articles were identified containing terms related to rewards and incentives, of these,

a maximum of 41 potentially referred to strategic change. Further examination of the 41 revealed, 8 were not applicable, 8 were systematic empirical studies and 25 prescriptive articles mainly from practitioners. This suggests there may also be a gap in the literature relating rewards and incentives to strategic change.

a maximum of 51 articles potentially referred to strategic control or management control. Of these 18 were not applicable, 7 (excluding one double count) were systematic empirical studies, and 25 were prescriptive articles largely from consultants and practitioners.

The low level of systematic empirical studies and much higher level of consultant/practitioner articles supported by limited anecdotal evidence, is a consistent feature throughout the matrix.

Codings

1 Performance measure? (PM)

2 Reward or rewards or compensation or pay (R)

3 Incentive? or performance related or pay for performance (Inc)

4 Manager or managers (M)

5 Strateg? change (SC)

6 Strateg? management (SM)

7 Change management or management of change (CM)

8 Management control? (MC)

9 Strateg? control (SO)

10 Align? or consistent or consistency or congruen? (A)

11 Strateg? implementation (SI)

12 Motivat? (Mo)

13 Strateg? plan? or business plan? (SP)

14 Fit (F)

change = 5 + 7 + 11

reward = 2 + 3

control = 8 + 9

alignment = 10 + 14

? denotes a wild card. For example, the term 1 performance measure? will include all terms commencing with the word measure e.g. measures, measurement, measurements, etc., etc.

ABI Inform Jan 1990 to Jan 1994	Pm	R	Inc	M	SC	SM	CM	MC	SO	A	SI	MO	SP	F
1 (PM)	878													
2 (R)	93	21270												
3 (Inc)	62	1906	7553											
4 (M)	194	2602	849	29475										
5 (SC)	2	3	1	31	115									
6 (SM)	13	40	22	166	13	885								
7 (CM)	6	26	5	120	7	4	365							
8 (MC)	5	32	11	120	nil	9	4	451						
9 (SO)	3	4	4	14	nil	7	nil	7	53					
10 (A)	63	527	272	902	9	55	20	20	1	7631				
11 (SI)	1	5	1	21	2	11	nil	2	2	5	61			
12 (Mo)	41	825	736	1260	3	21	19	15	5	207	1	5059		
13 (SP)	69	634	213	1807	67	477	51	46	29	432	37	217	11932	
14 (F)	11	146	81	376	5	20	9	7	1	122	2	71	186	2773

Appendix 2 Agency Questionnaire

Questions relating to mission/vision/strategy

Q1 Respondent

Name?

Background and experience in the Agency?

Current position in the Agency?

What are the functions of the job?

Q2 Strategy as perceived by respondent

Does the term strategy have any meaning in the Agency?

Does the Agency have a mission or vision statement?

If yes, what is the mission/vision?

If I were to ask the same question of 1) the board 2) the regional directors/offices and 3) the area managers/offices would I get the same answers?

If the answer is no, why would they differ and in what respect?

Q3 Questions concerning the forces affecting strategy

What in your view is the position of the Agency in its market?

What if any are the forces in the Agency's market which could affect its position?

What are the forces/factors which shape the aims/mission/strategy of the Agency?

If you took a medium term view, in what ways do you consider that the Agency could change?

Q4 Questions concerning the forces affecting the make up of programmes for users

If we took one (or all) of the Agency's major initiatives, what are the principle inputs and outputs?

Are they the same for each programme? If they differ, how?

Questions relating to review of the pay system

Q5 What should the objectives of a review of the pay system be?

Q6 What factors do you consider important to take into account?

Q7 How do you think pay is related to work effort and achieving objectives in the Agency?

- now
- should be in the future

Q8 How much freedom do you think the Agency has to change its pay policies?

Q9 What constraints does the Agency have that restricts the level of change the Agency could undertake? How can you find out if your observations are correct?

Q10 How much change can the organisation absorb?
How do you reach this conclusion?

Q11 How do people react to performance assessments which include a judgmental or subjective element?

Is this improved by active participation in negotiating targets?
Is there a level of assessment where subjectivity is acceptable eg 10% or 20% or 30%?

Attitude surveys suggest problems of trust, what can be done to overcome this?

Q12 What recruitment problems do you see currently and in the future? Why do people leave?

Q13 What retention problems do you see currently and in the future? Why do people leave?

Q14 What can/should be done to impact this in the short-/long-term?

Q15 Do you expect continuing transfers into and out of the Division? Will future promotions include such transfers?

Q16 What do you think of the existing/previous pay structures?

Appendix 3 Finco Managers Questionnaire

Name:

Organisation:

Department:

Title:

Interviewer:

Date:

Subject:

The objective of this project is to:

- Understand the organisation better and how it works

Objectives of this interview:

- Understand your part of the organisation.
- Learn about your understanding of the organisations activities.
- Identify key people who should be interviewed and groups which should be included in our review.
- Identify applicable prior work of which you are aware.

We may revisit some of the of the questions in greater detail over the next few weeks.

If there are any documents, ideas or matters relating to the customer/account service delivery process which you feel are important, please bring them to our attention at any time.

Career history?

Length of service in this post?

Do you have a job description and

Is it used? Up to date? Describe your job accurately?

If not, what are your roles and responsibilities?

Please, draw your organisation chart.

What is your groups* geographic dispersion?

Who do you report to?

.a Day-to-day?

.b Occasionally?

What customer interaction does your department have?

What customer interaction do you personally have?

* Your group - departments or people managed directly by you.

Who are your customers?

a. Number?
b. Size?
c. Geographic dispersion?

How do you interface with your customers?

What products/services do you provide each of them?

How do you provide them?

How are they charged for each of these?

How is the price decided and by whom?

Who are your main points of contact in your customers?

How is contact initiated?

What business is Finco in and why? (What is Finco's mission?)

What businesses should Finco be in and why?

What are the key resources available?

a. People?
b. Skills?
c. Knowledge?
d. Special technology?
e. Systems?
f. Other?

How is your time spent/used?

What specifically is revenue generating?

What portion of your time usage that is not currently generating revenue has the potential of revenue generation? What is it?

How would that best be achieved?

What is account management? What areas (turf) are included?

Trace an example of how a typical account management activity occurs

Does it exist in many departments (areas of responsibility) or only one?

What information/reports do you have/prepare/give to your boss? How often?

What strengths does Finco's account management possess that can be built upon?

Are there weaknesses that need over coming?

What opportunities exist for development?

What are the main threats to face?

What should be done differently?

What key actions should be taken?

If you had the authority and budget what would you undertake as the first project?

What is your group good at doing?

What is your group not good at doing?

What are the major problems currently facing you?

What should be done differently?

What key actions should be taken?

What internal barriers exist to the achievement of improvement?

What external barriers exist to achievement of improvement?

If you improve things in your group...what are the benefits to you personally?

...what are the benefits to the group as a whole?

What does your boss think is important?

What does he expect of you/your group?

How do you know it is important?

How does he measure it?

What do you think is deliverable?

What do you think is important?

How do you know it is important?

How can you measure success?

What do your subordinates think is important?

What do they expect of you?

How do you know they think it is important?

How can success be measured?

What do you think is deliverable?

What do your customers think is important?

What do they expect of you/your group?

How do you know?

How can success be measured?

What do you think is deliverable?

Jogger for researcher

Improved performance

Being innovative and entrepreneurial

Quality

Teamwork

Customer care

Operating flexibility

Consideration of the needs of the group

Community responsibilities

Delivery time

Speed

Flexibility

State of the art technology

Knowledge

Resources

Others:

Appendix 4 Agency - Archival Data collected - 122 Documents

1 Pay scoping - Management expectations and attitude

2 Regional director's letter to Deputy Chief Executive re Communications and Cascades

3 Measures of Area Manager's Performance - Monthly Report

4 Agency IT Strategy - Vision undated

5 Job specification of a Regional Director

6 7 copies of Regional Newsletters

7 TQM Strategy Document for one region

8 Job specification - Training and Customer Care post

9 Annual Budgeting timetable

10 Human Resource Development proposal from one region

11 Management Workshops - one region

12 Key priorities 89/90 - one region

13 Local office manager and active management

14 Review of Organisation and Staffing of the Agency - July

15 Pat Scoping Study and Local Office Management Review - May

16 Review of the Organisation and Staffing of the Agency - February

17 Review of Organisation and Staffing of the Agency - July (Final)

18 Agency Staff Attitude Survey

19 Operational Planning Guidance 1990/91

20 Statement of Corporate IT Strategy - 5 year plan

21 Newsletter covering new branch organisational structure - February

22 Factors influencing demand for Agency services - May
23 Characteristics of users of Agency services - Mid year

24 Agency - Key facts December

25 What Agency Status Means Spring

26 Head Office Organisation Chart

27 Grading Structure

28/ 57 Regional and Area Organisation Charts

58 Review of Local Office Managers - April

59 Scoring for Job Evaluation

60 Childcare Nursery Proposals for Head Office - January

61 Instructions for Operation of Special Bonus scheme - undated

62 Special Bonus Scheme - Staff Circular December

63 New Pay Arrangements for Clerical and Secretarial Grades

64 New Pay Arrangements for Executive, Office Support and Related Grades

65 Local Pay Additions - June

66 Guidance for Performance Appraisal

67 Review of Management Training - April

68 Customer Satisfaction Survey - February

69 Change Management - May

70 Change Management - Programme Outline - April

71 Grading Guidance for the Administration Group - September

72 Estimated headcount - April

73 Additional Staffing Data by Job Type

74 New Recruits During Last 12 months - April

75 Computer Pay System - Operation Diagram

76 Leavers During Last 12 months - April

77 Cost of Staff Training - May

78 Induction Training - June

79 Management Training - June

80 Critical Success Factor Workshops - April/May

81/100 Various Press Cuttings re the Agency

101 Audit Commission Report No5 December 1989 "Managing Services Effectively - Performance Review

102 Pay for Performance: A Critical Success Factor Approach - April

103 Miscellaneous Personnel Information e.g. Age distribution

104 Agency Pay Study - Proposal June

105 Brief for main study - July

106 Developing an Agency Human Resource Planning Capability - September

107 Presentation to Main Board - June

108 Making the Most of Next Steps: The Management of Ministers' Departments and their Executive Agencies. Report to the Prime Minister (May 1991) Efficiency Unit, London. HMSO

109 Agency letter authorising researcher to keep documentation collected during study

110 Demanding Offices Project - November

111 Managing Demanding Offices - October

112 Costing Agency Staff Turnover

113 Staff Attitude Survey

114 Pay Study Steering Group Minutes - July

115 List of Staff Participating in Interviews/Workshops

116 Confidential Copy of Management Consultancy Change Management Proposal

117 HRM - Consultancy Facilitated Workshop - June

118 Senior Management Consultancy Facilitated Change Management Workshop - November

119 Design Specification for Performance Management - November

120 Performance Appraisal System - November 1990

121 Review of Local Office Managers' posts in the Agency - Draft April

122 Agency Published Mission and Critical Success Factors - July 1990

Appendix 5 Finco - Archival Data Collected - 114 Documents

1 Marketing - Audit on the sales & marketing activities by Marketing Consultants, February 1992

2 Marketing plan - draft
Prepared by Marketing Consultants, 15 May 1992

3 Contract - staff. Head of Customer/Client Services. Copies of contract of employment. 25/June/1992

4 Contract - staff. Service Manager. Copy of contract of employment. dated 12/Aug/1991

5 Contract - staff. Account Manager. Copy of contract of employment. 1992

6 Contract - staff. Senior Marketing Manager. Copy of contract of employment dated 25/Jan/1992

7a Contract - staff. Product Development Manager. Copy of contract of employment dated 25/Jan/1991

7,8, & 9 Publicity literature

10 Divisions - objectives and milestones. 1993.

11 Managing the Group IT Infrastructure - pre release copy. January 1993

12 Finco as a business - build new business functions. PW working paper/business plan. December 1990

13 A T Kearney letter - 4 January 1993 - re cost reductions

14 Finco - 1993 Tactical plan. Draft 18 January 1993

15 Finco Management Accounts as of November 1992
15a - do - December 1992

16 Compass [Consultants Benchmarking Study] 1992 Report - Finco

17 Finco - Draft Business Plan 9/92 to 12/97 dated 6/November/1993

18 Customer Survey. Quality of service - Finco. 23/Oct/1992

19 Customer Survey. Customer Satisfaction. 1/1993

20 Annual Review of Achievements. November 1992

21 Annual Report - 1990. Finco

22 Business Plan 1991-1995. February 1991

23 Survey - Staff - Finco. Autumn 1992

24 Assessment of Competitiveness. A T Kearney - December 1992

25 Staff Vacancy - SIT - Business Services Manager - February 1993

26 Managing by Contract - A Managers Guide - July 1990

27 Managing by Contract - A practical guide to developing your own performance contract - date unknown

28/33 Performance Contracts for 1992

34 IBM visit documentation - 3/Mar/93

35 Staff numbers by grade - also average time to grade - rec'd Feb 93 - date unknown

36 An overview of Finco [part 1] from Sales Director

37 An overview of Finco [part 2] including what do salesmen do - from Sales Director

38 Customer mapping questionnaire and responses - Feb/March 1993

39 Kearney - Summary of Interviews Conducted - ? end 1992 ?

40 Note of exchanges re requests for customer mapping information

41 TQM - outline of process - excerpts from TQM manual - 1991/1993

42 Tactical plan 1993 - Version 2 - 22 Jan 1993

43 Tactical plan 1993 - High level overview of all projects - 29 Jan 1993 - Draft report

44 Map of projects relating to the tactical plan - c Feb 1993 approx

45 Finco relationships with sister companies - 10 Feb 93
Sister company draft IT development report - 6 Jan 1993

46 Client satisfaction survey - Sister Company 1 - June 1992

47 Client satisfaction survey - Sister Company 2 - undated

48 Listing of all Service Level Agreements currently in operation - Feb 1993

49/57 Minutes of all account managers meetings for 1992 (Jan 10,Mar 26,April 28,May 27,June 26,July 29,September 24,October 23,November 19) and January 7,1993

58 Board Meeting minutes for 16 February 1993

59 Appendix 8 - UK systems planning - relationship with Finco/Sister co - 7 January 1993

60 Reorganisation of Finco client services activities - 15 Feb 1993

61 Quality link - European foundation for quality management - Jan/Feb 1993

62 SWIFT monthly service level report - January 1993

63 Missed SLAs report - 16 Feb 1993

64 Monthly performance report - Jan 1993

65 Job description - Service Manager - 7 September 1990

66 Management by contract objectives for service manager

67 Parent company change management process - Feb 17, 1993

68 OEC minutes and papers for 1992

69 Research report - quality of service - 23 October 1992

70 IT Governance across the Group -
The roles and responsibilities of the operations executive committee - undated

71 Draft service level agreement - undated

72 Customers served by account manager - 26 Jan 1993

73 TQM leaflets/extracts from manuals

74 TQM project Gantt chart - 1 Aug 1991

75 Finco information pack

76 Index of supplier profiles - undated

77 St Swithins 3rd floor migration - high level business plan - 27 Jan 1993

78 Group IT architecture September 1992
Latest Group IT principles - 4 Jan 1993

79 Blank client satisfaction survey - undated

80 Budget 1993 (Document dated 17 November 1992)

81 List of processing units

82 Parent Company Plc and subsidiaries

83 Systems problem escalation procedure - undated

84 Finco user forum questions and answers - November 1992

85 OEC minutes from Jan 1992 - Feb 1993

86 Staff survey - Autumn 1992

87 QIT - quality manager deliverables - 23 November 1992

88 SIT - Finco mandatory operational requirements and guidelines - January 1993

89 Parent company - Change management external design specification - Feb 17th,1993

90 False economy of sister company undertaking own SIT activities - Feb 1993

91 Sister company Cogen contract - 26 November 1992

92 QAT (quality action team) recommendations re charging queries - Feb 1993

93 Job specification - Manager Service Support Team - 22 October 1991

94 Organisation charts - Finco/2 divisional sister companies

95 End to end systems workshop held 21 October 1992

96 Management by contract - account managers and services managers targets for 1992

97 Documentation for the IBM workshop

98 Some managers brief descriptions of their roles - February 1993

99 IBM approach to world class performance

100 Poster - impact

101 Quality management meeting minutes

102 OEC committee notes and supporting papers

103 Project management handbook - 3 dec 1990

104 Client Services - sample SLA, satisfaction survey, MBC

105 Customer Satisfaction Survey - Price Waterhouse - October 1992

106 Finco magazine - November/December 1992

107 Red folder containing MBCs (MBOs) 1992 and 1993

107a Role of the VDU Product Manager

107b Organisation chart from Managing Director thru to managers - dated June 1993

107c Organisation chart for Client Services - dated 4th January 1993

108 Buff folder containing miscellaneous internal magazines plus total quality management, the European model for self-appraisal 1993, Guidelines for identifying and addressing total quality issues

109 Yellow folder containing

109 a Minutes from Winning Sales meeting of 11 Oct 1993

b Fax dated 25/10/93 - 1992 Customer satisfaction survey

c Fax dated 25/10/93 - pre workshop responses form executive members to our questions ie

What are the most important issues to Finco's internal clients
What needs to be accomplished within Finco to improve Finco's part in these issues
What parts of Finco are affected/involved by 'B' above

d Bid management manual - appendix a: the sales forecasting system - Issue 1.0

109e Quality of service - research report - October 1933 (carried out by Group Market Research Organization)

f Teambuilding: A proposed action plan - dated July 1993

110 Group Bid Management Manual - Issue 1.0 dated 13 October 1993

111 Buff folder containing the Index Report, it is in the form of overheads and is in five sections as follows

Summary findings and recommendations 31 July 1989 p1-46
Enhance project management capabilities p47-89
Questions 31st july 1989 p1-65
IT Assessment 31st July 1989 p1-49
Index observations p50-74

112 Service Business Division - Team Planning Project - March 18/July 6, 1993 Final Report [the IBM report]

113 Buff folder containing undernoted papers,

113 a OPM Marketing Proposal - Proposals to assess the market potential for OPM and to advise on a marketing strategy - from Marketing Improvements (MI) dated May 1993

b OPM Report - Report on the assessment of market potential and development of marketing strategy for operator presentation manager - MI - 16 July 1993

c OPM 2 Report - Report on the investigation into the potential for OPM in selected segments of the UK data management marketplace - 1 October 1993

d Business concept evaluation - draft final report - development of a market-led strategy in the automated storage management area - November 1993

e Business concept evaluation - interim report - development of a market-led strategy in the automated storage management area - October 1993

f Business concept evaluation - development of a market-led strategy in the automated storage management area - July 1993

g Early draft of sales guide for a PC Audit and Security service - 10/Mar/1993

h Outline business plan for joint venture with third party - 29 January 1993
ha 3rd party requirements bought from Finco
hb Floor space
hc Notes for year 1
hd Staff requirements for year 1
113 he Joint venture sales requirements
hf Consumables for joint venture
hg Cash flow effect - joint venture five year business plan

114 Red folder containing Compass [Benchmark] Reports as listed below

a Management summary '91 b Graphics report '91

c Trends report '91 d Source data '91

Appendix 6 Agency - Respondents

Managers interviewed (70)

Level 1* - CEO (1)

Level 1* - Executive Board (6)

Level 1* - Regional Directors (9)

Level 2/3 - Selected head office staff (11)

Level 2/3 - Selected regional office staff (27)

Level 2/3 - 1 in 6 Area Managers (10)

Level 4 - Local Office Managers (6)

* Members of extended executive board

Plus 7 CSF workshops - approximately 70 additional managers

Appendix 7 Finco - Respondents

Managers interviewed (74)

Level 1 - CEO (1)

Level 2 - Executive Board (6)

Level 3 - Reports to Executive Board Member (35)

Level 4 - Reports to Level 3 manager (18)

Level 5 - Reports to Level 4 manager or lower (14)

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