

DOCTOR OF PHILOSOPHY

Performance management in the United
States and France

four case studies in the retail and airline industries

Bruno Cohanier

2012

Aston University

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July 2011

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Thesis Summary

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Key Words: Performance Management, United States, France, Retail, Airline

The profusion of performance measurement models suggested by Management Accounting literature in the 1990's is one illustration of the substantial changes in Management Accounting teaching materials since the publication of "Relevance Lost" in 1987. At the same time, in the general context of increasing competition and globalisation it is widely thought that national cultural differences are tending to disappear, meaning that management techniques used in large companies, including performance measurement and management instruments (PMS), tend to be the same, irrespective of the company nationality or location. North American management practice is traditionally described as a contractually based model, mainly focused on financial performance information and measures (FPMs), more shareholder-focused than French companies. Within France, literature historically defined performance as being broadly multidimensional, driven by the idea that there are no universal rules of management and that efficient management takes into account local culture and traditions. As opposed to their North American brethren, French companies are pressured more by the financial institutions that fund them rather than by capital markets. Therefore, they pay greater attention to the long-term because they are not subject to quarterly capital market objectives. Hence, management in France should rely more on long-term qualitative information, less financial, and more multidimensional data to assess performance than their North American counterparts. The objective of this research is to investigate whether large French and US companies' practices have changed in the way the textbooks have changed with regards to performance measurement and management, or whether cultural differences are still driving differences in performance measurement and management between them. The research findings support the idea that large US and French companies share the same PMS features, influenced by 'universal' PM models.

Dedication

This dissertation is dedicated to my mother and father.

In loving memory of Louise, Marguerite and Dee.

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1 Introduction

The subject of management accounting garnered considerable attention in organisational literature over the second half of the last century. This is also true of the academic reflections on how to measure and improve organisational performance. Subsequently, management accounting teaching materials have undergone substantial changes since the publication of “Relevance Lost” in 1987. The profusion of performance models suggested by management accounting literature in the 1990’s could lead one to believe that companies have had quite a significant amount of time to implement and refine these models.

At the same time, a generic idea conveyed in the overall context of increasing competition and globalisation is that cultural differences are tending to disappear, meaning that management techniques used in large companies, including performance measurement and management instruments (PMS) tend to be the same, irrespective of the company nationality or location.

Performance management cannot be disconnected from the global management accounting and management control frameworks in which it operates, nor can its evolution. Thus, complex cross cultural and historical aspects need to be considered (Bhimani A. , 2007). One such example is the French context, whose cultural and ideological characteristics may not completely suit such a transfer. This leads one to investigate the specificities of management accounting practice outside North America (Hofstede, 1968; Epstein & Manzoni, 1997; Bourguignon, Malleret, & Nørreklit, 2004; Bouquin & Schwarz, 2005; Bititci, Carrie, & McDevitt, 1997; Bititci, Mendibil, Nudurupati, Turner, & Garengo, 2004).

Within France, the aforementioned literature historically defined performance as being broadly multidimensional driven by the ‘honour logic¹’ (D'Iribarne P. , 1989) and ‘goal congruence’ (Fiol, Jordan, & Emili, 2004). This resulted in the mixing of financial and non-financial information on a ‘white-grey-black shade scale’. North American practice, however, is described as a contractually based model, mainly focused on financial information (Bessire & Baker, 2005; Bourguignon, Malleret, & Nørreklit, 2004).

Recent studies have not investigated comparative management accounting in North America and France. The objective of this research is to investigate whether large French and US companies’ practices have changed in the way the textbooks have changed with regards to performance measurement and management, or whether cultural differences are still driving differences in performance measurement and management between them.

¹ There are no universal rules of management; an efficient management is the one that takes into account local culture and traditions. D'Iribarne argues that traditions persist for hundreds of years and that tradition drift or massive borrowing from other traditions should be avoided. These traditions are unique to one country and come from political and religious foundations that inspire them.

In this context, the research started with a simple assumption. North American companies are more shareholder focused than French companies. Senior level managers in North America are primarily compensated through the achievement of capital markets' expectations. They are more short-term oriented, thereby explaining why they would rely more on accounting quantitative financial information to assess performance. From this perspective, the North American financial function is crucial to providing information to shareholders. North American companies are more pressured by capital markets and shareholders. So these companies use more financial performance measures (FPMs) than French companies.

As opposed to their North American brethren, French companies are pressured more by the financial institutions that fund them rather than by capital markets. Therefore, they pay greater attention to the long-term because they are not subject to quarterly capital market objectives. Hence, management in France should rely more on long-term qualitative information, less financial, and more multidimensional data to assess performance than their North American counterparts.

Performance measurement is a complex notion. For some, performance measurement is simply a new terminology for what used to be called management accounting (Otley D. T., 2003). Others consider management accounting to be the predecessor of performance assessment (Franco-Santos & Bourne, 2005). Nanni et al. (1992), suggest that performance measurement systems focus activity so that strategy becomes actionable and adaptable. This opinion is also supported by Bouquin (2008) in his description of the management accounting process being mixed with Anthony's control typology (1965).

Others (Neely, Gregory, & Platts, 1995, p. 80) cautiously describe each word and suggest that "performance measurement is a topic which is often discussed but rarely defined". They advocate it could be defined as "the process of quantifying action, where measurement is the process of quantification and action leads to performance" (...) "Performance measurement can be defined as the process of quantifying the efficiency and effectiveness of action. A performance measure can be defined as a metric used to quantify the efficiency and/or effectiveness of an action. A performance measurement system can be defined as the set of metrics used to quantify both the efficiency and the effectiveness of actions".

Recent research predominantly addresses performance management in a quantitative and non-longitudinal way. This approach does not answer qualitative questions regarding why and how performance management is exercised. It also does not address the origin of the success or failure of performance management instruments. At a time when 'globalisation' has become an issue for businesses, there is arguably a lack of qualitative field studies in comparative management accounting (Ahrens, 1999; Zirkler, 2002; Sheridan, 1995; Shields M. D., 1998; Hoffjan, Nevries, & Stienemann, 2007) even though researchers have recently been paying more attention to qualitative means of conducting research (Otley D. T., 2003; Bhimani A. , 2007).

To address the research objective posed above, it was decided to adopt a qualitative approach using the Strauss and Corbin (1998) Grounded Theory methodology on four case studies. The structure of this dissertation is as follows:

Chapter two contains a two-part exploration of literature. The purpose of the first part is to help the researcher in his initial approach to the field and his construction of meaningful causal relations throughout the case writing process. It concentrates on enhancing the researcher's awareness of the phenomenon under investigation when approaching the research field by addressing literature on the transformation of management accounting, the emergence of performance measurement and management, and its cross-cultural exercise.

The second part assembles the different elements emerging from the four cases studies into meaningful pictures and provides early elements of comparison between all four emerging stories. This part explores literature on change management, contingency, legitimacy and institutional theories. In addition to providing contextual information, the theories highlighted in the literature review are utilised in the case analysis to support the structure of emerging stories and in the cross-case analysis (Chapter 8) to sustain or contradict findings.

The methodology and the method used in this research are described in the third chapter. This chapter says why and how one decided to select the Strauss and Corbin (1998) Grounded Theory methodology. It also tells why and how matched-pair case studies in the retail and the airline industries were chosen and used to address the research question.

Chapters four through six consist of two detailed matched pair case studies. The outcome of each of these four chapters is the formulation of substantive hypotheses regarding the structure, the usage and the operational success (or not) of the four companies' PMSs.

Chapter eight is a cross-case analysis. The purpose of this chapter is to enhance the generalizability of the findings related to the phenomena under investigation. The examination of similarities and differences between cases' substantive hypotheses helps the researcher gain both an understanding of the specific conditions under which a finding occurs and the generic processes that occur across cases. The cross-case comparison of substantive hypotheses provides the researcher with more general explanations for the phenomena under investigation according to their occurrence in more than one site and helps sustain or contradict findings, thus highlighting the contributions of this research.

Chapter nine concludes this research by emphasising the main theoretical, methodological and empirical contributions of the research and links its findings to existing literature. It highlights the limitations of the study and also discusses further research possibilities.

2 Literature review

2.1 Purpose and structure of the literature review

The purpose of the literature review is to achieve two objectives. The first is to explore the current literature about performance measurement and management so as to provide the researcher with a clear overview of the phenomenon under investigation and knowledge to go into the fieldwork with an ability to understand what the actors are saying and doing. It helps the researcher to focus and allows him to access the field with an open mind as opposed to an empty mind. The second objective is to provide the researcher with a satisfactory picture of the domain under exploration that will help him develop his 'theoretical sensitivity'. Theoretical sensitivity is "the attribute of having insight, the ability to give meaning to data, the capacity to understand, and capability to separate the pertinent from what is not. It is theoretical sensitivity that allows one to develop a theory that is grounded, conceptually dense, and well integrated and to do this more quickly than if this sensitivity were lacking" (Strauss, et al., 1990 p. 42).

Accordingly, the literature review was organised in two parts. The first one was performed before the beginning of the fieldwork to get awareness of the phenomenon through the investigation of relevant literature. This literature addressed the transformation of management accounting and the emergence of performance measurement and management as a major subject of interest as well as its cross-cultural exercise. The perspective adopted at this stage was broad enough to allow access to the research field with an adequate view of the phenomenon under investigation. It allowed "the researcher to deal rationally with data, analyse, and make comparison, ask questions, observe actions and reactions and collect more data from other sources. Throughout this process of collecting and analysing, and sceptical thinking, illusive and ambiguous meanings become clearer over time." (Alenizi, 2001, p. 16).

The second part took place during the application of the Strauss and Corbin Grounded Theory Methodology (1998) to the four case studies as substantive hypotheses were emerging from the construction of each story. This reference to existing literature helped filter relationships between labels and early findings. Like the picture model of a jigsaw, this second step of recourse to literature also helped link the different elements of stories into their respective places and find early elements of comparison between all four emerging stories. It also facilitated the confirmation or the refutation of early findings and to distinguish 'true ones' from 'rediscoveries'. As a result of this, one decided to blend this specific literature review in the writing of the case studies. This was done to obtain stories which would not only be grounded in the real life of the four companies but which would also incorporate cautiously selected literature giving more credit to emerging hypotheses.

This literature review has also been a very important element of the writing process of each story because it selected the appropriate literature at the final stage when formal hypotheses emerged from the cross case analysis, exploring the relationships between emerging findings and formal hypotheses. The different themes of the literature covered at this stage were change management, legitimacy, institutional and contingency theories.

2.2 Literature review part one

Within the context of this research one distinguished the following three literature areas to be useful prior to the beginning of the field study. First, the historical development of management accounting within large companies seen through the prism of management accounting instruments, stressing the influence of North American culture and practice context on management accounting worldwide; Second, the growing usage of the term 'globalisation' emphasising a recognition that it impacts management and questioning how far it impacts performance measurement and management; Third the evolution of management accounting and the emergence of performance measurement and management concepts and instruments supposed to be novelties.

2.2.1 Management accounting's historical development: from concept to tools and practice

The different international shapes of management accounting, management accounting instruments and their usage have, for a long time, been recognised and studied by the academic community (Shields M. D., 1998; Chandler, 1977, p. 417; Barnard, 1962). There has also been the case of the strong North American influence on their structure and subsequent development (Euske, Lebas, & McNair, 1993; Bhimani & Lebas, 1996; Scheytt, Soin, & Metz, 2003). Their different dysfunctional dimensions linked to budget practices such as slack, for example, are not new (Johnson, 1983; Kaplan R. S., 1984; Otley & Pierce, 1995; Langfield-Smith K. , 1997; Mendoza & Saulpic, 2002). There has also been an academic response to a mechanistic approach to performance measurement with the rapid emergence of Behavioural Research In Accounting (Argyris, 1952; 1953; Anthony R. N., 1957; Caplan, 1966; Hopwood, 1976) combining 'soft' and 'hard' management skills (Otley D. , 1999; Eccles R. G., 1991; Banker, Potter, & Srinivasan, 2000) and its subsequent decline (Williams & Gregory, 2006). As noted by Neely (1999), one would have thought that with such a profusion of literature, performance measurement and management would have evolved to reach an optimal state of efficiency. Interestingly, an old and enduring criticism is linked to the short termism of classic financial metrics (Ridgeway, 1956). This led the researcher to suspect a disconnection between performance measurement and management practice and the advances suggested by literature.

Furthermore, in the course of management accounting's exercise by managers (Borkowski, 1999; Manzoni, 2002) one may ask if they actually see and understand any difference between the way it is understood and

exercised in a North American setting and a non-American one (Hoffjan, Nevries, & Stienemann, 2007). Whatever their link to strategy (Anthony R. N., 1965; Simons, 1990), management accounting instruments and their usage have had a large North American company flavour which tended to be, happily or not, successfully or not, adopted and adapted to other national settings. One of them is the French context whose cultural and ideological characteristics may not completely suit its mission and implementation (Hofstede, 1968; Epstein & Manzoni, 1997; Bourguignon, Malleret, & Nørreklit, 2004; Bouquin & Schwarz, 2005; Bititci, Carrie, & McDevitt, 1997; Bititci, Mendibil, Nudurupati, Turner, & Garengo, 2004).

As a matter of fact, French academic literature on performance measurement (Bouquin H. , 2005; 2006; 2008; Löning & Pesqueux, 1998; Lebas M. , 1994) is mostly based on Chandler's seminal work (Chandler, 1977). It traditionally presents the emergence of management control in the early 1900's in a specific North American large industrial environment (Sloan, 1963; Brown D. , 1977; Chandler, 1977) for example Du Pont de Nemours or General Motors with the 1912 Sloan-Brown model (Sloan, 1963). It depicts the separation between ownership and management of large firms as imposed by their vertical integration. This is supposed to explain the delegation of management activities which in turn implies the introduction of indirect controls and the generation of elaborate reporting systems inspected by central management. Performance being associated with the maximisation of profit (Alford, 1994; Jones, 1994), performance assessment systems are based on the monitoring of mostly financial metrics (e.g. income, Return on Investment, stock turn, etc...) as a means of checking goal achievement and rewarding positive contributions to the organisation's performance (Alenizi, 2001, p. 21). This conception is the same in French accounting history literature (Boltanski & Chiapello, 2005; Boyns & Edwards, 1997) and even in the non-academic naturalist literature² (e.g. Emile Zola depicting the rise of the retail industry in France in '*Au Bonheur des Dames*'). However, French academic literature suggests some differences in the way French companies coordinate and monitor performance. They were traditionally more based on social controls and methods which explain why very few systematic and organised procedures for the middle management class were available because of the existence of loyalty systems (D'Iribarne, 1989; Fridenson, 1995 p. 242; Soskice, et al., 2001 pp. 28-32).

Philippe D'Iribarne (1989) has taken a direction of work left open by Michel Crozier and worked on the influence of national culture on the operation of organisations. D'Iribarne tried to address the following question: how should one articulate the universal needs of management, taking into account the specificities of each society? He addressed the different cultural modes of conception and exercise of authority and showed the existence of a 'social model' inherited from the 'Old Regime' (i.e. French nobility) in contemporary France. His research showed that the bureaucratic model which has emerged in French

² Naturalism is a literary movement (1880-1940) that used detailed realism to suggest that one's heredity and social environment determine one's character.

companies is largely based on the refusal of hierarchic deference, characteristic of the hierarchical society of the French nobility. The culturalist approach adopted by d'Iribarne seeks to better understand the systems of representation, the internal logic of each society (i.e. the ways people live together) to help adapt management practices to national conditions. D'Iribarne argues that the need to integrate individual actions in a collective work is an imperative of management. People are affected by how the society to which they belong has taught them to live together. His contribution lies in a criticism of the North American vision of 'scientific management' (Taylor, 1911) whose practices have spread around the world. In other words, d'Iribarne argues that there is no universal abstract in management (i.e. an 'Ideal type' such as Max Weber's), but only organisations consistent with their own structures of representation.

This culturalist approach is one explanation of the bottom-up structure of the '*Tableau de Bord*' which is the opposite of the top-down structured 'Balanced Scorecard' (BSC). On this specific issue for example, Bourguignon et al. (2004) explain that the balanced scorecard is one of the most well-known strategic measurement systems that have recently attracted attention. However, it has not received a "particularly warm welcome in France, where the '*Tableau de bord*' has been used for at least 50 years" (Bourguignon, Malleret, & Nørreklit, 2004, p. 107). These researchers' investigation aimed at explaining the differences between them and examines the extent to which the ideological assumptions they rely on are coherent with the ideologies of American and French societies. Their findings were that the main differences between those two instruments may be explained in terms of ideological assumptions (i.e. these management tools are coherent with the local ideologies in the countries of origin). This led one to question the transferability of management methods and the relevance of globalising management theories.

2.2.2 'Globalisation' and management accounting

Globalisation is as widely used as it is poorly defined. Yet, this generic term is used in a variety of settings to explain diversification, delocalisation, restructuration, and tends to show there is a complex variable called 'globalisation' which could justify³ current management practices (Levitt, 1983; Granlund & Lukka, 1998; Hax & Wilde II, 2001; Friedman, 2007). With regard to this effect, one may ask if globalisation affects the way management accounting is exercised.

Efforts to compare management accounting among European countries have been performed (Dent, 1996; Gupta & Westney, 2003; Held & Koenig-Archibugi, 2003; Smith, 2003; Stiglitz, 2003), however only a small part is devoted to practice (Bhimani & Lebas, 1996) and this exploration is limited to local experts views and conceptions leading to a bias in assumptions on how management accounting is actually exercised locally. For example the '*système croisé*' (Levant & Nikitin, 2011), an integrated accounting model which was

³ By analogy an application of the law of comparative advantage (Ricardo, 1817).

designed in the 1970's to resolve problems arising from the gap between cost accounting and financial accounting (Stolowy & Touron, 1998; Elad, 2000), is not in use in France even though it is listed among French methods (Lebas M., 1994; 1995; Elad, 2000). Further inquiry on cross-country management accounting practice shows that "the European management accounting style was a result of the prevailing social, cultural, economical, political and environmental conditions" (Alenizi, July 2001, p. 30).

In this historical context of difference in organisational structure (i.e. more departmental in Europe, especially in Britain, and less decentralised than in the U.S.), competition and mass markets changed the conditions in which companies were operating which consequently led companies to develop new methods and/ or import them from North America. On the transferability of practice, Bouquin (2006; 2008) argues that management control has been very poorly translated into the French "*Contrôle de Gestion*", leading to a practice which assumes that verifying (*Contrôle*) would actually ensure one is 'in control' of a process. This initial misunderstanding largely contributed to the development of the French version of management control (Boltanski & Chiapello, 2005; Bouquin H., 2005) in companies traditionally and largely ran by engineers developing and refining calculation methods (Pezet A., 2009; Rimalho, 1928; CEGOS, 1938) for negative sanction purposes.

One may record the same or different issues when exercising management accounting on both sides of the Atlantic Ocean, however maybe not for the same reasons. What one may call management accounting and, to a larger extent, instruments developed and used on one side of the Atlantic Ocean is not what may be understood and used under the same terms on the other side. A difference may also arise through the adoption of a practice which is poorly adapted, transferred (Bhimani A. , 2007) or simply linked to management fashion (Otley D. T., 1999; 2003). There is a clear lack of field studies in comparative management accounting at a time when 'globalisation' has become an immediate issue for businesses. Subsequently, literature debating the convergence or divergence of performance measurement and management in different cultural settings (Shields M. D., 1998) led one to investigate the matter between North America and France, which consequently led one to explore the literature on globalisation.

2.2.3 The evolution of management accounting and the emergence of performance

In the context of 'globalisation' and a management accounting corpus which is located between an historical model with almost 'universal pretensions' and local adaptation or non-adaptations, the notion of 'performance' has emerged (Folan & Browne, 2005). The relative dissatisfaction of academics and practitioners with existing management accounting instruments and the low volume of revolutionary innovations in this area contributed to the expansion of its scope. One could assume this is one outcome of a complex expansion process of the once 'management-control-mid-pyramid-function' (Anthony R. N., 1965). This is an evolution which could be summarised as the transformation of the 'bean counter' (Drucker P. F.,

1963; Peters & Waterman, 1982) into the more prestigious 'strategic manager'. This gradual widening of management accounting's horizon led to the introduction of what some may see as 'new concepts' (Folan & Browne, 2005) such as the measurement, the management and the improvement of the 'performance nebula'.

One characteristic of the performance measurement and management literature is a critical trend which started years ago criticising both traditional cost computations and financial performance measurement (Skinner, 1971; Hayes & Abernathy, 1980; Kaplan R. S., 1983; 1984; Johnson & Kaplan, 1987; Berliner & Brimson, 1988). This literature culminated in the 1990's, showing that performing companies required more than traditional - short term - financial measurement (Kaplan & Norton, 1992). This literature acknowledges the importance of non-financial metrics and criticises the surviving exercise of performance assessment mainly based on financial metrics (Tangen, 2004). Its evolution has mainly consisted in refining basic metrics of the 1900's, starting with DuPont's Pyramid of Financial Ratios from 1912 (e.g. Return On Investment) through post WWII discounted cash flow, residual income, transfer pricing and even using 1960's quantitative models (Alenizi, 2001). This critical literature argues that financial metrics are out-dated (i.e. fitted the past manufacturing era) and are therefore irrelevant to measuring and managing performance in the modern era; they favour the short term increase of shareholder value at the expense of investment, especially if financial performance measures are tied to compensation; they are too internal looking and lack environmental awareness. It is also argued that they are too historical and short term oriented (Lynch, et al., 1995; Bourne, et al., 2003). Similarly, it is claimed that financial metrics use past (Neely A. , 2002, p. 146) and short-term information sources such as financial statements. As such they lack 'predictive power' because they are not 'drivers' of performance (Kaplan R. S., 1984). Using them is like looking in the 'accounting rear-mirror' to drive the future of a business (Bouquin H. , 2006).

The same trend of literature argues that financial indicators foster dysfunctional behaviour (Merchant K. , 1990; Hirst, 1983), are one sided and therefore focus on expenditures and not the outputs of these expenditures and finally are directed towards ultimate financial results and not towards the determinants of these results (Alenizi, 2001, pp. 36-44). This literature further insists on the fact that ensuring the performance – or the simple survival – of organisations requires non-financial, more multidimensional indicators to be developed and used (Otley D. T., 1999; Malina & Selto, 2004; Bhimani A. , 2006; Otley D. T., 2003; Lebas M. , 1995).

The historical justifications of the emergence of this poorly defined⁴ generic term (Neely, Gregory, & Platts, 1995; Otley D. T., 1999; Ittner, Larcker, & Randall, 2003; Neely A. , 2005; Bourguignon A. , 1997; Bessire D.,

⁴ "Performance measurement is a topic which is often discussed but rarely defined. Literally it is the process of quantifying action, where measurement is the process of quantification and action leads to performance." (Neely, Gregory, & Platts, 1995, p. 80).

1999) still have to be studied, as questions remain concerning the nature of management accounting literature development: is it real content evolution, rediscovery (Bouquin & Pesqueux, 1999; Bouquin H. , 2000; 2008) or re-packaging? (Otley D. T., 1999). Even if efforts have been made - mainly in the human resources field - to define performance (Bourguignon, Malleret, & Nørreklit, 2004; Armstrong & Baron, 2005; Lengnick-Hall & Lengnick-Hall, 2003; Widener S. K., 2004) Innes, et al. (2009), discussions still arise (Armstrong & Baron, 2003; Bourguignon, Malleret, & Nørreklit, 2004; Widener S. K., 2004; Gilbert & Charpentier, 2004; Allouche, Charpentier, & Guillot-Soulez, 2004). Is the source of this evolution in the binary game of theories answering themselves in a black and white fashion to find more relevant ways to explain and predict (Aubert, Guerre, Jabes , Laroche , & Michel , 1992)? Or is it in seminal critics in their attempt to break away from the usual mechanistic, cybernetic, thermostatic approach and regulatory use of management accounting (Ridgeway, 1956)? This was way before Johnson and Kaplan's 'Relevance Lost' (1987), Business Process Reengineering (BPR), Activity Based Management (ABC) and the BSC (Kaplan & Norton, 1992). One may at this point also wonder about the future of the BSC when thinking about how Total Quality Management (TQM) led to standardisation through current ISO norms, for example.

The evolution of performance measurement and management has found one expression through the emergence of non-financial performance measures (NFPMs) (Otley D. T., 1999; Malina & Selto, 2004; Bhimani A. , 2006; Otley D. T., 2003; Lebas M. , 1995). The search for non-financial performance measures is not a recent trend. For example, as far back as 1951, Ralph Cordiner, the CEO of General Electric, appointed a work group to identify key corporate performance measures which were "market share, productivity, employee attitudes, public responsibility, and the balance between short- and long term goals" (Eccles R. G., 1991, p. 132; Bruns, 1998; Neely A. , 2002). Likewise, these now find their current expression with Corporate Social Responsibility (CSR) and Sustainable Development (SD) metrics and their subsequent critics, as some merely see them as marketing tools (Simcic Brønn & Belliu Vrioni, 2001) rather than actual action variables.

This phenomenon is however instanced by a widespread development of a profusion of models/ frameworks tied to a certain contingent (Chenhall R. H., 2006; Chenhall & Chapman, 2006) conception of performance, culture and ideology (Wisner & Fawcett, 1991; Kennerley & Neely, 2001; 2002; Rejc, 2004; Bourguignon, Malleret, & Nørreklit, 2004; Franco-Santos & Bourne, 2005). These are frameworks which focus on a scope which stretches from a hierarchical to a process view of business performance. They are briefly presented here in a chronological order which also emphasises their level of increasing complexity as they embrace more performance dimensions in a more complex way (e.g. integrating causal links between performance dimensions).

Even though the suggestion of performance models is not new and typified the 1990's, the acceleration of their production followed seminal critical work from Johnson and Kaplan (1987) and is mostly concentrated

in the 1990's (Neely, Gregory, & Platts, 1995; CIMA, 2002; Bourne, Kennerley, & Franco-Santos, 2005; Bourne M. , Neely, Mills, & Platts, 2003; Neely A. , 2005; Chenhall & Langfield-Smith, 2007; Kennerley & Neely, 2002). Starting with the Performance Measurement Matrix, for example (Keegan, Eiler, & Jones, 1989), which seeks to integrate different dimensions of business performance (i.e. financial and non-financial, internal and external) but without underlying causal links between them.

Then, the Results and Determinants Framework (Fitzgerald L. , Johnston, Brignall, Silvestro, & Voss, 1991) is based on evidence that there are two types of performance measures in organisations, those that relate to results (e.g. lagging indicators such as competitiveness and financial performance), and those which focus on the determinants of these results (e.g. leading indicators such as quality, flexibility, resource utilisation and innovation), therefore results obtained are a function of past business performance with regard to specific determinants.

The Performance or SMART Pyramid (Lynch & Cross, 1991) advocates the inclusion of internally and externally focused measures of performance that are 'cascading' strategy down the organisation.

Still in the early 1990's, Leif Edvinsson, with a team of accounting and finance specialists at Skandia's assurance and financial services, developed what they called an 'accounting taxonomy' called the Skandia Navigator for intellectual capital (IC). IC depends on steering the organisational strategy through five dimensions: financial, human, process, renewal, and development. In this Navigator model, the human focus drives both financial results and future growth because it is the one link between the other dimensions.

Inspired by Porter's value chain, and following Art Schneiderman's design of a scorecard in 1987 at a mid-sized semi-conductor company called Analog Devices, Kaplan and Norton (1992) introduced the Balanced Scorecard (BSC) which comprised 'Financial', 'Customer', 'Internal Business Processes', and 'Learning and Growth' perspectives linked together by hypothetical (Ittner & Larcker, 2003) causal relationships.

Brown (1996) developed the MPMO (Macro Process Model of the Organisation) which expresses links between the five different stages of a business process (inputs, processing system, outputs, outcomes, goals).

In 1997, Atkinson, Waterhouse and Wells suggested their Stakeholder Approach to Strategic Performance Measurement which views "performance on a company's primary objectives (for example profit in a profit seeking company) as a result of the process (for example, manufacturing, logistical, administrative, human relations) used to generate results" (Atkinson, Waterhouse, & Wells, 1997, p. 35).

The 'Objectifs – Variables d'Action' (OVAR⁵) model was introduced in 1998. This literature suggests a method of implementating the French '*tableau de bord*', a dashboard gathering a limited number of indicators⁶ for real time monitoring of results and deviations from yardsticks (goals, standards, internal and external statistical sources), focusing on those a manager considers most significant (Löning & Pesqueux, 1998). Interestingly, the French-style '*tableau de bord*' is often compared with what is frequently considered to be its American equivalent, the Balanced Scorecard (Bessire & Baker, 2005; Bourguinion, Malleret, & Nørreklit, 2004; Epstein & Manzoni, 1998; Gray & Pesqueux, 1993). Pezet (2009, p. 103) argues that "these comparisons use technical, strategic, cultural or ideological criteria. However, they are based on a 'history' of the tableau de bord that has never been carried out in accordance with the methods of historical research. The sole exception appears to be Malo (1995), who sought to retrace the history of the tableau de bord using studies from the past (Satet and Voraz, 1946) and using 'leads' that appeared in historical research papers not pertaining to tableaux de bord. Consequently, comparative studies – generally the outcome of a collaboration between French and foreign researchers (contributing research on BSC) – are based on a history of tableaux de bord that remains largely mythical. In this regard, Lebas (1996) outlined a history ('a little history') highlighting the major roles played by the State and engineers in the emergence of management accounting and tableaux de bord in France. Unfortunately, this little history, interesting in itself, lacks references to primary sources."

The Performance Prism (Neely, Adams, & Kennerley, 2002) is a thinking tool which seeks to illustrate the complexity of performance measurement and management by integrating five related dimensions and provides a structure that allows executives to think through addressing five perspectives: stakeholder satisfaction, stakeholder contribution, strategies, processes, capabilities. Together these five viewpoints provide a full and integrated framework for managing organisational performance and, by addressing the related dimensions, organisations can build a structured business performance model.

The Business Excellence Model, as described by the European Foundation for Quality Management (EFQM), refers to "outstanding practices in managing the organisation and achieving results, all based on a set of eight fundamental concepts⁷".

In an institutional perspective⁸ (DiMaggio & Powell, 1983) this profusion of formal models (Hofstede, 1968; Lowe & Machin, 1983; Merchant K. A., 1985; Merchant & Simons, 1986; Macintosh, 1994; Otley & Berry, 1994; Otley D. T., 2003; Langfield-Smith K. , 1997; Simons, 2000; Andon, Baxter, & Chua, 2003) is understood as a way to reduce corporate actions' dissonance with social requirements.

⁵ Standing for "Objectives - action VARIables", a performance model developed in France at HEC.

⁶ An indicator is a parameter or a combination of parameters, it is chosen according to the levers that will be used to take any corrective action and future decisions.

⁷ i.e. orientation on balanced results, focus on customer value, leadership and constancy of purpose, management by processes and facts, people development and involvement including continuous learning, innovation and improvement, partnership development and public responsibility.

⁸ See page 16.

In other words “something has to change so the essential remains” says Bourguignon in the title of her article for *Comptabilité Contrôle Audit’s* special issue on Managerial Innovations (2003). This practice is informed by literature which shows that the adoption and success - or non-adoption and failure - of some performance management models tends to be considered as the product of copycat fads and fashions (Hopwood, 2002; Ittner & Larcker, 2002; Otley D. T., 2003). These models lack a theoretical basis (Nørreklit, 2000; Brignall T. J., 2002; Ittner & Larcker, 2003; Otley D. T., 1999) and have poor definitions of causal links (Brignall T. J., 2002; Nørreklit, 2000; 2003; Neely A. , 2008). As a result, the same literature questions whether the evolution towards or the transformation of management control into performance management does not rely more on form than substance. A situation where one may ask if some companies do not develop tools first and then seek a purpose for them afterwards, battling with formal and non-formal controls (Abernethy & Chua, 1996).

The different frameworks summarised above are presented in a chronological order. They are also ordered according to their increasing complexity as they embrace more performance dimensions in a more complex way. A good summary is suggested by Ballantine, et al. (1994; 1996; 1995, p. 56) who identified three ‘core’ elements of these frameworks. They suggest a taxonomic framework for performance measurement which is organised around the following dimensions. First their underlying control model (e.g. feedforward - feedback); second levels of organisational analysis (e.g. corporate, Strategic Business Unit (SBU), inter SBU, intra SBU, department, work group, individual); third the multiple dimensions of performance (e.g. financial vs. non-financial, quantitative vs. non-quantitative; the Results and Determinants Framework’s six dimensions, split between two that look at results and four determinants of those results) and fourth, information technology implications and integration.

2.3 Literature review part two

During the writing stage of the four case stories, sense making was achieved through the search for a literature able to explain what one was teasing out from the cases. It was also used as a safeguard to avoid taking a known fact for a finding. In the second step of the literature review the first element of literature one explored concerned the revolutionary and evolutionary change of companies. This literature was used to provide one with an understanding of the reasons for and the mechanisms of the adoption of a ‘decoupled PMS’ (i.e. the creation and the maintenance of a gap between formal companies’ performance measurement and management policies and actual practices, in other words a formal and informal PMS) in companies enduring change, whether because they were going through a dramatic episode of bankruptcy like company D or because the context in which they were operating changed over years making it very difficult for them to maintain their original strategy based on growth rate sustainability like company B for example.

Change can be defined as a movement from an old state to a new one. Change occurs to variable degrees within a diversity of contexts which means it presents different challenges or opportunities. Among the different forms of change, transformational change is consistently identified by literature as the most comprehensive change type. Departing from theories used in biology (Eldredge & Gould, 1972), or taking after ones used in organisational theory (Hannan & Freeman, 1977; Pettigrew, 1987) or information systems (Romanelli & Tushman, 1994; Gersick, 1991), the punctuated equilibrium model⁹ of policy change, for example, Baumgartner, et al., (1993), states that policy generally changes only incrementally due to several restraints such as the 'stickiness' of institutional cultures, vested interests, and the bounded rationality of individual decision-makers. Policy change will thus be punctuated by changes in these conditions, especially in party control of government, or changes in public opinion. Thus policy is characterised by long periods of stability, punctuated by large — though less frequent — changes due to large shifts in society or government. Pettigrew (1987) describes transformational change as a change in dominant ideologies, cultural systems of meaning and power relations within an organisation.

For Greenwood, et al. (1996, p. 1024) "Revolutionary change and evolutionary change are defined by the scale and pace of upheaval and adjustment. Evolutionary change occurs slowly and gradually. Revolutionary change happens swiftly and affects virtually all parts of the organisation simultaneously." In their research, Greenwood, et al. provide an explanation of the incidence of radical change and of the extent to which such change is achieved through evolutionary or revolutionary pacing. They establish that a major source of organisational resistance to change comes from the normative embeddedness of an organisation within its institutional context. They suggest that the incidence of radical change, and the pace by which such change occurs, varies across institutional sectors because of differences in their structures. They finally suggest that both the incidence of radical change and its pace varies within sectors because organisations vary in their internal organisational dynamics (Greenwood & Hinings, 1996, p. 1023). By emphasising the notion of contingency, the outcome of this investigation of change management literature led one to examine Contingency Theory literature.

Counter to the optimising notions of many rational theorists (Taylor, 1911; Fayol, 1916), Contingency Theory claims that there is no 'one best way' to organise and conduct a business. Contingency theorists, such as Joan Woodward (1958), argue that the optimal way of organising and running a business is subject to internal and external contingencies (i.e. contingent factors of the environment) an organisation faces such as management style, organisational structure (Lawrence & Lorsch, 1967) or the nature of the tasks performed in an organisation (i.e. mechanistic-routine or organic-non-routine (Burns & Stalker, 1961).

⁹ The punctuated equilibrium model consists of deep structures, equilibrium periods and revolutionary periods (Gersick, 1991).

The contingency perspective for research has been widely explored and summarised (Otley D. T., 1980; Chenhall R. H., 2003). One advantage of it is that it is interested in explaining why some factors influence situations in one setting and have no influence in others. However, one important criticism about contingency theory is that it has tried to formulate broad generalisations about the formal structures that best fit companies¹⁰. However, the emphasis it provides on situational analysis (e.g. the 'fit' between a contingent variable and the structure of a PMS) is important for this research because it helps explain the importance of the Strauss and Corbin (1998) causal, organisational and external conditions in the structure and the operation of an organisation's PMS. This exploration led one to examine the more recent developments of Contingency Theory, namely the SARFIT model.

Following the structural contingency theories above (Burns & Stalker, 1961; Lawrence & Lorsch, 1967; Williamson, 1964; Woodward, 1958), the Structural Adaptation to Regain FIT (SARFIT) theory (Donaldson, 1987; 2001) provides a causal model which holds that there is fit between each contingency and one (or more) aspect of organisational structure such that 'fit' positively affects performance and misfit negatively affects performance. The model works as follows: an organisation initially in a strategy fit experiences a change in contingency (e.g. such as the ones described by Greenwood, et al. (1996) and thereby moves into a strategy misfit and 'suffers' declining performance. This causes adoption of a new structure so that 'fit' is regained and performance is restored (i.e. fit, contingency change, misfit, structural adaptation, and new fit). This model is helpful in explaining how some firms may use revolutionary change such as a bankruptcy status to change and regain fit through the adoption of a decoupled PMS via conforming to external social pressures, for example.

It is the purpose of Legitimacy Theory to study the legitimation process "by which an organisation seeks approval (or avoidance of sanction) from groups in society" (Kaplan & Ruland, 1991, p. 370). Mathews (1993, p. 350) provides a definition of legitimacy which is "organisations seek to establish congruence between the social values associated with or implied by their activities and the norms of acceptable behaviour in the larger social system in which they are a part. In so far as these two value systems are congruent we can speak of organisational legitimacy. When an actual or potential disparity exists between the two value systems there will exist a threat to organisational legitimacy". The notion of legitimacy relies on the concept of the social contract¹¹. When a company complies with the social contract (i.e. does what the public expects), it is legitimated. If the company breaches the social contract, then a gap is created between social expectations and corporate behaviour (LaFrance & Lehmann, 2005, p. 220). Thus, to regain legitimacy, a

¹⁰ "For one, it has been pointed out that the logical extension of the contingency approach is that all situations are unique. If this is true, then management can be practiced only by intuition and judgment, thereby negating the value of prior knowledge and wisdom. On a research level, contingency theory has been criticised for being atheoretical. One requirement of theory is the ability to test the validity of assumptions by showing that contradictory assumptions do not disprove the theory. In a contingency framework, if contradictory results are obtained, the contingency response would be that the situation is unique or that important dimensions affecting the situation were not tested. Thus, showing that contradictory assumptions disprove the theory would be difficult at best" (Hahn, 2010).

¹¹ T. Hobbes, J. Locke, J.J. Rousseau.

company has to demonstrate that it can change its behaviour through legitimising strategies. Lindblom (1994) cited by Deegan (2006, p. 173) identifies four courses of action to regain legitimacy: educate and inform the relevant public about the activities of the company; change the perception the public has about the activities of the company; manipulate perceptions by deflecting public's attention from the issue of concern "onto other related issues" through emotive symbols on which the company performs¹²; and change external perceptions of its performance. One issue raised though is that Legitimacy Theory discusses "how particular strategies might be undertaken to gain, maintain or regain legitimacy", however it does not explore how "at a broader level, particular organisational forms might be adopted to bring legitimacy to an organisation" (Deegan, 2006, p. 169). This limitation is addressed by Institutional Theory which explains that exploring Contingency Theory and Legitimacy Theory literature also led one to explore Institutional Theory developments.

Going beyond Legitimacy Theory, Institutional Theory has been used to explain the way organisations develop and change through time. More specifically, it provides a framework for research about organisations and the social and political factors that affect their development. One of the underlying ideas of institutional theory is that organisations are socially constituted, are subject to regulative processes and operate under certain governance structures. Institutional processes define the forms and structures that the organisation can adopt and how they can operate within legitimate boundaries (Scott, 1995, p. 136). Organisational activities are motivated by legitimacy-seeking behaviours, which in turn are influenced by norms which are socially constructed. If companies want to survive, they have to interact with their environment in ways that are acceptable so they receive support and legitimacy (Scott & Meyer, 1983, p. 149). Hence, institutionalised elements are embedded into the organisational structures because they provide the appearance of conformity with the environment's expectations, whether or not they actually facilitate the desired outcomes. Institutional theorists argue that human beings live in a socially constructed world where organisations navigate among values, norms, rules, beliefs and assumptions that are partly of their own making (Barley & Tolbert, 1997, p. 93). This means that this world is filled with taken-for-granted meanings and rules (Berger & Luckmann, 1966). This can explain why some managers take performance as self-evident and are satisfied with their own definition of the concept.

Institutionalised norms and structures produce accounts of organisational activities (e.g. a formal structure that adheres to the norms and behavioural expectations of the environment) and act to protect the organisation from having its conduct challenged (Meyer & Rowan, 1977, p. 349). Depending on the level of institutionalisation of the environment and its capacity to force companies to adopt practices consistent with expectations (Greening & Gray, 1994, p. 471) organisations create, maintain and manage legitimacy in the

¹² It is the equivalent strategy of attention deflection described by Bourdieu in its essay on television. Bourdieu describes the usage of "Omnibus Facts" as attention deflectors (Bourdieu, 1996).

eyes of external groups in order to receive support (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Tolbert and Zucker, 1983).

Institutional Theory uses the concept of “isomorphism” which is the process through which an organisation adjusts to the expectations of its external environment. “This takes place through a series of steps “occurring over a period of time and ranging from co-optation of the representatives of relevant environmental elements to the evolution of specialised boundary roles to deal with strategic contingencies” (Scott, 1991, p. 179). “Three types of isomorphism have been identified within institutional theory: coercive, mimetic and normative” (DiMaggio & Powell, 1983). Coercive isomorphism results from pressures exerted on an organisation by external parties. Mimetic isomorphism occurs when an organisation attempts to imitate a more successful organisation operating in the same environment. Normative isomorphism derives from the efforts of members of an organisation to define the conditions and methods of organisational life.” (Baker, Cohanier, & Pederzoli, 2011, pp. 3-4).

This section described the two part exploration of literature which helped the researcher in his initial approach to the field and his construction of meaning through case writing. Part one concentrated on literature which could enhance the researcher’s awareness of the phenomenon when approaching the research field. Subsequently, this literature addressed the transformation of management accounting, the emergence of performance measurement and management as a major subject of interest and its cross-cultural exercise. The second part served as a way to assemble the different pieces of the jigsaw emerging from cases studies into meaningful pictures and find early elements of comparison between all four stories. Subsequently, this step consisted of exploring change management, contingency, legitimacy and institutional theory literature. As explained earlier in this section, these theories will be returned to within the case studies to support the structure of emerging stories and in the cross-case analysis to sustain or contradict findings, thus highlighting the contributions of this research. In the following section, one will now describe the methodology and method selected to answer the research question.

3 Methodology and Method

3.1 Idea and context of the research

As suggested in the previous chapter, the concept of performance has attracted considerable attention in the organisational literature over the second half of the last century. Many changes have occurred in management accounting teaching materials since 1990 (Baxter & Fong Chua, 2003; Neely A. , 2005), especially in the area of performance measurement and management. In addition, when it is a prevalent thought that cultural differences tend to vanish as communication becomes more and more instantaneous and companies more global¹³ (Newman & Nollen, 1996; Chow, Shields, & Yoke, 1991), the research question of this dissertation is to investigate whether large French and US companies' practices have changed in the way the textbooks have changed with regards to performance measurement and management, or whether cultural differences are still driving differences in performance measurement and management between them.

The literature review showed that recent research predominantly addressed performance management in a quantitative and non-longitudinal way which consequently did not provide answers to questions concerning why and how performance management is exercised or about the origin of the success or failure of performance management instruments. For example, these questions investigate whether the apparent implementation of the Balanced Scorecard (BSC) and its success are the result of a well-designed implementation method and a soundly based theoretical model in terms of causal links (Brignall T. J., 2002; Nørreklit, 2000; 2003; Neely A. , 2008). Or does the management slack provided by the broad definition of performance dimensions in the BSC explain its resonance? Do managers adopt performance management instruments because of their claimed success, as fads and fashions? (Hopwood, 2002; Ittner & Larcker, 2002; Otley D. T., 2003).

Furthermore, at a time when 'globalisation' has become a concern for companies, there is a lack of qualitative field studies in comparative management accounting (Ahrens, 1999; Zirkler, 2002; Sheridan, 1995; Shields M. D., 1998; Hoffjan, Nevries, & Stienemann, 2007). Several comparative management accounting studies among European countries have been performed (Dent, 1996; Smith, 2003; Stiglitz, 2003), however only a small part are devoted to actual practice (Bhimani & Lebas, 1996). This exploration remained limited to local experts' views and conceptions which led to bias in assumptions regarding how management accounting is locally conceived, perceived and exercised. Furthermore, no recent studies have

¹³ Globalisation is as widely used as it is poorly defined. This generic term is used in a variety of settings to explain diversification, delocalisation, restructuration, tending to show there is a systemic variable called 'globalisation' which could justify current management practice (Granlund and Lukka, 1998; Hax and Wilde, 2001; Lawrence et al, 2005; Friedman, 2007).

investigated comparative international management accounting by trying to address qualitative questions on the design and use of performance measurement and management systems.

3.2 Selecting the appropriate methodology

As a consequence of the above, the objective of this research has consisted in understanding and exploring the PMS of companies without creating changes in the phenomena being studied. This objective is qualitative and interpretive¹⁴ (Burrell & Morgan, 1979, p. 23; Chua, 1986; Orlikowski & Baroudi, 1991). The philosophical base of interpretive research is hermeneutics¹⁵, phenomenology¹⁶ and social constructionism¹⁷ (Berger & Luckmann, 1966). This means that in this research one assumes that social reality is a human – subjective – construct (i.e. language, consciousness and shared meanings) in which knowledge is acquired through personal experience (i.e. through the meanings that people assign to them).

The exploratory nature of this study determined the adoption of a qualitative research methodology (Buckley, Buckley, & Chiang, 1976) suitable to gain “more understanding of accounting practices in their natural setting” (Alenizi, 2001, p. 7; Tomkins & Groves, 1983; Hopper & Powell, 1985).

Within this qualitative track, this research used the Grounded Theory approach (Strauss & Corbin, 1998; 2008) which offers flexibility in understanding the phenomena under investigation by liberating the researcher from imposing *a priori* assumptions. Unlike Glaser (1992; 1998) who suggests researchers enter the study “site without a predetermined research subject and that the phenomenon will emerge through interactions on site (...) The Strauss and Corbin (1998) approach introduces a structured set of analytical steps which provide the researcher with systematic analytical techniques for handling raw data and analytical interpretive techniques, as well as developing concepts to build a theory” (Alenizi, July 2001, p. 8; Koenig, 2006). Accordingly, the adoption of the grounded theory framework led the researcher to explore literature relevant to the area under investigation which serves as a theoretical sampling method.

The analytical techniques used by the researcher followed the five dimensions of the Strauss and Corbin Grounded Theory methodology (1998). As shown in Figure 1 below, emerging research labels were gathered into categories relating them to the phenomenon under investigation (the PMS) in terms of Causal Conditions, Organisational Conditions and External Conditions impacting Action/ Interaction strategies of the PMS and ending in having effects and outcomes related to its operation.

¹⁴ Research methods have been classified objective versus subjective, concerned with the discovery of general laws versus being concerned with the uniqueness of particular situations, as aimed at prediction for control versus aimed at explanation for understanding, taking an outsider versus insider perspective. Orlikowski & Baroudi (1991) suggest three categories, based on the underlying assumptions about knowledge and how it can be obtained (i.e. epistemology): positivist, interpretive and critical.

¹⁵ Hermeneutics is the study of the theory and practice of interpretation.

¹⁶ Phenomenology is the body of knowledge which relates empirical observations of phenomena to each other, in a way which is consistent with fundamental theory.

¹⁷ Social Constructionism is part of the sociological theories of knowledge that consider how social phenomena or objects of consciousness develop in social contexts.

Figure 1: Strauss and Corbin Grounded Theory methodology (1998)



The qualitative nature of the research questions on performance measurement and management which were addressed in this fieldwork led to the adoption of a case study based research strategy (Buckley, Buckley, & Chiang, 1976; Birnberg, Shields, & Young, 1990; Keating, 1995; Ahrens & Dent, 1998). The motivation for using a case-based approach and semi-structured interviews was because they are coherent both with the objectives of the study which targets “explanatory, back generalisation and theory refining objectives” (Johnston, Brignall, & Fitzgerald, 2002) and the Strauss and Corbin Grounded Theory methodology (1998). The outcome of the implementation of this qualitative methodology is to suggest hypotheses which will be discussed in the cross case analysis chapter of this document and will be the basis of future research through the design of quantitative questionnaires in a future study.

The use of case study research methodology provided the researcher with rich and in-depth examinations of organisations so that the research design could be reliable. It also provided a context-based, organised and replicable way of looking at cases, as far as data collection, information analysis and reporting results were concerned (Kaplan R. S., 1983; Yin, 2003; Irvine & Gaffikin, 2006). The type of case study that was used is exploratory in the sense that it was aimed at helping the researcher to make refined questions emerge from topical situations and develop hypotheses which are compared to existing theory.

3.3 Research method

3.3.1 Data collection

Semi-structured interviews were used because they allowed the researcher to obtain information from four case studies, as an outsider, in a non-intrusive manner of two-way communication. Furthermore, they not

only allowed the researcher to gain relevant general information on specific questions, but also the reasons behind the answers that were provided by respondents. The semi-structured interview guide (see Appendix A) was formulated prior to starting the fieldwork after a literature review of performance measurement and management without focusing on a specific issue (see Chapter 2). This provided the researcher with the required flexibility to approach fieldwork and explore the phenomenon in-depth with an open mind allowing the formulation of unstructured, broad questions before starting the case studies. Interviews were organised from December 2006 until June 2008 with designers, providers of information and users of performance measurement systems, at headquarters and business unit levels. The 43 interviewees were, as much as possible, personnel belonging not only to top and middle management but also performing different activities such as accounting and finance, marketing, human resources, sales and operations. This panel heavily relied on top management's willingness to allow free access to information. Access to information is evidently a fundamental issue for qualitative research; therefore the initial number of targeted companies, for obvious comparison issues, was large enough to take this factor into consideration. Among the few sectors which could have been selected for the study, the retail and airline industries were selected to convey this research because they are highly internationalised and allow the possibility to compare large companies from the same sector. The immediate reality of the field – in this specific case the effective interest, commitment and responsiveness of companies to the research topic – not only largely dictated the selection of companies and therefore the available data, but also explains the relatively slow pace of the interview process. Participation has been accepted by two sets of matched-pair companies in the retail and airline industries. However global these companies may be, their governance remains French and North American respectively.

The two matched-pair qualitative case studies involved a number of semi-structured interviews which varied between 8 and 13 per organisation, lasting one hour to one hour and a half each. The selection of respondents was done through top management suggestion or, failing this, by using the 'linked-in' business networking tool. The contents that the interview addressed through open-ended questions were the following: the first section contained questions addressing what performance measures were considered by the organisation and why. The second section focused on the collection of performance measures. The third section was interested in the use of performance measures while section four dealt with their dissemination. The final section collected data on the respondent (see Appendix A). Interviews were recorded with permission and transcribed, respecting total confidentiality for interviewees and the company. The recorded interview transcription process was rather lengthy as it was agreed that it would be done by the researcher himself, both to facilitate qualitative content comprehension and further coding, but also to respect strict confidentiality of both interviewees and company identities.

3.3.2 Data processing

In accordance with Yin's criteria for case study research (Yin, 2003), the research methodology mixed multiple sources of evidence so that triangulation and construct validity could be ensured. Internal validity was ensured by data collection and analysis to test theoretical assumptions (i.e. pattern-matching). External validity was attained by using a case study protocol which is replicable among the four case studies. This protocol aimed at establishing theoretical relationships from which analytical generalisations could be drawn (Birnberg, Shields, & Young, 1990; Atkinson, Waterhouse, & Wells, 1997).

Throughout the research process, the implementation of Grounded Theory allowed the researcher to enhance his sensitivity to the phenomenon under investigation (i.e. theoretical sensitivity). Theoretical sensitivity is the ability to perceive variables and relationships. Theoretical sensitivity within the Strauss and Corbin grounded theory methodology is a source which stimulates the thoughts of the researcher on the phenomenon under exploration as well as the generation of questions to be used in the fieldwork. Theoretical sensitivity is an "accumulative aspect, which is part of the research process and represents a learning curve (...)". This learning curve helps the researcher develop his "(...) awareness of how to formulate theory by conceptualising data through categories and their constituent properties" which helps him in his analytical process to collect data, code, and analyse (Alenizi, 2001, p. 16). It is affected by a number of variables including one's reading of the literature and one's use of techniques designed to enhance sensitivity such as on-site access to documents for example. In this research, sensitivity enhancement has been done through the continuous blending of prior and current performance measurement and management literature with interview data as well as internal company documents such as reports which are 'used' by interviewees, either because they prepare them or because they 'use' them (e.g. functional and departmental scorecards, professional reports, individual performance reports, on-site access to documents, as well as external documents such as existing case studies, professional publication subscriptions in the retail and airline sectors). To further increase theoretical sensitivity, data collected at participating companies were complemented by industry-specific reports and interviews of financial analysts and academics who are specialists in the two sectors covered by the study. As previously stated, these multiple sources of evidence help triangulate information and add to a study's validity (Yin, 2003).

Miles and Huberman (1994, p. 10) define data analysis, "as consisting of three concurrent flows of activity: (1) Data reduction, (2) Data display, and (3) Conclusion drawing/verification". Data reduction is an analysis that helps sharpen, sort, focus, discard, and organise data in a way that allows for 'final' conclusions to be drawn and verified. Data display takes the reduced data and displays it in an organised, compressed way so that conclusions can be more easily drawn. Conclusion drawing and verification is where one decides what

things mean by noting regularities, patterns (differences/similarities), explanations, possible configurations, causal flows, and propositions.

As a way to facilitate the three stage data analysis process above, which deals with a complex field reality, one decided to adopt the different coding phases prescribed by the Strauss and Corbin (1998) Grounded Theory methodology. Accordingly, the researcher followed a set of prescribed steps of analysis whose careful execution should provide a theory as the final outcome. An example of the implementation of this procedure on an interview transcript is provided in Appendix B.

First, the main topics quoted by respondents were identified and summarised. This was done through open coding which is the part of the analysis concerned with identifying, naming, categorising and describing phenomena found in the interview transcript. Open coding was performed until 'saturation' was reached, which corresponds to the stage where no further or new relevant labels appeared (Parker, 2008; Strauss & Corbin, 1998).

The second step of data analysis then consisted in gathering similar topics together and labelling them with tags describing the data. Qualitative analysis is a meaning-seeking process (Paillé & Mucchielli, 2003), and the method which was used for this purpose consisted in teasing out the meaning of respondents' comments. The main issue with qualitative analysis is to manage the paradox between the inferences the researcher is supposed to tease out from several interviews on social reality and the preservation of individual singularity (Michelat, 1975). This issue is dealt with through the quality and transparency of the scientific discourse which creates a presumption with which one agrees or disagrees. For this purpose, thematic analysis (Paillé, 1996; Paillé & Mucchielli, 2003) was used because it can be used either in a deductive way, starting with assumptions and validating them (or not) using qualitative methodology to find out the meaning of interviewees' discourse, but also in an inductive way, starting from the material (which is called 'corpus') to generate themes. The methodology used by thematic analysis is similar to the technique used in content analysis with the exception that in content analysis one is not supposed to start with preconceptions, whereas in thematic analysis the researcher starts with a group of ideas based on literature, assumptions, intuitions (such as national culture and other facts that might be significant); a group of ideas which is refined as more interviews are done, thereby having new themes emerging (or not). This process is coherent with the 'moderate logic' concept which acknowledges the influence of the theoretical framework on the definition of studied themes (Miles & Huberman, 1994; Strauss & Corbin, 2008; Ayalon & Even, 2008, p. 14).

Then, axial coding allowed one to relate labels to each other, reflecting causal relationships between the five dimensions (i.e. 'conditions') of the Strauss and Corbin (1998) methodology. This frame of generic

relationships simplifies the coding process by focusing on causal relationships rather than looking for any kind of relations between labels.

The development of 'substantive hypotheses' for each case study was then performed based on the evident relationships established between these five dimensions. These 'substantive hypotheses' are the outcomes of the selective coding performed in the four case studies structured around the five dimensions of the Strauss and Corbin (1998) methodology. Selective coding is the process of choosing one category to be the core category, and relating all other categories to that category. The essential idea is to develop a single storyline around which everything else is arranged. This structural arrangement is expressed through the writing of each case study which allowed one to check if data either verified or falsified previous research (Popper, 1935) and also if data brought up issues other studies did not, which would constitute a contribution. This step is called 'within-case analysis', which is a term used by Miles & Huberman (1994), and Yin (2003) who discusses comparing findings to a frame of reference (i.e. previous studies) as one of two ways to analyse case study data and contribute to research.

3.3.3 Data organisation through case writing

The organisation of these four stories consisted of exposing what form of Performance Measurement System exists at a particular company and then providing evidence about why and how it was so and with what success. Consequently, the organisation of each case study tells a story which is organised as follows: The key reasons why companies decided to have a PMS and how it evolved in response to 'Causal Conditions' relating to its adoption are expressed. Causal Conditions within the Strauss and Corbin Grounded Theory (1998) methodology refer to the events which make the phenomenon happen in the setting of the case study (i.e. each company has its own environment and industry, which gives it its distinct characteristics and various different attitudes as to the adoption or not, as well as the evolution over time and use, of a PMS). Causal Conditions may come from within the organisation and/or without. Because the PMS is a dynamic process, organisational change (Soin, Sealb, & Cullenc, 2002) is more subtle than Kurt Lewin's (1946) changing shape of a block of ice through the 'unfreeze', 'change', '(re)freeze' model¹⁸: performance measurement systems are not simply designed and implemented, but they evolve over extended periods of time (Waggoner, Neely, & Kennerley, 1999). This explains why in this research one considered that different dated events generated the phenomenon under investigation and that some emerging Causal Conditions may also constitute 'Organisational Conditions' because they subsequently became such.

¹⁸ Kurt Lewin theorised a three-stage model of change (Lewin, 1946) that has come to be known as the unfreezing-change-refreeze model that requires prior learning to be rejected and replaced. The 3-Stages model functions as follows: Stage 1: becoming motivated to change ('unfreezing'); Stage 2: change what needs to be changed ('unfrozen and moving to a new state'); Stage 3: making the change permanent ('refreezing').

Then 'Organisational Conditions' - or Inner Context - refer to a particular set of internal company characteristics and circumstances in which the phenomenon occurred. They are related to the organisation's internal environment within which the PMS has been designed, implemented and operated. In this research one considered the Organisational Context to be similar to the organisational environment which surrounds the phenomenon under investigation. Organisational Conditions, which may have a positive or negative impact on the phenomenon under investigation, create a set of circumstances to which companies' management respond through 'Actions/ Interaction Strategies'.

'Intervening Conditions' – or External Context – are related to the organisation's external environment which impacted the design and the operation of the PMS. Intervening Conditions are general conditions that influence the phenomenon and the strategies that a company can adopt. Intervening conditions are conceived as environmental conditions that surround companies and have a direct impact on the phenomenon and the company strategy.

Companies' management implement a certain number of practices (i.e. management strategies) in response to the above mentioned Causal, Organisational and External conditions. These are called 'Action/ Interaction Strategies'. They are "purposeful or deliberate acts, which were taken to resolve a problem and which shaped the phenomenon in some way" (Strauss & Corbin, 1998, p. 13). Labels which emerged both from the interviews and the multiple evidence collected in the case contexts represent the main 'Action/ Interaction Strategies' that have been implemented as a result of the operation of the PMS at companies.

Each case story subsequently provides the key elements addressing what were the performance measures of the PMS and to what extent it had been successful by stressing substantive hypotheses relating to the outcomes of Action/ Interaction Strategies that have been taken by management to run their PMS.

As a conclusion of data analysis, Chapter 8, presents a cross-case analysis where similarities and differences found in each of the four cases are compared as a means of expressing the formal hypotheses which emerge from the cases' substantive hypotheses. The examination of similarities and differences between substantive hypotheses helps the researcher to gain both an understanding of the specific conditions under which a finding occurs and the generic processes that occur across cases. Accordingly, similarities between cases will be taken as hypotheses that emerge from the case studies and allow the researcher to develop a representative theoretical framework and formulate a formal theory. This strategy helps the researcher in selecting the relevant substantive hypotheses which then become formal hypotheses. The cross-case comparison of substantive hypotheses provides the researcher with more general explanations for the phenomena under investigation according to their occurrence in more than one site (Strauss & Corbin, 1998; Alenizi, 2001). The association between the formal hypotheses of the cross-case analysis and relevant

literature will clarify similarities and differences and will allow contributions to knowledge about the structure, operation and success of the PMS in the retail and airline industries.

In accordance with the methodology and method described above, the following four chapters will now articulate the stories emerging from the four case studies performed for the purpose of this research. Each case study chapter presents further details of the research methodology and methods as problems/ issues arise. This writing strategy helps understand the limitations of the chosen research methodology (Chapter 9) such as no possible statistical generalisation for example. It will also help understand this research's contribution to theory through the flexible non-dogmatic implementation of the Strauss and Corbin (1998) Grounded Theory methodology (Fendt & Sachs, 2008).

4 Case A

The structure and content of the four matched paired case studies of this research reflects the articulation of the five dimensions of the Strauss and Corbin Grounded Theory methodology (1998) shown in Figure 2



As a consequence, this case first exposes the reader to what form of Performance Measurement System (PMS) exists at a particular company and then provides evidence about why and how it exists as such. Consequently, the reader is shown the key reasons why Company A, one of the biggest retailers in France, decided to have a PMS and how it evolved in response to the Causal Conditions relating to its adoption; then the Organisational Conditions, which are considered to be related to the organisation's internal environment within which the PMS has been designed, implemented and operated are discussed; the External Conditions related to the organisation's external environment which have impacted the design and the operation of the PMS are then debated. Subsequently, the case story provides the reader with the key elements answering the following questions: "What are the performance measures of the PMS and to what extent has it been successful?" This objective is achieved by highlighting the key outcomes and consequences of the action/interaction strategies¹⁹ that management has adopted in response to the different causal, external and organisational conditions that have impacted the PMS at Company A. These emerge from interviews performed at the company complemented by triangulation evidence arising from the case study context.

¹⁹ The action/interaction strategies are "purposeful or deliberate acts, which were taken to resolve a problem and which shaped the phenomenon in some way" (Strauss & Corbin, 1998, p. 13).

This case study is divided into seven sections. Section 4.1 provides the reader with a brief summary about Company A. Section 4.2 describes the specificities of the interviews and the data collection and analysis procedure. Section 4.3 summarises the findings emerging from the case study. Section 4.4 describes Causal Conditions for adopting a PMS, as well as Organisational and External Conditions which affected the design and the operation of Company A's PMS. These conditions explain the action/ interactions strategies which Company A's management adopted as a result of the implementation of its PMS in Section 4.5. Section 4.6 discusses to what extent the PMS has been adopted by the company and how successful it has been. At the end of Sections 4.4, 4.5 and 4.6 the reader is provided with relevant hypotheses emerging from the five dimensions of the Strauss and Corbin Grounded Theory methodology (1998). Finally section 4.7 provides the reader with a summary of all the hypotheses which have emerged from this first case.

4.1 Retail Industry Research and Company A Overview

The retail sector offers a wide range of opportunities for scientific investigations. It is a challenging industry for direct as well as indirect information access. There is very little literature addressing performance management in this area. Only a few researchers are working in this business context, which does not attract many new academics (Cliquet & Perrigot, 2005, p. 90). This industry also records a low attractiveness rate for students' business careers or research (Broadbridge, 2001).

Company A is an international retailer which was founded in the late 1950's by two families. It currently operates through four primary grocery store formats: hypermarkets, supermarkets, hard discount and convenience stores. It has over 15.500 stores, either company-operated or franchises. It markets two types of products: leading brands and retailer brands. It operates in three major markets: Europe including France, Latin America and Asia. The Company had approximately €86 billion net sales in 2009 for an operating profit of over €4.6 billion and a net profit of around €390 million. The reader will find further detailed information about the company at Section 4.4.2.2.1 page 65 which provides Organisational Conditions which have affected the design and the operation of Company A's PMS.

4.2 Data Collection and Data Analysis

4.2.1 Data Collection

As documented previously, this research uses the Strauss and Corbin Grounded Theory methodology (1998). The interview schedule at Company A took over one year and was completed in 2007. Interview data was handled confidentially for both interviewees and the company. The selection of most respondents at

Company A was suggested by the Chief Financial Officer (CFO)²⁰. The researcher considers the selection of interviewees to be balanced as it was based on seniority and encompassed a range of providers and users of performance management tools, as shown in Table 1 below. Initials of the twelve respondents and their respective functions are detailed in this table. Interviews at Company A lasted one hour or so and were recorded when agreed by the respondent.

Table 1: Details of Company A's 12 Respondents

Respondents	Functions
A1	Group Reporting Manager
A2	OLAP ²¹ Cubes – Decision – Finance
A3	Management Control Director France
A4	Head of European Reporting
A5	Management Controller French Perimeter
A6	Financial Controller
A7	Management Control Taiwan
A8	Head of Management Control Tools development
A9	Head of Management Control Group
A10	Financial Controller Group Director
A11	Head of Department (Hypermarket)
A12	Managerial Accountant

Three types of external interviews also complemented the data gathered at Company A. Two financial analysts in the retail industry group at Price Waterhouse Coopers (PWC), both experts in food and non-food retail, provided the researcher with external stakeholders' views. Interviews with several academics specialised in the retail and distribution industry in France and worldwide provided the researcher with relevant scholarly evidence. The last triangulation source was obtained after the interviews at Company A were performed, through the involvement of the researcher in two Retail and Marketing Trends Conference in the fall of 2007 and in the spring of 2010.

²⁰ The researcher acknowledges this may constitute a bias in the research. In addition, the conclusions of this first case study and the interpretations made could be biased because 10 out of the 12 respondents work in the finance and control areas. Had sales force or marketing persons been interviewed (in Customer Relationship Management for example), results could have been different.

²¹ An OLAP (On Line Analytical Processing) cube (or Hypercube) is a data structure that allows fast analysis of data. It can be defined as the capability of manipulating and analysing data from multiple perspectives. The arrangement of data into cubes overcomes a limitation of relational databases. OLAP cubes can be thought of as extensions to the two-dimensional array of a spread sheet. For example a company might wish to analyse some financial data by product, by time-period, by city, by type of revenue and cost, and by comparing actual data with a budget. These additional methods of analysing the data are known as dimensions. Because there can be more than three dimensions in an OLAP system the term hypercube is also used.

4.2.2 Data Analysis

This case study is articulated around the exploration process followed by the researcher in applying the Strauss and Corbin Grounded Theory methodology (1998). As informed in the methodology and method part of this document, the researcher uses this archetype as a specific technique for data collection and processing to produce knowledge (Berland & Joannides, 2008; Gurd, 2008) in the context of the qualitative methodology (i.e. logic of the method²²) which constitutes the philosophical basis underlying this research process.

The researcher collected a large quantity of data which required analytical procedures informed by this methodology. Emerging case labels were gathered into categories relating them to the phenomenon under investigation (i.e. the PMS) in terms of Causal Conditions (Section 4.4.1 page 47), Organisational Conditions (Section 4.4.2 page 64) and External (i.e. Environmental or Intervening) Conditions (Section 4.4.3 page 73) impacting Action/ Interaction strategies of the phenomenon (Section 4.5 page 86), and ending in effects and Outcomes (Section 4.6 page 92). The following sections illustrate the relationships that the researcher has established between category labels emerging from the data collected and the central category that is the PMS. The researcher then developed hypotheses which derive from each category's relationship with the other related categories' components.

4.3 Summary of the Key Elements arising from the case study

Company A is a French retailer operating internationally. As a retailer this company belongs to an industry which shows some characteristics. It is a labour intensive industry which attracts low to average skilled employees who traditionally see limited internal career opportunities for themselves within the company, which explains the high turnover rate of personnel. This is also an industry which has remained very basic in its performance measurement system; it is highly dependent on day to day operations, which explains the pre-eminence of revenue and cash management indicators. Company A makes extensive use of traditional industry financial metrics such as the trend in income and margin from operations over several years. These two features combined explain the importance of quantitative and financial indicators at Company A. Financial metrics, which are a basic, commonly understood and well tested way to manage performance in the retail industry, also have the aptitude to produce information which is easily understandable by all employees. In this context, the company has historically adopted a PMS which takes the form of a *Tableau de Bord* (TDB). As demonstrated by prior research (Bourguignon, Nørreklit, & Malleret, March 2001; Pezet, 2007; Bessire & Baker, 2005; Epstein & Manzoni, 1998; Pezet, 2009; Chiapello, Drechsler, & Lebas, 2001; Daum, 2005) a TDB includes a mix of outcome measures (i.e. lagging indicators) and performance drivers (i.e.

²² From the Greek "logos" which means "logic of" (the method).

leading indicators) to describe where and how the company has been and to point the way for future growth. The proportion of each type of indicator in the TDB is however not very defined as respondents, at different hierarchical levels, tend not to make a clear distinction between what is a leading and a lagging indicator. In addition to this, at their respective levels, managers also tend to adopt an opportunist selection of metrics which they justify as a custom of the retail industry, stakeholder pressure and their ease of use. The company has not yet adopted the Balanced Scorecard (BSC) but uses the TDB (Gray & Pesqueux, 1993).

As the strategy of a company plays a key role in the development of management control systems (Govindarajan & Gupta, 1985; Simons, 1987; 1988; 1990; Govindarajan & Fisher, 1990; Govindarajan V., 1988), prior research has tried to understand how the strategy of a company influences decisions on performance measures established in the management accounting systems. They have showed that there is a correlation between the type of strategy adopted and the use of FPMs and NFPMs (Gosselin, 2002). Company A's strategy is characterised by its instability over time. As it will be evidenced at Section 4.4.1.2.2.3, it has shifted from a prospector²³ to a reactor²⁴ strategy (Miles & Snow, 1978) for reasons that basically derive from family disputes over boardroom power following its merger with another French retailer in the late 1990's and shareholder dissatisfaction with the company results. This merger occasioned a big rise in debt and more direct exposure to the requirements of the financial markets. After a period of international expansion to combat declining domestic market shares by increasing revenues abroad, the company decided to change its strategy and rationalise its international presence, withdrawing from a large number of countries because of insufficient local profitability and/ or their 'non-strategic asset' nature. Subsequently, the PMS at Company A, even across store formats, has concentrated on financial – short term – performance metrics from lower to top management levels with an emphasis on metric differentiation towards operational metrics at lower levels for practical management reasons.

These strategic characteristics, which led to the dismissal and appointment of several CEOs along with their subsequent differing visions about strategy and performance, mixed with a growing unfavourable economic environment, pushed the company to adopt a rather rigid, mostly financial metrics oriented PMS, which is perceived as providing evidence of the company's capability to produce profits for shareholders, as well as other stakeholders such as the financial analysts community. This PMS has recently been balanced with Non-Financial Performance Metrics (NFPMs), such as customer satisfaction, employee retention and sustainable development metrics which are ultimately tied to financial objectives. Interviews show that, for the moment, these indicators are used more as a means of external communication for company stakeholders (i.e.

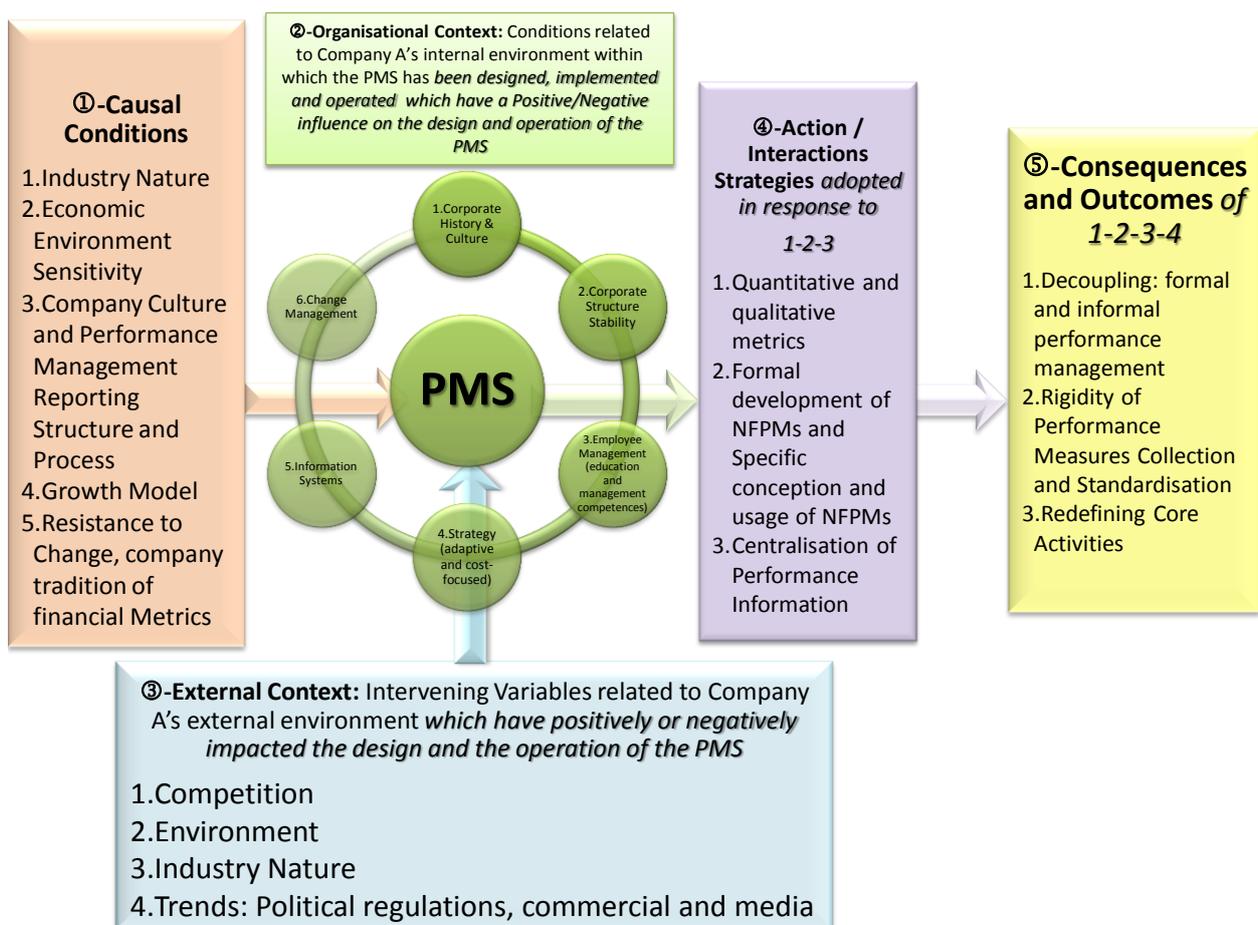
²³ "Prospectors are organisations which almost continually search for market opportunities, and they regularly experiment with potential responses to emerging environmental trends. Thus, these organisations often are the creators of change and uncertainty to which their competitors must respond." (Miles & Snow, 1978, p. 29).

²⁴ "Reactors are organisations in which top managers frequently perceive change and uncertainty occurring in their organisational environments but are unable to respond effectively. Because this type of organisation lacks a consistent strategy-structure relationship, it seldom makes adjustments of any sort until forced to do so by environmental pressures." (Miles & Snow, 1978, p. 29).

shareholders and the financial analyst community) rather than actual performance assessment tools. Company A fluctuating strategies have led these stakeholders to lose confidence in the company's future and its traditional financial proofs of wealth. They subsequently have required triangulation proofs of performance which calls for 'beyond financial metrics' (e.g. NFPMs such as sustainable development metrics). However, this does not mean these metrics are actually used internally for performance evaluation but rather as a form of legitimation of the formal structure of the PMS in a new intuitionist perspective (DiMaggio & Powell, 1983).

The design, adoption, usage and success of the PMS at Company A are illustrated in the following sections. Figure 3 below summarises the content of sections which cover causal, external and organisational conditions emerging from interviews performed at Company A using the Strauss and Corbin Grounded Theory methodology (1998), as well as action/ interaction strategies that management has adopted in response to them and their subsequent consequences and outcomes.

Figure 3: Summary of the Strauss and Corbin Grounded Theory methodology (1998) applied to the case study of Company A



4.4 The Reasons Why Company A decided to have a Performance Measurement System (PMS) and how it has evolved

The purpose of the following sections and subsections is to inform the reader about the Causal, Organisational and External Conditions which led management to adopt PMS related actions and interaction strategies and their consequences at Company A. These conditions emerge from interviews performed as well as triangulation evidence from the case study context.

4.4.1 Causal Conditions for adopting a PMS at Company A

Causal conditions within the Strauss and Corbin Grounded Theory methodology (1998) refer to the events which make the phenomenon happen in the setting of the case study. Each company has its own environment and industry, which gives it its distinct characteristics and various different attitudes as to the adoption or not, as well as the evolution over time and use, of a PMS. We consider Causal Conditions may come from within the organisation and/or without. Because it is a dynamic process, organisational change (Soin, Sealb, & Cullenc, 2002) is more subtle than Edgar Schein's "cognitive redefinition" or Kurt Lewin's changing shape of a block of ice through the 'unfreeze', 'change', '(re)freeze' model²⁵: performance measurement systems are not simply designed and implemented, but they evolve over extended periods of time (Waggoner, Neely, & Kennerley, 1999). This explains that in this first retail case, we consider that different dated events have generated the phenomenon under investigation and that some emerging Causal Conditions may also constitute an Intervening variable which is a Contextual circumstance which has a continuing impact on how the phenomenon works within the organisation.

4.4.1.1 Summary of Causal Conditions for adopting a PMS at Company A

The retail industry is characterised by its prominent and persistent assessment of performance using financial metrics notably for benchmarking purposes. This can be explained by the public belief that financial metrics are capable of providing quickly available, both easily understandable and usable information implicitly associated to 'performance' by respondents and which reflects the short term pressure imposed by day to day retailing activity. This pre-eminence of financial metrics has also been favoured by the sustained progression of the retail French business surfing on a growing economy which subsequently made managers and stakeholders not require further refined and multidimensional metrics for performance evaluation. This industrial context as well as favourable economic conditions explain the structure of Company A's PMS mainly around financial metrics.

²⁵ In 1946, Kurt Lewin theorised a three-stage model of change that has come to be known as the unfreezing-change-refreeze model that requires prior learning to be rejected and replaced. The 3-Stages model functions as follows: Stage 1: becoming motivated to change ('unfreezing'); Stage 2: change what needs to be changed ('unfrozen and moving to a new state'); Stage 3: making the change permanent ('refreezing').

The performance reporting structure and the way it is exercised at Company A has been very traditional in its financial content and quite standardised. It has been top management’s expression of its administration contract and has been structured around a classic yearly budgeting process and monthly financial reporting structures which both fit the short termism imposed by commercial operations and managers’ basic requirements for performance assessment. The limited integration of performance information systems in a corporate context where reporting procedures are mostly financial and standardised allows for a relative autonomy of managers in terms of implementation of their local performance measures and the possible development of specific NFPM, which however are ultimately tied to financials. Finally, the fluctuating strategies of Company A have also played an important role in the shaping of its mostly financially oriented PMS. Figure 4 below summarises the content of section 4.4.1, which will now give detailed Causal Conditions emerging from interviews performed at Company A as well as triangulation evidence emerging from the case study context explaining the adoption of a PMS.

Figure 4: Summary of Causal Conditions relating to the adoption by Company A of its current PMS



4.4.1.2 The different Causal Conditions for adopting a PMS at Company A

Following the interviews that have been performed, complemented by triangulation information emerging from the case study context, management’s reasons for using a PMS at Company A appear to have been decided for several reasons relating to Company A’s nature of activities, its environment and stakeholders, its culture and tradition and its growth model.

4.4.1.2.1 Retail Industry and Economic Environment related Causal Conditions

The retail industry has been one of the world's leading industries over the past 30 years. It is considered a very attractive industry with - a strategic literature classic - 'high barriers to entry', especially when it comes to large companies. Should performance only be measured by sales level, it could be assumed this is a performing sector: Top 250 Global Powers²⁶ total retail sales climbed to \$3.8 trillion in 2008, up 5.5% from the prior year's total of \$3.6 trillion (Deloitte Touche Tohmatsu, 2010, p. 13). This was achieved in spite of the world economic crisis which increased the concentration of the sector.

One classic particularity of the service sector when it comes to performance measurement (Cox, 1948) is that improvements in the way inputs are organised and used are hardly measurable in terms of output improvements from a pragmatic point of view (Reynolds, Howard, Dragun D., Rosewell, & Ormerod, 2005). This is because in a strict sense "productivity should relate to physical values relating inputs to outputs. Instead, as particularly evidenced by the macro or 'top-down' approach, there is a reliance on monetary values, essentially relating costs to revenues through 'value-added' measures. Similarly, with the micro or 'bottom-up' approach, relying on an array of measures typically used by retailers themselves, the measures used are more often than not monetary based, and really about performance (i.e. jointly embracing efficiency and profitability). This is not surprising when the language of profit seeking retailers is about 'cost saving' and 'revenue enhancing', and not 'more output from less or equal input.'" (Dobson, 2005, p. 320). Traditional measures in an economic growth environment have been classical Return On Investment (ROI) performance evaluation.

Subsequently, performance measurement in this service industry which is retail has conventionally consisted of profit based Key Performance Indicators (KPI) such as profits per employee, profit density²⁷ and Return On Capital Employed (ROCE) as measures of 'productivity' and 'efficiency' (Templeton Report, 2004, p. 45). As further evidenced in section 4.4.3.2.3 page 83, these sets of financial metrics are perceived as fast and easily providing the sector's required and widely understandable benchmarking information (i.e. financial 'like for like' information). With respect to this, it is interesting to see that the DTI²⁸ commissioned Templeton Report also shows – for the U.K. retail sector for example – that these financial measures are prominent in retail performance evaluation because they are perceived as 'pure and simple' and that "as such, U.K. retailers (and particularly their shareholders) may take pride in being at the top of international league tables for such measures" (Dobson, 2005, p. 321). In short, the retail industry is characterised by a rather low degree of sophistication in performance evaluation (i.e. usage of simple operational metrics) and a constraint of short

²⁶ This joint report (Deloitte and STORES Media) identifies the 250 largest retailers around the world based on publicly available data for companies' fiscal year. The report also provides an outlook for the global economy, a discussion of the major challenges facing retailers and an analysis of market capitalisation in the retail industry.

²⁷ Earnings before Interest, Taxes, Depreciation, and Amortisation (EBITDA) per square foot of net selling space.

²⁸ Department of Trade and Industry (DTI).

term operations (i.e. usage of quickly available operational metrics). It is an industry which focuses on cash and revenue evolution in the short run, which makes operations metrics and FPMs prominent in the PMS of such organisations.

In this overall industry context, Company A consequently adopted a PMS which provides the performance information that is widely used in the retail industry. It has taken the shape of several *Tableaux de Bord*, which supply the few metrics which are widespread among the industry and will be monitored as illustrated in Table 2 below:

Table 2: Retail Industry Financial Performance Metrics

Retail Industry Financial Metrics Monitored at Company A
<ul style="list-style-type: none"> • Sales increase in absolute value, year to date and like for like²⁹ • “Activity contribution” (i.e. operating margin) in absolute value and like for like • Profit increase in absolute value and like for like • Trend in Free Cash Flow • Inventory level expressed in days of cost of goods sold • Inventory cash • Trend in earnings per share • Return On Capital Employed

Source 1: Company A respondents' statements

As explained earlier, organisational change is more subtle than Kurt Lewin's seminal 1946 ‘unfreeze’, ‘change’, ‘(re)freeze’ model because it is a dynamic process relative to the nature of change (Greenwood & Hinings, 1996) which affects the activity exercised within the company (e.g. finance, marketing, human resources activities). As a consequence of company evolution, the financial metrics embedded in the *Tableaux de Bord* have also been complemented by other quantitative non-financial as well as qualitative data such as labour, space and capital KPIs (Templeton Report, 2004, p. 47). This evolution and its outcomes found its roots in several organisational and external factors which are further discussed in sections 4.4.2, and 4.4.3.

4.4.1.2.2 Company related Causal Conditions

4.4.1.2.2.1 Performance Management Reporting Structure and Process

The metrics embedded in the PMS at Company A are documented in the company’s yearly financial report. The design and the operation of Company A shifted along with its corporate strategy in the 2000 – 2010 period for reasons which we have addressed earlier in this case (Section 4.3) and which are further detailed

²⁹ i.e. ‘same store’

in Section 4.4.2. This section concentrates on the strategic changes initiated in the 2003-2006 period which ended with all company business-unit managers having a complete documentation of internal-control procedures. As part of “risk-mapping procedures”³⁰, the establishment of a corporate model has divided company activities into three major processes: strategic, operational and support. Corporate documentation indicates key control points and best practices that should be implemented to effectively cover risk. This shift from management control towards risk management tends to confirm literature on the redefinition of the nature of internal control as a feature of corporate governance by explicitly aligning internal control with risk management. Some of this literature (Spira, 2003) argues that the developments in corporate governance reporting requirements offer opportunities for the appropriation of risk and its management by groups wishing to advance their own interests, which, to some extent, also relates to ‘human praxis’ and institutional changes as exposed by Institutional Theory (Seo & Creed, 2002). This would tend to be confirmed by the negative reaction of the company board when some managers suggested that a BSC should be implemented in 2006-2007 (Section 4.4.1.2.2.2). In the case of Company A, this risk management dimension draws attention to malfunctions likely to occur when controls are ineffective, thus emphasising accountability for the managers involved. This corporate point by point control documentation has given rise to a repository of best practices for internal control procedures that can be used by all company countries and functions. This work has contributed to standardised internal-control levels throughout the company. In 2008, the company focused on business-unit-level internal-control self-assessment, which concerns accounting and financial control activities. In order to allow everyone in the company to assess their material contributions and the importance of their responsibility in terms of internal controls, the company relies on a single and uniform process for setting objectives and analysing performance³¹.

Objectives are set annually within the context of a budgetary process based on a multi-year strategic plan. This process focuses on collecting budgetary data at appropriate responsibility levels (i.e. at department level for hypermarkets and supermarkets and at store level for hard-discount stores). The information-gathering process is supported at various approval stages; the company argues that “an essential component in the definition of an effective management control is making all those responsible for leading teams or overseeing an income statement or activity accountable for agreed-upon, approved budget objectives”³² and has subsequently set that one of the main approval stage is at business-unit level. This contributes to explaining the pre-eminence of FPMs the closer performance measurement gets to operational levels such as business units.

³⁰ Company A Annual Financial Report

³¹ Company A Annual Financial Report

³² Company A Annual Financial Report. The pages are not referenced to preserve company anonymity.

Noticeably in opposition to some other industries which are sensitive to the Beyond Budgeting trend (Hope & Fraser, 2003), the budget seems to still be considered a “cornerstone” (A3) in this “human relations”/ labour intensive business. As a matter of fact, Company A’s documentation on performance management practice shows the use of a budget which is broken down into months “so that everyone, at each level, can monitor his or her performance throughout the year”³³. The budget contains commercial and financial data as well as specific performance indicators and is considered as the incarnation of a ‘management contract’ between the company and its managers from various levels.

Countries send this management-reporting data to the company on a monthly basis. Collected data concerns both commercial activities (sales, customer flows, average baskets, sales areas and store openings) and financial activities (income statements, balance sheets and cash-flow statements). Then “accounting data is reconciled with management data each time financial statements are drawn up. The scope of this reporting (companies, methods of consolidation, interest percentages etc.) matches the reporting involved in the company’s consolidated financial statements. In this way, the company uses the same management reporting information as that obtained via consolidated accounting”³⁴. The same figures are used for financial communications at the moment half-yearly financial statements are produced. The monitoring of operations and projects is ensured by monthly performance reviews which are conducted for both operational and support functions³⁵. The frequency of performance assessment and the way it is processed is further documented by Company A stating that “each month, actual performance is compared to budgeted performance and the previous year’s performance (‘year to date’ and ‘like for like’ comparisons). A summary of company and country performance is then presented to the Company’s Executive Committee. The Board of Directors also receives a summary of sales trends and performance indicators each month. The financial control team is available to help managers draw up and monitor budgets, participate in validation phases and propose action plans made necessary by discrepancies in their implementation, and to help ensure the reliability of the entire process and the financial data thus collected”³⁶.

This short term financial metric concern is further evidenced by showing that in this specific industry “the monitoring of internal control by management is carried out on a continuous basis, insofar as commercial operations require attention at all times, particularly on store sales floors”³⁷. On this specific time horizon, one respondent states: “We have one or two month cycles, therefore it requires less anticipation, we are more in the short term, activity management is more in the daily business and in the present than for people at (a manufacturing company) who are constrained to foresee the evolution of markets” (A9). This respondent statement seems paradoxical because it admits a performance evaluation practice being biased

³³ Company A Annual Financial Report. The pages are not referenced to preserve company anonymity.

³⁴ Company A Annual Financial Report. The pages are not referenced to preserve company anonymity.

³⁵ The corporate documentation however does not mention the frequency of strategic reviews.

³⁶ Company A Annual Financial Report. The pages are not referenced to preserve company anonymity.

³⁷ Company A Annual Financial Report. The pages are not referenced to preserve company anonymity.

by a short term financial metric focus which is implied by the nature of the retail business. Yet, it bizarrely relegates externalities such as the pressure of the market towards the adoption of more “proof of actual strategy” operational metrics as more relevant for other industries who, unlike Company A “*are constrained to foresee the evolution of markets*” (see section 4.4.3 page 73 for further details about External Conditions).

In spite of the standardisation of reporting procedures at Company A, relative autonomy is given to managers in terms of implementation of the appropriate performance measurement organisation for managing the internal control system. In fact, further company documentation states that “line and business experts participate in country/business unit control activities and implement control systems to allow for measurement of the correct application of fixed principles. In the scope of the company’s decentralised structure, each business unit defines and implements the appropriate organisation for managing the internal control system within its context. Several of them have implemented internal-control functions that focus mainly on compliance. Performance reviews contribute to regular monitoring of the system at each management level. Each year, the executive and financial directors of each company business unit formally attest to the quality of internal controls in the units they manage.”³⁸ As a matter of fact one respondent adds: “*we do not have a unique framework, if you take performance reviews, you will see X³⁹ performance review which is going to be 250 monthly pages, with a lot of analysis in every direction; on the contrary, you will get a performance review for proximity shops, Y⁴⁰, Z, etc... which will be, because we are in the franchise, a different business model, 15 pages. Then of course, in one case or the other, the percentage of financial indicators is not the same. At Y and Z, 90% of metrics will be financial, whereas at the other edge of the spectrum, at X, we will maybe get 20 or 30% of financial indicators in a monthly performance review*” (A3). This trend seems to confirm existing Contingency Theory literature (Lawrence & Lorsch, 1967; Otley D. T., 1980) on the link between the usage of FPMs, the management of a complex situation, activity rationalisation (Chenhall R. H., 2003), reactor (Miles & Snow, 1978) and low cost (Porter M. , 1982) strategies, shareholder pressure to yield profit, and the focus on short term strategy.

Noticeable is the strong tendency in the retail industry, for over 10 years, towards centralisation of information at headquarter level (see Section 4.5.1.3 page 91). Although Company A participated in this trend, the limited integration of its PMS and the internal survey the company organised in 2007 to have managers express the type of indicators they would require on a daily/ weekly monthly basis to assess performance explains the conjunction of different systems in use (by business units, by levels, etc...) and the initiation of a reflexion on the development of NFPMs: «*So..., there is a considerable task because you need to, the considerable task also lies at the information system level; this means one has to capture a lot of*

³⁸ Company A Annual Financial Report. The pages are not referenced to preserve company anonymity.

³⁹ X is the supermarket format which belongs to Company A.

⁴⁰ Y and Z are convenience stores (inner city) formats which belong to Company A.

information which are completely different in different systems. When we speak about customer information, market share, well, we are not obviously in completely integrated systems. There is an important work to do at this level. I'm not sure, as far as I'm concerned, this will be after 2008 rather than in 2007 » (A8). This evidence would tend to confirm Lawrence and Lorsch's open systems theory of how organisations and organisational sub-units adapt to best meet the demands of their immediate environment by assuming Company A integrates⁴¹ its performance measurement system (by using widely understandable FPMs) yet differentiating⁴² it at specific local levels for example. Still following this theory, this practice would also tend to hypothesise that groups that are organised to perform simpler, more certain tasks such as sales and production usually have more formal financial structure than groups focusing on more uncertain tasks such as research and development for example (Lawrence & Lorsch, 1967).

The subsequent measurement practices used for assessing performance at Company A come from different sources. These can be issued from within the company and are of a different nature. For example, internal financial performance measurements scroll down the profit and loss account on commercial activity, operations, personnel, productivity, inventories and investments and comprehend metrics such as the ones showed in Table 3 below:

Table 3: Internal Financial Performance Measures at Company A

Internal Financial Performance Measures at Company A
<ul style="list-style-type: none"> • Commercial Activity (income food/ non-food) • Operations (operation margin) • Distribution costs • EBIT from operations • Personnel costs • Productivity (sales/persons/hour) • Inventories • Investments

Source 2: Corporate internal Benchmark Documentation

These metrics are typically used to translate into targets the strategy expressed by top management. The inventory level expressed in days of cost of goods sold metric sets a target which is its reduction from 39 days to 30 days by 2012 for example. Internal non-financial performance measurement includes internal metrics such as the ones shown in Table 4 below:

⁴¹ "The process of achieving unity of effort among the various subsystems in the accomplishment of the organisation's task." (Lawrence & Lorsch, 1967).

⁴² "The state of segmentation of the organisational systems into subsystems, each of which tends to develop particular attributes in relation to the requirements posed by it relevant external environment" (Lawrence & Lorsch, 1967).

Table 4: Internal Non-Financial Performance Measures at Company A
Internal Non-Financial Performance Measures at Company A

- Human resource indicators with employee turnover-retention
- Training
- % Absenteeism and diversity/equal opportunity ratios
- Service quality metrics such as responsiveness to shoppers
- Transaction time span at cashier
- Customer satisfaction metrics such as ghost shopper evaluations
- Customer surveys
- Customer complaints

Source 3: Respondents' Statements

The company also monitors indicators which assess its market dominance for example, but also current concerns such as yearly Sustainable Development and Socially Responsible Investment (SRI) at strategic and operational levels. These are embedded into specific reports (i.e. sustainability reports) along with the corporate and financial reports of the company and gather the following metrics:

Table 5: Sustainable and SRI metrics at Company A

PRODUCTS	Water consumption (In millions of cubic m)
Number of listed own brand organic food products (units)	Consumption of refrigerants (In kg/1,000 sq. m of sales area)
Purchase amount of own brand organic food products (In millions of euros)	Recycled waste (In kg/sq. m of sales area)
Purchase amount of Quality Line products (In millions of euros)	Recycled waste (In thousands of tonnes)
Number of listed fair-trade products (units)	Quantity of paper purchased for commercial publications (In kg/sq. m of sales area)
Number of controlled food products (units)	Quantity of paper purchased for commercial publications (In thousands of tonnes)
LOGISTICS	Number of free disposable plastic checkout bags (In millions)
CO ₂ emissions per shipping unit (In kg)	Number of free disposable plastic checkout bags (In units/sq. m of sales area)
CO ₂ emissions (thousands of tonnes)	HUMAN RESOURCES
STORES	Rate of absence due to accidents (%)
Percentage of consolidated stores audited on hygiene & quality criteria	Women in management positions (%)
Percentage of franchise stores audited on hygiene & quality criteria	Percentage of employees recognized as disabled workers (%)
Energy consumption (In kWh/sq. m of sales area)	Number of hours of training
Energy consumption (electricity, gas, fuel) (In GWh)	
CO ₂ emissions generated by fuel, gas and electricity consumption (In thousands of tonnes CO ₂ eq.)	
Water consumption (In cubic m/sq. m of sales area)	

Source 4: Company A's Sustainability Report 2009

Performance metrics can also be produced by outsiders such as TNS SOFRES⁴³ (French Statistics Institute) in yearly published ranking data such as price image, quality of products, and customer satisfaction with the brand. They can as well come from specialised retail and distribution ranking institutes such as Interbrand⁴⁴ which supply goodwill evaluation for retailers for example.

4.4.1.2.2.2 *Resistance to Change and Traditional Financial Performance Management*

Resistance to change in performance evaluation as evidenced through board resistance to the implementation of the BSC as well as the importance of traditional financial performance management at Company A are other important causal conditions which have emerged from our research and contribute to explaining why the PMS has adopted its specific shape there. As a point of fact, very few respondents intentionally mention Non-Financial Performance Metrics (NFPMs) including newly emerged ones such as sustainable development indicators. In most cases, should they be mentioned: employee turnover, absenteeism, and customer satisfaction for example, it is to make clear that these NFPMs will ultimately be translated into a financial metric *“if they are considered important by management, so they can be reported to top management”* (A11). This practice reflects an approach that assumes that when it comes to ‘serious matters’ as quoted by some respondents: *“managing the firm as the industry should manage it”*; *“because it is a human relation’s business, a man’s job”* for example, then its PMS would still rely on basic FPMs, thereby emphasising this emerging causal condition explaining the origins of the financial nature of the PMS at Company A. This also assumes that should NFPMs be developed, it would be for other reasons than ‘serious’ performance management, in other words the measures which the industry has used for years. This latter comment relates to stakeholder pressure (shareholders, financial analysts, media and politics) which will be further detailed in section 4.4.3.

We will come back later in this case study on the development of NFPMs in the specific context of Company A. Most of its respondents’ statements lead one to assume that the practical emergence and the limited construction and usage of some of these metrics come from a very vague knowledge of the BSC model from management or their simple acknowledgement that some metrics may not be relevant to everyone in an organisation. This development of NFPMs, or rather the simple re-discovery that they exist at different levels of the company, may constitute a response to several current internal and external issues the organisation faces, be it the objective relevance limitation of financial metrics for different organisational levels, to the limits of sole financial information’s relevance in a context of stakeholder scepticism. These issues are evidenced by several respondents.

⁴³ <http://www.tns-sofres.com/>

⁴⁴ <http://www.interbrand.com/>

The emphasis on financial performance and resistance to change in performance evaluation is particularly reflected in the negative reaction of Company A's board to top financial management's suggestion to implement the Balanced Scorecard it developed in 2006. This would tend to indicate that the tendency to use mostly financial indicators also heavily depends on issues top management set as priority. For Company A, balancing indicators were not being considered to be a high priority by top management at the moment of our research (2007). In this respect, respondents state that this is the responsibility of top management at Company A: *"We built it (BSC), we proposed it, it exists, and one has thought about a thing, we do think that... Today our management is absent"⁴⁵* (A9). This strategic issue and its outcomes will be further discussed in section 4.4.1.2.2.3. This corporate response could be identified as part of a reactor strategy (Miles & Snow, 1978), highlighting the gap – or the decoupling⁴⁶ – between performance measures adopted, disclosed and actually used for decision making.

We will see in the section informing the Organisational Context within which Company A's PMS has been implemented that this trend towards using more financial metrics is not likely to decline in 2009 as the company, in reaction to unsatisfactory financial results and domestic declining market shares (Section 4.4.2.2.4), has engaged in a strategic transformation plan aimed at revamping its operating model. This plan intends to provide levers of action to the three main slogans emphasised by the company: Clients, Cost and Cash. Two out of three of these later axioms are financial, the third one, being the customer dimension, is the sole non-financial indicator which is ultimately translated into a financial one via a market share recovery metric. This latter measure is especially relevant in the French context for Company A because it is one of the company's objectives to regain declining domestic market share.

It is interesting to note that this practice assumes that market share gain means earning more money, a relation which has not been assumed by respondents in the opposite way. According to respondents, if there is always room for metric improvement and more sophisticated tools, whether they are FPMs or NFPMs, they are not considered as yielding much more useful performance management information, at least in terms of opportunity cost. The Organisational Context section of this research (Section 4.4.2) will further explain why the level of sophistication of metrics remains relatively basic on the one hand and remains financial more often than not on the other at Company A.

4.4.1.2.2.3 Company A's Growth Model

Typologies designed to classify organisations according to their competitive strategy (Porter M. , 1982; Miles & Snow, 1978) arise from the assumption that strategies are the result of managers' beliefs about their

⁴⁵ e.g. top management rejected the BSC.

⁴⁶ In institutional theory, 'decoupling' refers to the creation and the maintenance of gaps between formal policies and actual organisational practices. In this specific context, decoupling can serve the interests of powerful organisational leaders (Westphal & Zajac, 2001) by enabling organisations to gain legitimacy with their external constituents while maintaining internal flexibility to address practical considerations.

capacity to shape their environment. They consider these patterns relevant to confront the major issues they have to deal with (Ginsberg, 1990; Prahalad, 1976; Bouquin H. , 2000). Following the Miles and Snow typology (1978) this research argues that different company strategies arise from the way companies decide to address three fundamental issues: entrepreneurial, operational, and administrative problems. The entrepreneurial problem is how a company should manage its market share. The operational problem involves how a company should implement its solution to the entrepreneurial problem. Finally, the administrative problem considers how a company should structure itself to manage the implementation of the solutions to the first two problems. Although businesses choose different solutions to these problems, Miles and Snow suggested that many companies develop similar solutions. They argued that companies develop their adaptive strategies based on their perception of their environments. Hence, the different organisation types view their environments in different ways, causing them to adopt different strategies. These adaptive strategies allow some organisations to be more adaptive or more sensitive to their environments than others, and the different organisation types represent a range of adaptive companies. As a result, they postulated that there are four general strategic types of organisations: prospector, defender, analyser, and reactor organisations. As already stressed in Section 4.3 page 44, prior research has evidenced that the strategy of a company influences decisions on performance measures established in the management accounting systems and particularly that prospectors' usage of NFPM is higher than the one of defenders⁴⁷ and that strategy plays a significant role concerning the level of perceived usefulness and timeliness of performance information (Gosselin, 2002, p. 10).

Prospector organisations are constantly looking for new market opportunities in developing and manufacturing new products/ solutions. Prospectors usually initiate changes in their sectors. As they face a higher level contextual uncertainty (Slocum et al. 1985; Govindarajan 1986), they invest in research and development and value teamwork. Prospector companies are known to have 'organic' structures characterised by project and transverse management and compete through innovation (Bouquin H., 2000). Reactor organisations do not have a systematic strategy, design, or structure. Failing a 'vision', reactors monitor and copy but do not adapt their organisation, which, in theory, would lead to failure (Bouquin H., 2000). Such organisations are not prepared for the changes they face in their business environments. New product or service development fluctuates in response to the way their managers perceive their environment. Reactor organisations do not make long-term plans, because they see the environment as changing too quickly for them to be of any use, and they possess unclear chains of command. Because of their adaptive strategies, prospector organisations are the most adaptive type of company. In contrast, reactor organisations are the least adaptive type. The other two types fall in between these extremes:

⁴⁷ "Defenders are organisations which have narrow product-market domains. Top managers in this type organisation are highly expert in their organisation's limited area of operation but do not tend to search outside their narrow domains for new opportunities." (Miles & Snow, 1978, p. 29).

analysers are the second most adaptive organisations, followed by defenders. In this research, we have decided to use the Miles and Snow typology (1978) because several research studies have evidenced its reliability and validity such as Shortell and Zajac (1990) who indicated that this typology of strategic orientations and its predictions were generally accurate. More specifically, examining the linkage between strategy and performance within the retail industry, Moore (2005) extended the overall scope of the Miles and Snow framework to the retail environment and suggest that it is effective in explaining strategic types within the retail industry. Her hypotheses indicate that three of the four Miles and Snow types (i.e., two pure types and one hybrid type) are likely present in this industry.

The nature of Company A's PMS has been influenced by its very specific growth model. At the end of the 90's, Company A shifted from a prospector to a reactor type of strategy (Miles and Snow, 1978). As a matter of fact, strategy characterisation wise, one specific difficulty with Company A, is that its strategy has evolved quite a few times over the past ten years under the influence of the funding families' fight over power – expressed by the succession of several appointed and deposed CEOs – as well as shareholder satisfaction and dissatisfaction with profits. These elements combined make it uneasy for the researcher to identify a clear relationship between strategy and performance assessment metrics. However, it appears that financial lagging indicators have survived strategic changes with a certain success which could be attributed to the basic security requirement they provide to managers.

Company A's prospector era⁴⁸ was characterised by its worldwide expansion, inorganic⁴⁹ growth and development of retail concepts to retain customers and attract new ones⁵⁰. Internationalisation was a classic objective of firms in the retail industry trying to find ways to grow their profits in the 1990's. This is especially true because of Company A's relatively narrow national market. This was done by retailers with differing levels of success, depending on the local cultural adaptability of the companies going international (Dupuis, Chul Choi, & Larke, 2006). As a matter of fact, from 1999 until 2006, the share of sales made abroad by Company A grew from 37% to 52%. Moreover, the company entered 29 countries between 1990 and 2006. However, after its 1999 merger with another important French retailer, which involved a big rise in debt and more direct exposure to the requirements of the financial markets, the company changed its strategy towards more inorganic growth and making sure of the profitability of existing strategic positions it had already invested in (Durand C. , 2007, p. 5). If this shift towards a reactor strategy found its source in the difficulties encountered by Company A in the past 9 years it can also be found in the cyclical evolution of the

⁴⁸ 1975-2007

⁴⁹ i.e. the expansion of a firm's operations by increasing output and business reach through the acquisition of new businesses by way of mergers, acquisitions and take-overs.

⁵⁰ Such as the development shopping corners (housewares, TV, etc...) inside hypermarkets to attract customers who are looking for a more 'shop-like' environment.

retail industry which, just as products, also has its life cycle⁵¹ as evidenced by prior literature (Davidson, Bates, & Bass, 1976; Cliquet & Perrigot, 2005, p. 90).

Company A's market share in France has declined since 2000 and it had to comfort its 'mother ship' structure before developing more internationally. Therefore from 2000 until 2008, Company A rationalised its international presence, stepping out from a large number of countries because of insufficient local profitability and/ or their non-strategic asset nature (Japan, Mexico, South Korea and Switzerland for example). Subsequently, the PMS system at Company A, even across store formats, has mostly concentrated on financial – short term – performance metrics from lower to top management levels with an emphasis on metric differentiation at lower levels for obvious – and literature classic (Euske, Lebas, & McNair, 1993) – practical/ operational management reasons.

As a point of fact, signs of declining profit, boardroom power change and unsatisfactory profits, especially in the eyes of shareholders, altogether led Company A to rethink its former expansion strategy and adopt a '*profitable growth*' track. This corresponds to the time when the company engaged in a strategy of international expansion with much caution. This '*profitable growth*' strategy got translated into action through the following policy: a country presence would only be kept if the brand in the country could be at least ranked third after two years of operations. This and the stress put on sunk costs as well as other costly investments on intangibles - resulting from the insertion in a new country with delayed financial return - pushed the company to focus on financial performance thereby explaining the nature of the indicators embedded in its *Tableau de Bord*. This strategy shift towards a reactor type confirms prior literature which "indicates that the reactor type performs poorly. Because the retail industry is relatively transparent in terms of competitor information, reactive behaviour is rampant. By avoiding reactive behaviour and behaving more consistently across the business, retailers can better protect their competitive position." (Moore, 2005, p. 702).

From a theoretical point of view, one could use a radical analogy to economic theory to understand retailers' strategy of international growth in activity with a subsequent slow down pattern. This is informed by

⁵¹ "The 'Retail Life Cycle' is a theory about the change through time of the retailing outlets. It is claimed that the retail institutions show an s-shaped development through their economic life. The s-shaped development curve has been classified into four main phases. A new organisation is born, it improves the convenience or creates other advantages to the final customers that differ sharply from those offered by other retailers. This is the stage of innovation, where the organisation has a few competitors. Since it is a new concept, the rate of growth is fairly rapid and the management fine tunes its strategy through experimentation. Levels of profitability are moderate and this stage can last up to five years depending on the organisation; then the retail organisation faces rapid increases in sales. As the organisation moves to stage two of growth, which is the stage of development, a few competitors emerge. Since the company has been in the market for a while, it is now in a position to pre-empt the market by establishing a position of leadership. Since growth is imperative, the investment level is also high, as is the profitability. Investment is largely in systems and processes. This stage can last from five to eight years. However, towards the end of this phase, cost pressures tend to appear. The organisation still grows but competitive pressures are felt acutely from newer forms of retailing that tend to arise. Thus, the growth rate tends to decrease. Gradually, as markets become more competitive and direct competition increases, the rate of growth slows down and profits also start declining. This is the time when the retail organization needs to rethink its strategy and reposition itself in the market. A change may occur not only in the format but also in the merchandise mix offered. The retail organisation loses its competitive edge and there is a decline. In this stage, the organisation needs to decide if it is still going to continue in the market. The rate of growth is negative, profitability declines further and overheads are high." (Pradhan, S., 2009, pp. 67-68).

Bhagwati's (1958) *immiserising growth*⁵², which states that economic growth could result in a country/organisation being worse off after than before the growth (Kaplinsky, 2000). This would tend to explain that the outcomes of Company A's shift from a prospector to a reactor strategy left the company under such pressure for profitability that it pushed management to reinforce a financial performance oriented PMS.

From the reactor strategy adopted by Company A also derives the assumption of a dual management of performance which is population and timeline metric specific. First, an internal – 'informal' – performance management system which uses FPM to manage short term operations because the business as a whole (the industry, the shareholders, the financial market and financial analysts of the retail industry) exercises a pressure which implies short term performance management. Second, an external – 'formal' – performance system which uses a mix of FPM and NFPM which targets another variety of stakeholders (i.e. a population which covers lobby groups, some rating companies on sustainable development issues for example).

However, this emerging action actually departs from the traditional 'formal' and 'informal' controls informed by prior management accounting research (Anthony & Govindarajan, 2007). As a matter of fact, in this particular setting, the formal system complies with rules both set by the industry environment and the management and works almost like a 'vicious circle' where metrics are issued and used; subsequent readings and measuring are done in comparison to a past history which is deformed by the nature of the performance management system traditionally used (e.g. the budget). This means that if past deviations are officially corrected, they might not be in reality and new decisions can be made on an accumulating layer of errors. Managers do not like to be reminded what they promised, therefore the reporting system deforms past history, so that the usual arising variance appears manageable. This encourages 'forget about the past, look forward' management techniques. At the other edge of the performance management spectrum, arises an informal system which actually keeps track of the real history.

The impact of this practice is very important: past performance is not corrected and therefore refined tools and metrics are created on layers of past incorrect management: whatever the metric suggested, financial or non-financial, they are built on weak foundations. Questions subsequently arise regarding the effects of firms forgetting about past performance promises, leading to a vicious disclosure circle of managing an 'image of the performance' and not real performance, where no time is left to learn from the past. This creates a discrepancy between companies' discourse and the reality of performance measurement and management. These issues have been the subject of prior investigation by classic Behavioural Accounting

⁵² This theory follows the argument of the theory of circular deterioration of terms of trade and concludes that countries, in order to improve their balance of trade, have to increase their exports to compensate for falling prices. This means a further deterioration of terms of trade. The unchanged structure of supply intensifies the structural dependency and, regardless of growth, there is no development but only '*immiserising growth*' (Bhagwati, 1958).

literature of Slack management (Williamson, 1964; Schiff & Lewin, 1968), as well as Beyond Budgeting (Hope & Fraser, 2003) and the Institutional Theory literature (Scapens, 1994; 1984).

In this respect, performance management could also be considered a means of communication at Company A: reassuring shareholders, the market, stakeholders, family owners, etc... Still in this respect, the role of this side of performance management at Company A can be linked to the internal/ external/ formal and informal organisation themes that have been studied through Institutional Theory lenses (DiMaggio & Powell, 1983). These can also be related to one exposed in the social psychology of organisations literature through Control Theory (Tannenbaum, 1968) which covers the roles of the formal and the informal organisation. This literature considers that, subsequent to Frederic Taylor's scientific work organisation and especially Elton Mayo's seminal Hawthorne research, a formal organisation is never actually realised in the behaviours of its members. From a series of requirements, individuals and groups develop an informal organisation, an alternative sum of behaviours which is not prescribed by the formal organisation. In practice, the actual organisation can be envisaged only if a formal relationship exists between the formal and the informal organisation. There are informal organisations in all formal organisations and the origin of informal systems is the formal organisation. Therefore when the informal organisation grows, it is in response to the psychological needs of individuals or groups. According to this literature, in the case of Company A, an informal organisation exists and covers up the areas which the formal organisation fails to address. Subsequently, formal performance management would correspond to the external disclosed performance management which comprehends a mix of FPM and NFPM metrics intended for stakeholders – or the environment – of the firm. This includes 'fashionable' metrics, or in the vocabulary of Genetic Structuralism's (sociologic) tradition of Pierre Bourdieu, 'omnibus metrics' (Bourdieu, 1996), which meet the current trends of performance management by directing the public gaze towards commonly agreed-on metrics, but not necessarily useful ones. This would explain the adoption of sustainable development metrics aimed at the market and some industry analysts. This begs the question why Company A and other firms adopt these metrics. Is this explained by pressure from the market, or the opportunity cost led by the consideration that there is more to lose not adopting trendy metrics than actually adopting them? This however does not imply that firms are actually using them for actual performance assessment and management.

Still in the case of Company A, the informal performance management would correspond to the internal, undisclosed usage of FPM, in other terms, Indirect Financial Performance Metrics (IFPM), which may not be financial upfront (i.e. qualitative but more certainly traditional quantitative non-financial metrics) such as inventory levels, inventory turnover or inventory space occupancy for example and which are ultimately translated into financial metrics to be considered 'useful' (i.e. reported to top management).

This does not mean the metrics adopted are mostly lagging indicators (e.g. managing the company through the '*accounting mirror*' (Lesca, 1983) of historical costing), they may be leading indicators (i.e. inductors of future performance), however not appearing as such directly, but indirectly. In this respect, this practice would again confirm Institutional Theory literature on the co-existence of two parallel performance management systems: a formal PMS whose existence is justified by the position of the firm within its environment (e.g. norms of the industry it belongs to, 'stakeholders' in its general meaning) which is structured and designed so it appears integrated and documented. This might be compared to a map a driver uses to go from one point to another; the other is an informal PMS which uses shortcuts and tips which work to manage performance within a firm, this latter is compared to a map of shortcuts which is actually the practical/ appropriate way to reach point B from point A.

Prior literature shows this formal/ informal performance management practice is not typical of the French retail business, but can also be found in French manufacturing industry, noticeably at Saint Gobain and Pechiney, firms which have seen the development of most French management accounting practice (Berland, 1996; Berland, 1999; Pezet, 2007). An example of such a situation was provided by one respondent as part of the data triangulation protocol: in one of the oldest French manufacturing companies, a French *polytechnicien* assists the CEO during each performance review. His function is simple. It consists of reminding top management about the objectives and the means allocated to the managers of the 160 consolidated subsidiaries of the group who promised what they would achieve the year before. The explanation of this individual's position is also straightforward: the CEO does not trust the internal performance reporting systems of the group, including budgets, because of the gaming practices of managers which contribute to making the system hide and distort performance management information and act like a deforming mirror or a magnifying glass.

4.4.1.3 Substantive hypotheses emerging from the Causal Conditions for adopting a PMS at Company A

Grounded theory aims to methodically investigate a phenomenon to generate hypotheses. One has identified the main Causal Conditions which make the phenomenon under investigation happen. Section 4.4 demonstrated the main Causal Conditions that relate to the PMS. These five conditions were presented in Figure 4 page 48 and are recalled in Table 6 below. Hypotheses are therefore generated from evident relationships between these Causal Conditions (or labels) and the phenomenon. The results of the analysis suggest the five substantive hypotheses presented in Table 6 below:

Table 6: Emerging Causal Labels and Hypotheses

Causal Labels	Industry Nature	Economic Environment Sensitivity	Company Culture and Performance Management Reporting Structure and Process	Resistance to Change	Growth Model
Hypotheses	<ul style="list-style-type: none"> The industry sophistication and short term constraint (cash and revenue) makes operations metrics and FPMs prominent in the PMS of organisations 	<ul style="list-style-type: none"> In unstable environment the PMS is structured around quantitative and financial metrics which are fast and flexible metrics for industry benchmark (stakeholders) 	<ul style="list-style-type: none"> FPMs are prominent in the organisation because they are holistic, and are understood by everyone internally and externally 	<ul style="list-style-type: none"> In organisations where performance is traditionally measured with financial metrics and with high resistance to change tend to not change their formal PMS 	<ul style="list-style-type: none"> Operations and FPMs are prominent in the PMS of organisations whose growth model is reactor

4.4.2 Internal Organisational Context in which the PMS was designed and operates at Company A

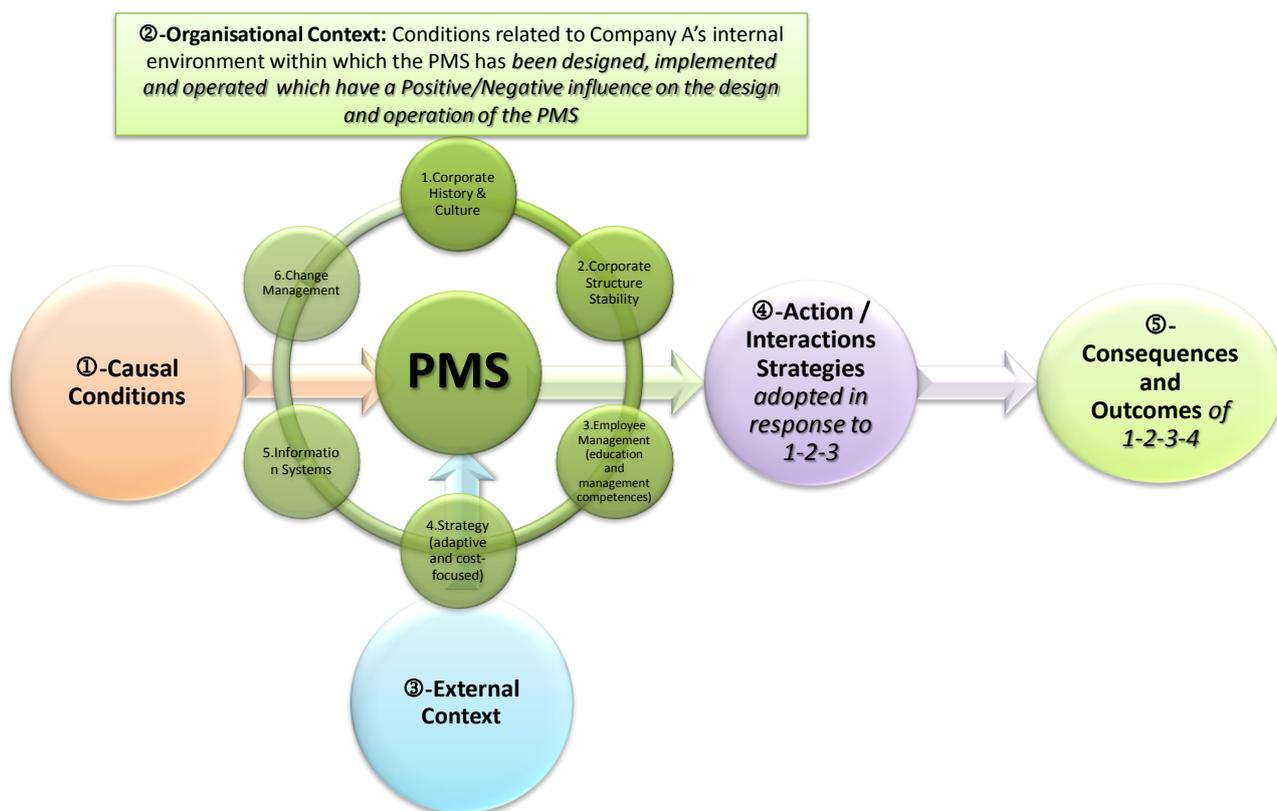
The Organisational Context refers to a particular set of characteristics and circumstances in which the phenomenon has occurred. Organisational characteristics that relate to Company A using a PMS have been identified. In this research we consider the Organisational Context to be similar to the internal environment which surrounds the phenomenon under investigation. The phenomenon exists within Company A’s context and some organisational conditions - which are the characteristics that occur within the company’s borders - are therefore related to this specific phenomenon. The context finds its source in Causal Conditions, which facilitate management’s awareness of understanding PMS’ causal relationships. Contextual Conditions also create a set of circumstances to which Company A’s management responds through Actions and Interaction Strategies. Contextual Conditions may have a positive or a negative impact on the phenomenon under investigation. The organisational factors are the contextual circumstances or conditions which have an impact on the phenomenon within the organisation.

4.4.2.1 Summary of Organisational Conditions’ impact on the Company PMS

The organisational change process subsequent to the 1999 company merger was characterised by the combination of several facts which resulted in the reinforcement of financial metrics within the company PMS. First was the founding families’ enduring fight over boardroom power and the resulting strategic swings of the company which led to strategic inconstancy and had a negative impact on its image. This was combined with a post-merger need to reassure shareholders with documented financial profitability. The combination of a non-integrated information system with the nature of retail industry personnel level of education, limited internal mobility and subsequent management competences emerge as part of the organisational causes for the adoption of a common language simple enough to provide meaningful and rapidly actionable management variables which finds its embodiment in the easy availability of financial metrics in the PMS. From an organisational point of view, the development of alternative non-financial metrics and a dual channel - formal and informal - performance reporting is constrained by the existing

rigidity of business units' control structures and indicators, top management's decision regarding multidimensional performance indicators relevance to corporate strategy and managers' local requirements for use of performance indicators. Finally, Company A's last strategic transformation plan aimed at revamping its operating model clearly stresses "Clients, Cost and Cash" in an economic environment which favours shareholders' and stakeholders' reassurance. Figure 5 below summarises the findings described in section 4.4.2, which now covers the Organisational Conditions emerging from interviews performed at Company A as well as triangulation evidence emerging from the case study context.

Figure 5: Summary of Organisational Conditions' Impact on Company A PMS



4.4.2.2 Organisational Conditions' Impact on the design and the operation of the Company's PMS

The Organisational Conditions or factors are the contextual circumstances or conditions which have an impact on how the phenomenon works within the organisation. In this case the PMS exists within the context of Company A which directly affects the use of such a performance management system. Among other factors, this context is characterised by the company background and ownership, its organisational structure and management form as well as its strategy.

4.4.2.2.1 Company History and Culture

Company A is an international retailer which was founded in the late 50's by two families. Company A currently has more than 15.500 stores, either company-operated or franchises, which represents nearly 18

millions of square metres sales capacity⁵³. The company's hypermarkets offer food and non-food products, this form of business nearly accounts for over 62% of the total of its business. The supermarket business mainly provides a broad range of food products and a small segment of non-food products and represents over 21% of its total business. The hard discount business provisions nearly 800 food products in small outlets. This format represents around 12% of Company A's business. Convenience store formats account for around 5% of the company's total business. The company has been a pioneering entrant in Latin American and Asian countries. Company A currently operates in three major markets: Europe, including France (around 80% of its sales), Latin America and Asia. It is present in over 35 countries. Around 60% of its sales derive from outside France. Company A has seen strong potential for further international growth in the mid 2000's, particularly in large national markets such as China, Brazil, Indonesia, Poland and Turkey. It made around €87 billion of net sales in 2008 and around €86 billion in 2009 for an operating profit of over €4.6 billion and a net profit of approximately €390 million. Its market capitalisation is around €26 billion as of April 2010. It employs nearly 500.000 persons. Around 75% of Company A's stock is held by the public. Owned shares (i.e. shares owned by the family) represent around 13% of the capital and those of employees about 1%. The shareholder structure has evolved over the past two years with the arrival of two large investors. More than 9% of Company A's capital is now held by an investment fund which, in alliance with two other investment funds, holds nearly 14% of the capital since 2008. In addition, a more recent international investor acquired around 1.5% of Company A's capital in July 2009.

Within the context of the retail industry which is relatively transparent in terms of competitor information (Moore, 2005) and generates part of the causal conditions for adopting a PMS, Company A abovementioned history and family culture and its subsequent management practice have for a long time associated performance with industry operational and financial metrics. These historical and cultural grounds lie in the family business origins and the unstable development of the company, which in a benchmark friendly industry environment led to the emergence of a PMS shaped around quantitative and financial metrics which are fast and flexible metrics because they are holistic, and are easily understood by everyone internally and externally.

As of 2009, Company A's organisational structure is the following: the Board of Directors is composed of twelve members. Three specialised committees exist within the Board of Directors: the accounts and internal audit committee; the remuneration, appointments and corporate governance committee; and finally the strategy committee. The Executive Committee is composed of ten members, the CEO, and nine executive directors in charge of functional areas and/or geographic zones. The only function that does not fit either this functional nor geographic organisation is the executive director of the hard discount business

⁵³ As of December 2009.

unit. The company is structured geographically so that specific local characteristics of markets can be taken into account. The company is also decentralised so that each country directly controls the operational aspects associated with its activities. These latter are divided into business units comprising all stores of a given format in a given country. Each business is run by a management team, which comprehends operational managers and the support service managers required to conduct business. The majority of countries have centralised functions that are not directly related to the stores' operational activities, namely administrative, financial and information technology functions. This centralisation is presented as an element which allows stakeholders (i.e. customers, suppliers, employees and managers) the benefit of centralised communication channels that can answer questions they may have in the course of their relationships with the operational companies. The dissemination of company management principles and values to its foreign subsidiaries takes place via an active expatriation policy targeting the principal management functions (A11 and Company A Annual Financial Report).

4.4.2.2.2 Company A's Structure Stability and Change Management

Since the company merger with one of its European competitors in 1999 (Colla & Dupuis, 2002) and over the past 5 years, senior management has changed at Company A. As a matter of fact, the 1999 fusion introduced a dilution of the shareholding which led to an increased preoccupation by management with financial profitability so as to prevent any hostile takeover (Durand C. , 2007). Unsatisfactory results in 2003-2004, which some analysts attribute to a loss of balance of Company A's retailing mix that guaranteed consumer's value for money, supplemented by family disputes over boardroom power (Fauvarque, 2005; Bonnanza & Delattre, 2005) resulted in the 2005 dismissal and subsequent appointment of a new CEO – a former Marks & Spencer financial manager - who represented Company A's founding family (Cliquet & Perrigot, 2005). Two other CEOs were appointed between 2005 and 2009. A major change in shareholder composition happened in 2007 with the arrival of two large investors as explained above. This power instability over time can be considered as a revolutionary change (Greenwood & Hinings, 1996) which has complemented Causal Conditions for adopting a specific PMS at Company A identified above in section 4.4.1 page 47, and consequently led to the actual formal balance of the company PMS and more specifically the informal emphasis of Company A's *Tableaux de Bord* on the traditional financial indicators of the retail industry (i.e. Company A's PMS decoupling and the isomorphic emergence of NFPMs).

4.4.2.2.3 Company A's Employee Management

Besides performance content differentiation by level and business unit within the *Tableau de Bord* which has already been documented above in section 4.4.1.2, the level of sophistication of the metrics adopted and used by the PMS at Company A is also adapted to the average employee education and management level.

Management level and competences contribute to understanding why performance is measured in such a way at Company A. Company A belongs - as addressed before - to a labour intensive industry. As a matter of fact an average hypermarket employs around 350 persons for example. One respondent depicts the business as a *“human relation job”* (A3) (i.e. labour intensive) where financial indicators are in relation to the budget which is the accounting translation of a contract between top and lower management: *“It is more human relations business”* (...) *if you want, performance depends on the type of contracts acted between top managers and lower managers. Ok, then budget is the cornerstone, well, as in many companies, but particularly in the distribution business, as and this is expressed by the budget, especially in the distribution business”* (A3). This financial orientation is reinforced by the position of the financial controller, who in transition periods, when a new manager is required in a Business Unit (BU) for example, often serves as the interim consequently imprinting his/her vision of what needs to be monitored and managed and thereby concentrates on a certain kind of metrics (A11). As a matter of fact, makers of TDB from different backgrounds create different scorecards, which would tend to confirm prior literature (Euske, Lebas, & McNair, 1993).

The employee competence level is not homogeneous as far as reading and understanding company results are concerned, and so is management level as to the relevance of the information used to assess and manage business operations. This is one contextual element providing an explanation for the emphasis which is put on simple, straightforward and mainly financial performance metrics that are easily understandable at most organisational levels by everyone.

The retail business is a labour intensive business whose degree of attractiveness to employees is very low (Hart, Stachow, Farrell, & Reed, 2007; Broadbridge, 2001). As a point of fact, research studies into undergraduates' choice of careers confirm that retail management is considered an unattractive career by many graduates and that their knowledge of what a retail management career would involve is limited (Commins & Preston, 1997). For some respondents, the retail business bears the ungrateful image of ‘folding sweaters’. Besides this negative image, which some retail organisations such as the Consortium of British Retail Training Organisations (CORTCO) in the U.K. have tried to improve, other research actually shows that despite the availability of retail management graduates, retailers recruit graduates from ‘any discipline’. As a matter of fact, findings suggest that although retail degrees provide a high level of perceived competence development, the strongest focus is not necessarily put on those competences retailers most wish to see in applicants. Furthermore, the competence profile of placement work is no closer to the retailers’ selection priorities than that of academic work (Hart, Harrington, Arnold, & Loan-Clarke, 1999).

This evidence, coupled with the lack of information system integration at Company A makes it important for management to find a common language which provides a solution able to solve a twofold problem: to be

relevant for decision making for the uneven level of personnel education and their management level. The structuring of Company A's PMS has been non-systematic and the need for a common language to understand performance has stopped at a very minimal stage which lies in the content of the profit and loss account for example. The solution found is to provide management with a language which is understandable by everyone with little scope for interpretation. In this context, the lack of clarity of NFPMs benefits when it comes to performance evaluation explains that FPMs are perceived to be more objective/fair than NFPMs by managers who actually shape the PMS around more FPMs than NFPMs. Moreover, this 'common' language has to be accessible to everyone and at a low cost. FPM has actually met these requirements. Not only have the metrics to be relevant to a large number of persons but they also need to be economical (i.e. not too many so that managers do not drown under information, and at a low transaction cost).

Finally, the metrics used also need to be limited to simple summarising metrics, especially in a low margin industry. In this respect, at Company A, the sales metric is presented as an indicator which encapsulates all the others: *"In our business, as we are dealing with low margins, (...) the most important lever, if there is one single digit to look at, is the sales level. It conditions, it determines everything in fact. Because it conditions customer satisfaction somewhere, the price image, it conditions the maintenance of the store, well, a safe sales figure, I would say, allows getting the reflection of global performance"* (A7). In other words, and somewhat a paradox: the cause and effect relationship at stake in the retail industry means that income is considered a good indicator because it means the firm has sold goods, thereby customers are shopping there, and if they are shopping then it means that income is a good indicator of customer satisfaction: *"OK, the performance is measured by the final result which is the value created by the company, and the way it is transcribed and perceived by the markets and before that, what is the performance, how many clients have gone through our cashiers yesterday, how much did they spend on average and how much did we make. Today this is what I'm seeing, as a measure of performance so to say 'live' and empirical. Then, how do we measure performance, we measure it by all the elements of the P&L of course, ok... by the sales, be it on daily, weekly or monthly frequencies, and by traditional elements of the P&L, margin, I'm not going to review the P&L with you, but, margin, general costs, personnel, marketing, communication, rents, and all this forms distribution costs and operations margin. So this is how performance is measured today in its framework. It is in reference to, which is extremely important, to budgets"* (A3).

This does not mean that personnel do not know that 'synthetic' metrics which summarise other dimensions of performance are shortcuts. They also perfectly know that some operational metrics such as inventory level for example are ultimately transformed into financial indicators to be reported: *"When you speak about scorecard and cost killing⁵⁴, well that we hear about, because it is something we live every day. However*

⁵⁴ i.e. cost cutting.

behind this, we perfectly know that behind there are financial objectives, but it is something totally new for us in fact. So, management accountants, store managers, some area managers, they have been trained for that. However, today, it is not something which has been spread down to managers and teams” (A11).

4.4.2.2.4 Company A Management Strategy

Company A financial performance has been consistent for the past 6 years. In the fourth quarter of 2009, the company posted resilient half-year sales thanks to sustained promotional efforts in an environment that showed no signs of improving in the short term. In this context though, the company reached its ‘activity contribution’ target (i.e. operating profit) at almost €3 billion due to an emphasis on operating costs. An operating cash flow of over €1 billion was generated through tight management of merchandise cash flow and capital expenditure.

As announced in section 4.4.1.2.2.2, during a press conference at the end of June 2009, the new managing director of Company A announced a seven-point strategic transformation plan to revamp its operating model. These seven points are further providing levers of action to the three main keystone mottos previously released and emphasised by the company in this order: ‘Clients, Cost and Cash’. These levers are listed in Table 7 below:

Table 7: 7 points Strategic Transformation Plan at Company A

Strategic Transformation Plan at Company A	
1.	Revitalising the company brand
2.	Improving the price image
3.	Optimising and reinventing the hypermarket
4.	Sharing best practices and innovation
5.	Inventory and cost reduction
6.	Implementing a new organisation
7.	Improving purchasing practices

Source 5: Company A’s Corporate Documentation

This plan is the capstone of practices which started in 2008. They consist in regaining lost market share on the French market and consolidating the company leadership. This short term action plan meets the definition of what a reactor type behaviour produces (Miles & Snow, 1978). It is therefore of no surprise that to reach these objectives, the company has decided to focus first on prices and costs thereby emphasising a PMS mainly structured around FPMs. Its strategy has then consisted in cost reduction and also a ‘value for price’ customer communication strategy. Secondly, the company has engaged in reengineering its international presence and leaving non-profitable markets (such as Japan for example). Third, the company has tried to reinforce its international presence in profitable markets, especially where it can become second

or first in the local market in the short run. This is expressed through its ambition which is “making (the company) the preferred retailer wherever it operates”⁵⁵. Fourth, the company worked on a grand brand strategy which, for Company A, consists in capitalising on its strongest brand and the further development of private brands. This explains that the different banners under which the company operated until recently (supermarkets and convenience inner city stores for example) have been replaced by its one main brand name, just as TESCO did in the U.K. Fifth, the company worked on customer segmentation using loyalty card information and other CRM back-office technology. Sixth, it repositioned the aging hypermarket format which still forms over 60% of its business by becoming a multi service retailer, that is combining multi-format⁵⁶ and multi-channel⁵⁷ (Deloitte Touche Tohmatsu, 2010). The fourth quarter of 2009 has shown encouraging results of actions implemented at Company A: market share gains in France thanks to stronger commercial dynamics and brand convergence, the successful launch of a new discount owned brand, encouraging tests for new proximity formats⁵⁸, the implementation of turnaround plans in Italy and Belgium, and greater cost savings throughout the company.

4.4.2.2.5 Company A’s Information Systems

As discussed earlier, the PMS at Company A is differentiated by business units and organisational levels, not only because of the nature of retail personnel and management competencies addressed above but also because of the non-integration of information systems⁵⁹ at Company A. This means that for reporting purposes, several systems are working in parallel which is a form of decoupling of the PMS at company A. When it comes to the need to report information, the solution is to report financial metrics because it is an easy way to counteract the lack of similarities in the reporting systems and avoid issues of interpretation of NFPM.

This solution is also a source of comfort for top managers who are used to getting synthetic, easily integrated, understood and monitored indicators. In this sense, the rigidity of Business Unit control structures and indicators are an important emerging organisational condition for adopting a PMS at Company A: *“We have quite a lot of indicators to monitor, and this adds, in adding other indicators to existing figures we finally remove comfort from our bosses who need synthesis (...) but we evolve, like a certain number of other big groups towards more operational management, which means we enrich our reporting, with input indicators versus the output, indicators which will allow us to demonstrate we will deliver in six, twelve and eighteen month, we add indicators which are operational indicators, not only financial, square meters, market share, coverage in terms of foreseen stores versus stores we wish to open in*

⁵⁵ Company A’s Strategic Orientations as of March 2009.

⁵⁶ A company which operates using different retail formats (hypermarket, supermarket, etc...).

⁵⁷ Multi-channel distribution consists in delivering information and products to consumers in conjunction to store experience which involves e-distribution (internet-shopping) for example.

⁵⁸ Smaller shops equivalent to U.K. Tesco express format.

⁵⁹ (Colla & Dupuis, 2002, p. 109).

two years, three years, inventory rotation, stock outs ratios in our departments, in fact a lot of indicators which are operational indicators, not only financial. Here we are, we evolve, we try to do more than TDB and more towards more operational and input indicators and it is all the more important because it helps us sustain and give content to our financial communication” (A9).

The development of a PMS structured around more operational metrics (i.e. non-financial, but quantitative or qualitative) is also an internal reaction to existing traditional reporting constraints for top management which have to be synthetic (i.e. focused on financial information) even if this means managing more variables. As a matter of fact, if NFPM get into the picture, traditional FPMs are far from disappearing from the scene.

The development of NFPM is also linked to trends imposed by the environment which is eager to find tangible proofs of quarterly disclosed performance ‘stories’ by the company, such as sustainable development metrics aimed at retail industry financial analysts for example. This latter point will be further discussed in section 4.4.3.

This being said, the development of new indicators is still constraining for top management, besides not being a demand which actually emanates from them: *“We have done it, we have extracted 27 or 25 indicators which are indicators of our scorecard (...) then we have done like (a manufacturing company), but at our company the balanced scorecard lives a little less than at other companies, it exists; but it does not exist well because there is not much appetite on this subject from our bosses, however I put the blame on our business life cycle” (A9).*

When it comes to justify why a PMS structured with more operational (i.e. leading) indicators does not officially exist at Company A, the same two reasons are provided by respondents: the lack of interest from top management who do not see the short term interest of this balance and the shortness of the business life cycle in the retail industry: *“We still must, as experts of management, I want to say, we still have to convince our bosses that it can be useful, and the second reason, especially for company A, I believe it is very important, it’s the business life cycle” (A9).* This tends to confirm existing literature on the usage of FPM at short term focused companies: *“Top management at Company A is particularly in the short term. It is not only in the short term, but it is implicated in the short term” (A9).*

4.4.2.3 Substantive hypotheses emerging from the Organisational (Contextual) Conditions for adopting a PMS at Company A

Context refers to a particular set of characteristics or circumstances which surrounds the phenomenon and in which it has occurred. The researcher has identified organisational characteristics that relate to Company A using its PMS. The context has its source in causal conditions such as industry nature which explains the

focus of the company PMS on quantitative and financial metrics. Contextual conditions may also create a set of circumstances to which Company A’s management would respond through action/interaction strategies. For example, the contextual conditions concerning Company A’s employee education and management competences would drive management to take a decision regarding the nature of metrics embedded in its PMS. Contextual conditions may have a positive or a negative effect on the phenomenon. Management competence influences the decoupling of the PMS for example. Section 4.4.2 demonstrated the organisational conditions that relate to the PMS. These six intervening conditions were presented in Figure 5 page 65 and are recalled in Table 8 below. The researcher has identified the main relationships between the categories and the phenomenon under investigation. Hypotheses are therefore generated from evident relationships between the categories. The results of the analysis suggest the following six substantive hypotheses:

Table 8: Emerging Organisational Labels and Hypotheses

Organisational Labels	Corporate History & Culture	Corporate Structure Stability	Employee Management (education and management competences)	Strategy	Information Systems	Change Management
Hypotheses	<ul style="list-style-type: none"> Company History & Culture and management practice associates performance with industry operational and financial metrics. NFPMs are primarily developed for isomorphism purposes (not for performance evaluation) 	<ul style="list-style-type: none"> The FPMs/ NFPMs balanced structure of the PMS depends on the stability over time of the organisation’s dominant coalition 	<ul style="list-style-type: none"> Performance and NFPMs benefits are not clear and FPMs are perceived more objective/fair than NFPMs by managers who shape the PMS to be structured around more FPMs than NFPMs 	<ul style="list-style-type: none"> Low cost and reactor-type strategy implies a rigid and standardised PMS structured around FPMs 	<ul style="list-style-type: none"> In organisations where Information Systems are not integrated the PMS is decoupled and promotes the emergence of local informal NFPMs 	<ul style="list-style-type: none"> Revolutionary change initiates PMS redesign starting with FPMs and expanding to the isomorphic emergence of NFPMs

4.4.3 Aspects of the External Environment in which the PMS was designed and operates at Company A

According to the Strauss and Corbin Grounded Theory methodology (1998), Intervening Conditions are general conditions that influence the phenomenon and the strategies that a company can apply. In this research, intervening conditions are conceived as environmental conditions that surround Company A and have a direct impact on the phenomenon and the company strategy.

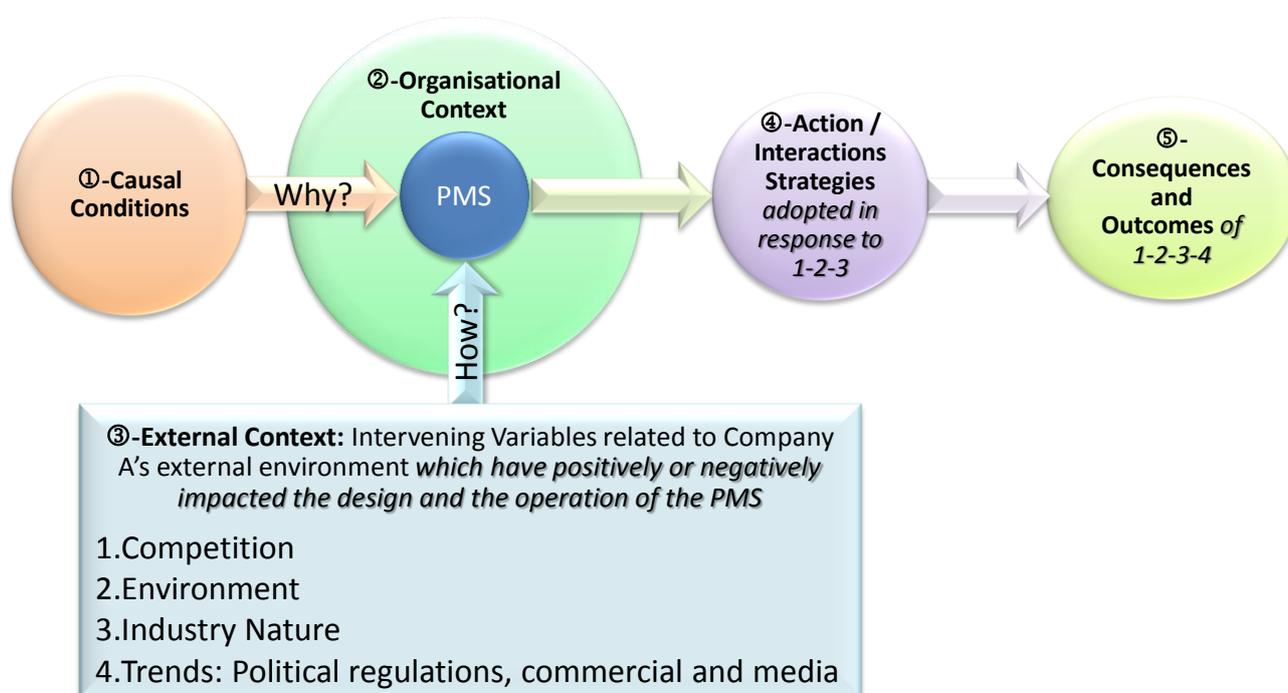
4.4.3.1 Summary of External Environmental Conditions’ impact on the Company A PMS

The current competition in the retail industry leads one to highlight emerging External Conditions which reinforce some performance measurement practices at Company A. These comprehend the evolution of economic conditions and its impact on competition, retail industry traditional compulsory financial metrics, and stakeholder⁶⁰ pressure. As already emphasised, traditional industry metrics not only play a role as a

⁶⁰ Shareholders and the financial community (analysts for example).

Causal Condition explaining why Company A adopted a PMS which is mostly structured around financial indicators but also plays the part of an Intervening variable which contributes to the evolution of the still predominant financial shape of the PMS at Company A in a very competitive and 2008-2009 hardened economic environment. This is a context where the company stakeholders need to be reassured by core industry metrics as well as triangulation non-financial metrics. As a complement, current industry trends see two of Michael Porter’s generic strategies emerging: one on cost initiatives and one on differentiation (Porter M. , 1982), both contributing to the evolution of the shape of the PMS at Company A towards the integration of NFPM but yet remaining predominantly financial. Figure 6 below summarises the findings described in section 4.4.3, which covers the External Conditions emerging from interviews performed at Company A as well as triangulation evidence emerging from the case study context.

Figure 6: Summary of Environmental Conditions' Impact on Company A PMS



4.4.3.2 Aspects of External Environment's impact on the design and operations of the PMS at Company A

Intervening conditions can moderate or reinforce the impact of Causal Conditions on the phenomenon and the company’s strategies altogether (i.e. the environmental influences have either a negative or positive impact on the use of a PMS). An organisation’s relationship with its environment is reciprocal and the environment of Company A will influence its selection of a specific set of measurements in evaluating its performance.

4.4.3.2.1 Retail Industry and Competitors' Strategies

4.4.3.2.1.1 International Competition

Of the 250 largest retail companies, almost two-thirds had sales of less than \$10 billion in 2008. More than one-third (i.e. 86 companies) had sales of less than \$5 billion. Only 41 companies, or about one in six, had retail sales of \$20 billion or greater. The growth rate for the top 10 did slow down from 7.2% to 6.9% in 2008, however the largest and second largest worldwide retailers remained secure in the top two spots with respectively \$401.244 million and \$127.958 million 2008 retail sales and 7.1% and 5.9% 2008 retail sales growth (Deloitte Touche Tohmatsu, 2010, p. 18) as shown in Table 9 below:

Table 9: Economic Concentration of top 10 retailers, 2008



Among the Top 250, 61 retailers had declining retail sales in 2008, up from 44 in 2007. While sales growth slowed as recession-weary consumers pulled back, profitability plunged. The net profit margin fell from 3.7% in fiscal 2007 to 2.4% in 2008, bringing to an end what had been a trend of continuing improvement in retail profitability in recent years. Many retailers 'bought' sales with heavy promotions, which hit the bottom line hard. Of the 184 companies that disclosed their bottom-line results, 30 operated at a loss (more than double the 14 unprofitable companies in 2007). This means that 123 companies (i.e. two-thirds of those that reported bottom-line results) saw their net profit margin decline in 2008 (Deloitte Touche Tohmatsu, 2010).

Within this context, Company A faces tough competition from Wal-Mart (U.S.) and Tesco (U.K.). Wal-Mart (\$401.244 million revenue in 2008) is the biggest discount retailer in the world with 6400 stores, including

⁶¹ (Deloitte Touche Tohmatsu, 2010, p. 19).

2000 combination discount and grocery stores and 1200 discount stores. Wal-Mart operates in different countries such as in the U.K. under the ASDA brand. Tesco (\$96.210 billion in 2008) which holds a strong international presence (1/4 of its total income) is the leading supermarket chain in Britain. Its five year cumulative growth rate is five times that of Company A. Tesco operates over 2700 supermarkets, convenience stores and supercentres in the U.K. As shown in Table 9 above, 7 out of 10 biggest worldwide retailers work in the Fast-Moving Consumer Goods sector (FMCG) which is the main sector in which Company A operates.

4.4.3.2.1.2 Domestic Competition

Company A faces a threefold domestic competition. The first one comes from Auchan, with \$56.831 million sales in 2008. It is the third largest retail chain in France and operates nearly 365 hypermarkets and 655 supermarkets across 12 countries (Europe, China, Russia, and Taiwan). This company sells both food and non-food products. Their hypermarkets are stocked with around 100.000 products including apparel, consumer electronics, groceries and fast foods. The second competitor is the Association des Centres Distributeurs Edouard Leclerc with \$47.567 million sales in 2008. This is one of the biggest world voluntary chains with nearly 540 individually-owned hypermarkets and supermarkets. The third competitor is Casino (Guichard-Perrachon D6), with \$39.697 million sales in 2008. It is a leading convenience store chain in France, but also present in hypermarket, supermarket and discount formats. This company operates over 9300 hypermarkets, supermarkets, restaurants, discount stores and convenience stores worldwide. Most of its outlets are in France; however it has 2000 stores across 12 nations (Thailand, U.S., Mexico and Brazil). Lagging behind the leaders, are three other competitors: Intermarché, CORA and SystemeU.

The abovementioned modification of the competitive environment of the retail industry has generated a stress on short term profitability which explains the cost-focused and differentiation strategies adopted by retailers and the prominence of FPMs in the PMS of company A.

4.4.3.2.1.3 Cost-focused Strategies

4.4.3.2.1.3.1 Cutting Costs

Retailers find that growth is constrained by consumer balance sheets and credit availability, which means profitability, is more likely to arise from limiting a variety of costs. In doing so, retailers are cutting operating costs by “consolidating support functions and slashing payroll”, and expense management, “offset transportation and labour costs and maintain tight control of their inventory to improve liquidity” (Janiak, 2009, p. 8). They negotiate or re-negotiate better deals with suppliers in a buyer’s market fostered by the 2008-2009 economic recession. They rethink their mix of businesses (eliminating formats and categories of underperforming merchandise) and locations, focusing on and better defining core business and helping

their customers to finance their purchases. Back office technology investment allowing for – but not only – historical transaction analysis, is already another way to support customer segmentation, customised pricing and promotions as well as other internal functions (Janiak, 2009, p. 7).

4.4.3.2.1.3.2 Risk management of the supply chain and market disruption

Risk management of the supply chain, market disruption and currency volatility are some examples of risk management schemes that are bound to be developed among retailers. For example, some retailers have already engaged in a reduction plan of their supply chain length by getting closer to their suppliers. Prior research actually shows that the connection of the supply networks constitutes an important competitive advantage (Durand C. , 2007, p. 15). Many retail companies are starting to rethink/ revamp their supply chains (Bonebrake, February 2009, p. 17), diversifying their sourcing in other low cost, nearby countries or even in-country locations, shifting them closer to their final markets to reduce their transport costs (Deloitte Touche Tohmatsu, 2009, p. 46). Shipping in larger quantities, for example, is also one strategy which has been recently adopted, thereby addressing both a cost reduction objective and a sustainability issue (Janiak, 2009).

4.4.3.2.1.3.3 Globalisation

Globalisation has been a large trend over the past two decades, even though this has not concerned everyone in the retail industry, because it is challenging and maybe not as lucrative as anticipated. Company A in its prospector era until 2007 participated to this trend. The different meanings of globalisation explain why it has been very differently envisaged by retailers. As a matter of fact, evidence of a recent empirical study (Rugmana & Girod, 2003) show that of the world's 49 largest retail multinational enterprises (MNEs) only one is found to be a 'global' MNE, while five are 'bi-regional', (i.e. with at least 20% of sales in two parts of the 'triad' of the European Union, North America (NAFTA) and Asia). The remaining MNEs are either purely domestic or have sales in only their home-triad market. Thus, researchers conclude that the retail MNEs neither operate globally nor do they need global strategies. Instead, they are mainly regional MNEs and their focus is local, home-triad market-oriented.

Reasons to globalise are traditionally reinforced for several reasons (Leknes & Carr, 2004). In the U.S. where the hope of expanding market share at home is very limited, retailers' expectation for strong growth lies in new markets such as fast growing emerging ones (India and China for Wal-Mart, for example). Second tiers as well as non-food retailers are likely to continue in this path (Deloitte Touche Tohmatsu, 2009, p. 46). However, tight credit market conditions make it difficult for retailers to finance mergers and acquisition which constituted so far an easy way to expand abroad. This implies that some vulnerable retailers will perish and will not even be acquired by competitors (Janiak, 2009). Despite this globalisation trend, some retailers might opt for localisation. As a matter of fact, most large retailers have based their supply chain

strategy on lowering the cost of transportation and wages, which is bound to change with higher energy prices and former low wage and weak currency countries increasing the cost of sourcing which is already the case in China for example.

4.4.3.2.1.4 'Differentiation' Strategy

4.4.3.2.1.4.1 Differentiated Shopping Experience

Quality of customer experience in the store has been emphasised at Company A, affecting customer service, store layout, product information, speed and efficiency of checkout and after sales service: "In a slow growth environment, retailers will look for ways to differentiate from their competitors in order to build brand equity and generate interest in store visits" (Deloitte Touche Tohmatsu, 2009, p. 44). Also, in an "era of slow growth, tight margins and fickle consumers" (Deloitte Touche Tohmatsu, 2009, p. 46) if the key factor which is differentiation is not mastered through efficient supply chains - translated into lowest costs and prices for example -, then it will have to be done through differentiated shopping experiences. This may be done through the expansion of private label offerings, through working on their brand, through demonstrating the value they can bring to customers, developing loyalty programs, developing and improving specific shopping environments/ corners for example (Janiak, 2009, p. 4;7). The management of - modestly compensated, limited experienced and not very well trained - human capital in "a way that generates strong results" (Deloitte Touche Tohmatsu, 2009, p. 44), will also be challenging because retailing is a labour intensive business which is, at the end of the day, the only connection between a retailer and its customers. With regard to this latter issue, an important challenge is "to spend more money on training, do more to stimulate employee loyalty to mitigate turnover and improve employee productivity in order to justify higher compensation" (Deloitte Touche Tohmatsu, 2009, p. 44). This reinforces the importance of HR related metric in Company A PMS as shown in Table 3 page 54 and Table 4 page 55.

4.4.3.2.1.4.2 Multichannel Distribution

"As millions of consumers use the internet for research before visiting stores and purchase on-line, the challenge for retailers is to intercept consumers online before they go elsewhere to get their information or purchase their goods" (Deloitte Touche Tohmatsu, 2009, p. 45). Multi-channel distribution, which consists in delivering information and products to consumers in conjunction to store experience, is perceived as a key success factor for retailers in the short run: cross-channel shopping (i.e. the simultaneous usage of different shopping channels) is estimated to represent 38% of global retail sales by 2012 compared with only 20% of sales in 2007 (Janiak, 2009, p. 6). The arrival of Web 2.0 technology along with social networking tools such as Twitter or Second Life is changing the way retailers are using web based communication, not only selling through the internet, but using these new technologies and trends to create communities around their brands. For example, ALDI Australia has joined Twitter in mid July 2009, informing its customers about

special offers, product launches and web updates. This has been part of Company A strategy as shown in Section 4.4.2.2.4 page 70.

4.4.3.2.1.4.3 Multi-Format: back to “Small is Beautiful”

Although the number of large stores has increased in recent years, thereby meeting the need of customers to get a one-stop shopping experience, retailers are increasingly considering mixing larger and smaller formats. Reasons for this upcoming trend are several. From a legal point of view, large store development faces regulatory restrictions which are less the case for smaller sizes. Second, consumer market fragmentation (e.g. niche markets) makes it harder to meet the needs of everyone ‘under one roof’, which hypermarkets try to do. Third, consumers tend to shop for small quantities of goods. Considering this, larger formats are not the ideal size anymore. Fourth, large stores require more personnel to run (Deloitte Touche Tohmatsu, 2009, p. 45). Finally, another explanation lies in the fact that consumers are less and less eager to spend time travelling to a store, especially for everyday convenience products.

Besides addressing these five criteria, smaller size offers better inventory control and turnover (which implies more frequent neighbourhood shopping) and from a customer perspective, shoppers get a more personalised and time-saving experience which is paired with an ageing, less goods and more service oriented population in Europe and the U.S. at least (Janiak, 2009, p. 5). Format diversification actually has mixed and non-converging impacts on sales growth and profitability, which are documented in Table 10 below:

Table 10: Sales Growth and Profitability by Level of Format Diversification



Company A announced in late July 2009 that they will reduce the sales area of one of their largest hypermarkets to improve its square metre productivity ratio, filling this new empty space with a business park involving stores and other businesses.

In relation to sustainability and corporate social responsibility themes, this trend is definitely not neutral as it asks the question of future business organisation for retailers in an environment which requires new retail

⁶² (Deloitte Touche Tohmatsu, 2010, p. 27).

and industrial organisations: new store formats, new supply chain and distribution policies for restricted vehicle access inner city and suburban areas for example.

4.4.3.2.1.4.4 Increase in Concentration

In conjunction with this latter trend, the mass market is rapidly disappearing due to a clearer segregation of lower and upper income households, where the middle class is becoming a smaller share. "As mass markets have become both saturated and more fragmented in terms of incomes and shopping behaviour, mass-market retailers and their suppliers have become highly focused on price competition, which can drive down margins and fail to provide consumers with clearly differentiated offerings" (Janiak, 2009, p. 5).

Under these circumstances, marketing to the masses has become more problematic, thereby explaining the development of niche players such as discount and luxury retail formats at the expense of conventional mass-market formats. The consequences of this trend result in more interaction from retailers with individual consumers - through websites, multi-channel activity, building brand identity, engaging consumers in dialogue and obtaining feedback, etc... (Janiak, 2009, p. 7) - and the development of niche oriented customised new formats, such as "long tail"⁶³ (Brynjolfsson, Hu, & Simester, 2006) retailing for more targeted audiences for example (Deloitte Touche Tohmatsu, 2009, p. 45).

Should fuel prices remain relatively low and stable and French government stimulus package remains, their combination could help revamp consumer demand (Janiak, 2009). In this frame, new formats, such as discount and value department stores, warehouse clubs, 'Euro stores' and discount stores are expected to perform better than other segments in 2009 in Europe and the U.S.

4.4.3.2.2 The Environment

Stakeholders with whom Company A deals represent a main emerging environmental condition which influences the shape of the PMS. The financial community has changed and has become far more acquainted with the retail industry than it used to be a few years ago. Past profitability deceptions complemented by the succession of unapplied and/or failed strategies resulting in shareholder/stakeholder dissatisfaction, have resulted in a business environment that is now asking for more sophisticated and operational (i.e. leading as opposed to lagging) metrics to be able to assess the current and future performance of the company they invest in: *"if we take the example of Company A, it is because we have sold to them a certain number of Company A strategies, so they want to drill down, they want to know what is behind. Therefore financial*

⁶³ This concept refers to the statistical property that a larger share of a population stays within the tail of a probability distribution than the one observed under a 'normal' or Gaussian distribution. 'Long Tail' is a retailing concept describing the niche strategy of selling a large number of unique items in relatively small quantities in addition to selling fewer popular items in large quantities. The distribution and the inventory costs of businesses who successfully apply this strategy allow them to realise profit from selling small volumes of rare items to many customers instead of only selling large volumes of a reduced number of popular items. (Source: Wikipedia).

indicators, once again, the whole subtlety is that financial indicators measure what has been done over several past years” (A9).

This situation is also partly due to the related different environmental factors such as the recognised mistrust in financial disclosure provided by reporting lagging indicators (Pezet, 2010). These latter metrics are part of the panel of the traditional ‘accounting mirror’ and *“Output indicators”* as one respondent states: *“we assess the performance of actions which have been implemented in the past, hence a posteriori measurement” (A9).*

Management acknowledges the adoption of NFPMs can be an obligation, a fashion or a marketing trend imposed by the state⁶⁴ or the market in the case of corporate social responsibility and sustainable development metrics for example. They are also imposed by the financial market and financial analysts specialising in the retail industry. On this specific matter, the same respondent declares: *“Beyond it may be a fashion phenomenon, but it is mostly under the impulsion of questions asked” (...)* *“we are being asked more and more questions on the indicators (...) which are operational questions, and we are asked more and more to assess the progress of the operational indicators, and that from the analysts, hence this is the market, and hence we are evolving” (A9).* Whether these ‘leading’ metrics are adopted under a real or perceived pressure from the market/ financial market/ financial analysts or on a voluntary basis is addressed by the same respondent as: *“because we evolve (...) not under the pressure, but under the influence of markets” (A9).* Both financial analysts we interviewed and some Company A respondents (A8) at different levels understand these metrics are not yet integrated in the PMS, and are therefore ‘not really’ used to monitor and manage performance. This aspect of practice is to be viewed in relation to earlier evidence stressed at section 4.4.1.2 page 48. For certain analysts NFPM are a marketing tool in the sense there is more to lose by not adopting them than to actually gain. Therefore it becomes a question of risk management, yet there is no evidence of transformation of this constraint into a positive factor of performance for some retail industry analysts that were interviewed. Besides, one must remember that NFPM are ultimately transformed into financial metrics for reporting purposes (A11).

The shift of the PMS towards the integration of more leading metrics is also due to the lack of confidence from the financial market. This is especially true with very specialised financial analysts towards companies which have not had a clear strategy for several years: *“Analysts are professionals of the distribution sector, they visit the store, they go from Tesco to Carrefour, to Sainsbury to Asda to Wal-Mart, they know retail very*

⁶⁴ “French companies are required to make information available to investors with regard corporate social and environmental performance since May 2001 if they are listed on the stock exchange (Robins, 2005; Tschopp, 2005). However, due to the broadly written regulation, the presentation and the extent of disclosure are subject to the firms’ discretion, leaving rooms for variation in terms of the uptake and diffusion.” (Tower, Ahmad, Pignatell and Hahn, 2010).

well and they know that what is vital for Company A at the moment is the market share in France, the non-food section, and the development of square metres” (A9).

As underlined before, Company A has started to adopt leading as opposed to lagging metrics, indicators of future performance. Even though this type of tool is not yet integrated in the PMS, therefore not present/used/understood at all levels, they are nevertheless important for ‘the outside world’, namely the financial market as they constitute proof that the company actually ‘has a strategy’: *“The market wants to be reassured on the things we announce, what we tell the market. We publish financial notes, but analysts are wise and competent enough to understand the evolution of our sales and our profit. However, our communications people tell them stories” (A9).* These metrics are also a proof – for analysts – that this strategy can be monitored through the evolution of several leading indicators which are linked to levers on which the company announces it will work, as stated by the following respondent: *“we are selling them a dream and the stories are, for Company A example, it is: we revamp our square metre growth, we want to open twice as many square metres than before, we are reforming our food section, we are reforming our consumer goods section, we launch, we develop services. This is what we tell the market. So there is an affective dimension which is very important, which is the trust they put in our management and our communication, but especially with those who have been following us for a long time, who visit our stores, we have to bring a little life into this” (A9).* This behaviour is consistent with Legitimacy Theory as defined by (Kaplan & Ruland, 1991, p. 370): *“organisational legitimacy is a process, legitimation, by which an organisation seeks approval (or avoidance of sanction) from groups in society”*; In this research Legitimacy Theory is introduced as a complement of Institutional Theory which is used to explain the actual decoupling of the PMS of organisations regarding the balance of FPMs and NFPMs. Mathews (1993, p. 350) gives a more comprehensive definition of Legitimacy Theory as we understand it in the frame of this research: *“Organisations seek to establish congruence between the social values associated with or implied by their activities and the norms of acceptable behaviour in the larger social system in which they are a part. In so far as these two value systems are congruent we can speak of organisational legitimacy.”* In the context of our research, Legitimacy Theory seeks to explain that companies engage in environmental reporting to demonstrate that their actions are legitimate and to conform to societal expectations. From legitimacy theory standpoint, reporting can be regarded as a as a communication strategy to legitimise as well as a channel to influence stakeholders’ perceptions toward the company such as restoring a damaged firm’s reputation and image for example⁶⁵. It can also be used to influence perceptions which justify its continued existence (Guthrie & Parker, 1989).

⁶⁵ Cho (2009) shows that industry does influence corporate social responsibility disclosure as higher profile firms are exposed to constant ethical and social pressure around the globe. Also, firms that reside at the environmentally sensitive industry are subject to increased public pressure and thus need to be thought of as providing strong environmental stewardship.

4.4.3.2.3 Retail Industry Nature and its Standard Metrics

The industry in which Company A operates emerges as an important environmental condition which influences the adoption of a specific PMS shape. Financial indicators are presented by respondents as being more suitable for a short term focused and adaptable activity such as the retail industry (A3): *“At Company A, like at (manufacturing company), if we have a problem of sales in December, like we had last year, we put together a sales plan (...) so that in February our sales are good”*. Another respondent adds: *“we have one or two month cycles, therefore it requires less anticipation, we are more in the short term, activity management is more in the daily business and in the present than people at (a manufacturing company) who are constrained to foresee the evolution of markets”* (A9).

Furthermore, when faced with short term profitability issues, management focus goes onto quickly patching the situation. This reaction reinforces the short-term orientation of a firm and the emphasis on financial metrics. Another reason for shaping Company A PMS as such is provided by answers of respondents implying that performance measurement practice once again follows the industry standard: *“this is the way it is measured in the industry”* (A8). This can be explained by the short history of the retail business which is characterised by its past quick and strong growth and its current situation faced with streamlining needs. The reasons which explain the importance of financial metrics in the retail business are tied to several issues evidenced earlier (in Sections 4.4.2 page 64 and 4.4.3 page 73) which range from the nature of the performance information, which should easily be available to and understandable by a wide range of persons in this labour intensive industry, to the short term day to day operational cash sensitivity of this business.

Most information regarding retail industry trends comes from widely recognised annual publications. The information provided below extensively uses the following sources: Deloitte Global Powers of Retail 2009 and 2010 reports, which not only cover trends from a worldwide perspective but also from a local point of view with the contribution of its local offices providing relevant European and French market information. Other worldwide as well as European and French focused sources of retailing market information also include the annual Interbrand report, Planet Retail Newsletter as well as Planet Retail’s Top 30 rankings for Western and Central Europe and finally Mintel’s European Retail Handbook. The strategies outlined below have great importance in shaping the evolution of the PMS at Company A as they contribute to explaining the nature of its 2009 revamping plan and why it leads to incorporating or acknowledging the existence of non-financial metrics at local levels while remaining very financially focused at top management level.

4.4.3.2.4 Trends: Political regulations, commercial and media

Consumer spending remained fairly robust until 2007; only in early 2008 did the U.S. financial crisis begin to spill over into Western Europe. Profitability wise, the global retail industry recorded a continuous

improvement in recent years, from 2.7% in 2004, 3.5% in 2005 reaching 3.6% in 2006. However, in 2008 in comparison to 2007, net profit margin for European retailers dropped from 4.1% to 2.7% and from 3.6% to 2.4% for North American retailers. Rising food prices and fluctuating energy prices have pushed consumers to rethink their buying strategy and shift away from non-food, non-fuel and durable products (Janiak, 2009, p. 4). As an example, in the Fast-Moving Consumer Goods sector (FMCG) to which both Company A and B belong, profitability suffered along with the rest of the retail industry because, under these economic circumstances, shoppers are primarily looking for bargains. The FMCG sector's net profit margin actually dropped from 3% in 2007 to 2.2% in 2008 (Deloitte Touche Tohmatsu, 2010, p. 24).

Another very important element of the environment consists in the growing internationalisation of the retail industry. This trend is confirmed by several key elements. In 2008, from a company growth point of view, 22.9% of retail sales from the 250 worldwide market leaders came from foreign operations. Under these conditions, international firms have enjoyed a 3% versus a 1.4% net profit margin in 2008 versus those remaining local. European retailers are operating in an average of 11.7 countries. German and French retailers generated 40% of their sales from foreign operations; in contrast, most North American retailers still do not have significant foreign operations, as demonstrated by prior research (Colla & Dupuis, 2002), which could be explained by the 'continent' size of the U.S. domestic market. As a matter of fact, 49 of the 93 North American retailers among the Global Top 250 have not expanded beyond their own borders in 2008 (Deloitte Touche Tohmatsu, 2010, p. 22), as shown in Table 11 below:

Table 11: Top 250 Retailers Presence in Region/ Country Profiles, 2008⁶⁶



⁶⁶ (Deloitte Touche Tohmatsu, 2010, p. 22).

These fast moving economic conditions and their subsequent impact on retailers' need for quick response explains the use of the traditional financial industry metrics listed in section 4.4.1.2.1 above. As a consequence of worsening economic conditions, many retailers, including large ones, customarily react by reducing their inventory levels, closing unprofitable locations and focusing on financial indicators (Durand C., 2007, p. 5). This industry reaction to the 2008 economic slump has reinforced a tendency at Company A, which started to rationalise its activities in the mid 2000's. Reasons for this rationalisation strategy, which are both internal and external, are further documented in sections 4.4.2 page 64 and 4.4.3 page 73. One consequence of this on Company A's PMS has been the emphasis put on quantitative financial metrics such as inventory level and store profitability. However, this pre-eminence of FPMs is nuanced by the European Community regulatory environment with the '2003/51/EC Modernisation Directive' which constitutes a pressure to see companies' financial reporting complemented with NFPMs, though to a limited extent⁶⁷.

4.4.3.3 Substantive hypotheses emerging from the External Conditions for adopting a PMS at Company A

External (Intervening) conditions are general conditions that influence the phenomenon and the strategies that a company can apply. As stated by Strauss and Corbin (1998, p.131) these conditions may mitigate or strengthen the impact of causal conditions on the phenomenon as well as the company's strategies. Section 4.4.3 demonstrated the intervening conditions that relate to the PMS. These four intervening conditions were presented in Figure 6 page 74 and recalled in Table 12 below. The researcher has then identified the main relationships between the environmental labels and the phenomenon under investigation. Hypotheses are generated from evident relationships between these labels and the phenomenon. The results of this analysis consequently suggest the four following substantive hypotheses:

⁶⁷ "The annual report and the consolidated annual report are important elements of financial reporting. Enhancement, in line with current best practice, of the existing requirement for these to present a fair review of the development of the business and of its position, in a manner consistent with the size and complexity of the business, is necessary to promote greater consistency and give additional guidance concerning the information a "fair review" is expected to contain. The information should not be restricted to the financial aspects of the company's business. It is expected that, where appropriate, this should lead to an analysis of environmental and social aspects necessary for an understanding of the company's development, performance or position. This is consistent also with Commission Recommendation 2001/453/EC of 30 May 2001 on the recognition, measurement and disclosure of environmental issues in the annual accounts and annual reports of companies. However, taking into account the evolving nature of this area of financial reporting and having regard to the potential burden placed on undertakings below certain sizes, Member States may choose to waive the obligation to provide non-financial information in the case of the annual report of such undertakings" (Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003 amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial insti, 2003).

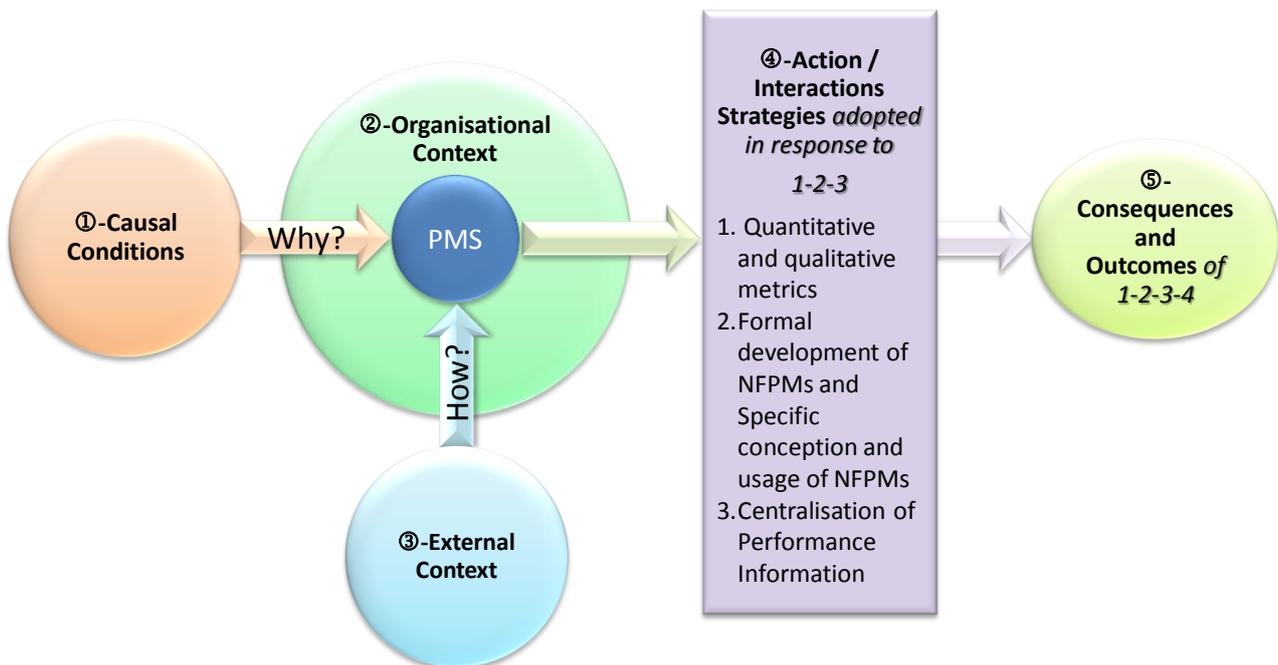
Table 12: Emerging Environmental Labels and Hypothesis

Environmental Labels	Competition	Environment	Industry Nature	Trends: Political regulations, commercial and media
Hypotheses	<ul style="list-style-type: none"> The modification of the competitive environment from competitors, customers and regulators generates a stress on financials and explains the prominence of FPMS 	<ul style="list-style-type: none"> Under stakeholder (incl. financial analysts) pressure for proof of profitability in tightened (uncertain) economic conditions organisations focus on cash and revenue and tend to develop more rigorous isomorphic centralised Formal financial and non-financial metrics and informal financial and operations metrics 	<ul style="list-style-type: none"> The industry short term constraint (cash and revenue) makes organisations focus on fast action operations metrics and FPMS 	<ul style="list-style-type: none"> Stakeholder, state and media pressure explains the isomorphic development of formal NFPMs

4.5 Action/ Interaction Strategies which management adopted at Company A in response to Causal, Organisational and External Contexts

In handling the phenomenon under investigation, management strategies have developed. Company A management has therefore implemented a certain number of practices. Labels have emerged both from the interviews and the evidence collected in the case context. They represent the main action and interaction strategies that have been implemented as a result of the operation of the PMS at Company A. The action/ interactions adopted by management in response to Causal, Organisational and External conditions have consisted in realising the need to develop a shared definition of performance through the integration of NFPMs in a more centralised PMS. This has however received mixed practical responses in view of the extensive corporate usage of FPMS, which finds one of its explanations in the practicality of these metrics. Figure 7 below summarises the findings described in section 4.5 which covers the action/ interaction strategies that management has adopted in response to the Causal, External and Organisational Conditions emerging from interviews performed at the company, complemented by triangulation evidence emerging from the case study context.

Figure 7: Summary of Action/ Interaction Strategies adopted by management at Company A



4.5.1 Action/ Interaction Strategies adopted by Company A management

The purpose of this section is to inform the reader about the outcomes of the operation of Company A's PMS. These are action and interaction strategies that management has adopted in response to Causal, Organisational and External Conditions.

4.5.1.1 Quantitative and Qualitative Metrics at Company A

The reaction of most respondents when asked to define what they understand and call performance is not a straight or even a broken definition as the researcher naïvely expected, but actually not a 'straight' answer. In most cases, respondents do not address the substance of the performance concept directly and prefer to situate themselves and the interviewer into the 'action of performance measurement' at Company A by telling how they measure it, rather than defining the concept itself. Moreover, they actually need an example to help them clarify the concept of performance, almost as if they could do without such a definition, or simply that such a clear concept speaks for itself. Yet, in doing this they fail to provide a clear definition of the notion of performance. The question remains as to what performance is at Company A as their answer instead addresses how performance is measured. This reaction depends on the hierarchical level of the respondent; with a tendency to get a more immediate and practical answer such as "*the way we measure it is revenue/sales/operation margin/cash*" - again mostly financial metrics - when the respondent is close to the operations level, sticking to the daily reporting tasks that they have to accomplish. When the respondent is not close to operations, the person has a tendency to define performance more holistically, elusively or vaguely with a tendency to use 'trendy' strategic words implying '*customer satisfaction*' and

'service/ value delivery to the customer' on the one hand, but going back to *'cash management'* on the other. This latter metric is often disclosed like a confession to the interviewer.

The link between performance and strategy is also not spontaneously mentioned by respondents, yet is more easily referred to when the question is asked of top managers. This would tend to confirm the existing literature regarding the distance to power, involvement and link to financial metrics as the respondent gets closer to the operations level (Euske, Lebas, & McNair, 1993).

Failing to articulate a clear definition of the substance of the performance concept at Company A, the researcher noticed that there is no clear vision whether performance is considered as a process or a goal (Bourguignon, Malleret, & Nørreklit, 2004), which of course tells a lot about the management of the firm: Providing a map of the different steps one has to complete in order to implement the company strategy - thereby following a process which could be compared to the implementation of a traditional balanced scorecard methodology for example - is not the same task as pointing to a goal, and then leaving management a certain degree of freedom to choose which ways and which strategy they want to adopt to reach that objective. In some respect, this last comment recalls the *Tableau de Bord* methodology as exposed by Bourguignon et al. (2004).

One respondent, among the youngest, highlighted that performance is a word which is used incorrectly and in many inappropriate occasions at Company A. In doing so, performance loses its meaning: *"I would have liked to see it (performance) black on white and engraved in marble to say so, but today, the word is used incorrectly and for any matter and I think we come across it in many presentations; what we call strategic plans, when the business unit presents its future strategy, this word will be replicated on '50 000' slides in any circumstance and for any reason, this will not mean the same thing, so, in the end, it loses its meaning, it is just performance to say performance, but there is nothing behind, it doesn't connect, this doesn't have the same meaning for everyone"* (A5). This lack of both definition and meaning for performance is particularly difficult for company management because the apparent certainty of an acronym or label such as the TDB or the BSC actually masks considerable definitional and practical uncertainty.

The impact of this imprecision on performance management is not neutral, since rational management is acknowledged as necessarily bounded and emotional (Sturdy, 2004). The beliefs of managers and what they perceive and understand not only of their role within an organisation but also of a method or methodology such as the TDB or the BSC for example, shapes the tools they develop, adapt and use, and also when, how and why they use them in such a way. This is unsettling because respondents are also not clear about the distinction they make between lagging and leading indicators. This is particularly disturbing regarding the BSC issue for example, because some managers have a tendency to act like apprentice sorcerers and only borrow and adapt bits of this 'holistic' method. They assume a performance tool is relevant or sufficient for

the purpose they target within the context they are in and tend to think they have sufficiently understood the concept which they have only partially implemented (Ittner & Larcker, 2003). Worst of all, they believe they can subsequently rely on it for performance management. These themes about perception have been subject to investigations by theories emerging from Edmund Husserl's Phenomenology, such as Social Institutionalism and Social Constructionism which consider reality as a social construction (Berger & Luckmann, 1966).

Across the different levels of responsibility to which access was granted to the researcher, financial performance measures were primarily referred to within the framework of a PMS which adopted the shape of a *Tableaux de Bord*. These metrics are sales and operating margin, which is a year to date metric comparison (e.g. 'same store sales'). Other quantitative metrics included inventory level, cash, personnel costs and pilferage ratios. When asked for more details several respondents answer that the performance metrics they are using are simply the ones to be found when scrolling down the profit and loss account: margin from operations, overheads, personnel costs, marketing, advertisements, rents, which are all aggregated from distribution costs followed by margin from operations: *"We watch the net income with an emphasis on cash (...) we are an industry which works heavily on cash because we are funding one part of our assets with cash"* (A3). This conception and practice of – lagging – performance measurement explains the quantitative analysis of income, which is an historical (i.e. 'accounting mirror') costing day to day performance assessment.

This practice is reinforced by the technology used by middle to top managers who receive this financial quantitative information on their portable devices every day: *"the first, if you want, the first act of management is the income at our company. We are monitoring this every month, but especially every day, technologic marvel⁶⁸ (...) what I receive every morning in traffics jams: Tuesday January 23rd, global income ..."* (A3). This technology traditionally consists in reporting a limited number of data and they are mostly financial nature.

One reason that financial data is used is that it leads to less personnel conflict than a qualitative 'target' and it is presented by respondents as a good weapon against possible inflation and deliberate or unwanted/unintended distortion of performance data. These are metrics which are fast and easy to obtain. They are presented as convenient because they provide a 'common language' and understanding of what is measured and they are described as 'straightforward' metrics. The use of these metrics is presented as very suitable in a labour intensive industry where managers have to deal with a large quantity of information on small transactions coming from scattered places, especially in a network industry such as retail.

⁶⁸ Corporate financial update supplied to managers on their handheld devices on a daily basis.

This measurement practice also depends on tools relying on past day transactions and the development of information systems using OLAP based technology⁶⁹. In this environment, financial data is tied to individual bonus and/or stock options which reinforce the idea that linking a metric to an individual performance has to be done with performance data which cannot be subject to interpretation, therefore a FPM. This practice also constitutes a way to make sure performance information is used. The combination of metrics linked to individual bonuses depends on the current corporate focus dealing with what changes, with what is happening in the market, what happened in Company A, as well as the changing strategic objectives of the company. These practises show that operational qualitative and quantitative metrics tend to be used more at operations level besides being modified to be reported to top management (A11).

4.5.1.2 Emergence of Non-Financial Performance Measures (NFPM)

There is no evidence that the company engaged in the development of specific non-financial performance measures apart from traditional indicators which can be found in other industries and are obvious, such as customer satisfaction. Income, which is very important, is complemented by market share for example (A3; A5). Moreover, respondents' answers show that NFPMs tend to be developed when traditional cost savings policies find their limits. Along with the fact that respondents see the development of NFPMs as a means to triangulate FPMs information for sceptic stakeholders such as financial analysts for example, another justification of the pre-eminence of 'income' among other metrics is suggested by some respondents as showing that the indicators they use are 'holistic', which means they consider them as "*summarising metrics*". Respondents' answers also show that the balance between FPMs and NFPMs depends on their hierarchical levels and are used opportunistically by managers. A good example is provided by the income which is monitored and considered a good metric by respondents because it offers the advantages of a financial quality metric (i.e. 'straightforwardness' at least in spirit, common language, etc...) but it is also perceived as a good indicator that customers are satisfied, because otherwise this would mean Company A would not make money. Respondents however conceive this holistic/ summarising ability of a financial metric in one direction only: from financial to non-financial. On the other hand, it seems to be assumed by respondents that customer satisfaction is not as good a predictor of prosperity as a financial metric, which would contradict pro-BSC literature. This would confirm Ittner and Larcker (2003) who show that most companies have apparently adopted boilerplate versions of nonfinancial measurement frameworks, such as Kaplan and Norton's Balanced Scorecard, Accenture's Performance Prism or Skandia's Intellectual Capital

⁶⁹ A hypercube or OLAP (On Line Analytical Processing) cube is a data structure that allows fast analysis of data. It can be defined as the capability of manipulating and analysing data from multiple perspectives. The arrangement of data into cubes overcomes a limitation of relational databases. OLAP cubes can be thought of as extensions to the two-dimensional array of a spread sheet. For example a company might wish to analyse some financial data by product, by time-period, by city, by type of revenue and cost, and by comparing actual data with a budget. These additional methods of analysing the data are known as dimensions. Because there can be more than three dimensions in an OLAP system the term hypercube is also used. (Source: Wikipedia).

Navigator, but seldom establish the cause and effect linkages between the measurements and desired outcomes.

4.5.1.3 Centralisation of Performance Information

Coherent with Chenhall (2003), another emerging action and interaction strategy that was implemented as a result of the operation of its PMS is Company A's reporting system development, its evolution towards NFPM and centralisation. Few answers apart from top management respondents' relate to strategy fulfilment/goals and the mission of the company. The reporting system is fairly traditional in its usage of financial information complemented by even more traditional non-financial information. There is little evolution of indicators from one year to another, yet yearly focus may differ depending on the emphasis of management at a specific moment, specifically when strategy changes. This means that performance management may be iterative in nature, with some consistency as far as basic – financial – metrics are concerned and then specific – financial to non-financial – metrics developed and used to meet periodic requirements.

Customer loyalty programs are accounted for mostly by their cost, and more rarely for the information they provide. While it is obvious that Customer Relationship Management (CRM) information is vital for the retail industry, no relation is spontaneously reported by respondents regarding this latter instrument as a performance measurement/management tool. Rather it is merely and vaguely an obvious part of the performance value chain framework.

Noticeable is the strong tendency, for over 10 years, towards centralisation of information at headquarter level. This was made feasible by the rapid evolution of Information Technology (Huber, 1990), including, for example, automatic sales information through cash registers, which makes possible day to day and even instant sales level information (e.g. through intranets or even mobile computing performance information feedback through blackberries and iPhones). The main characteristics of a centralised approach include control, efficiency and economy, which have been an important motivation for the company due to the pressure of profitability. Accordingly, Information Technology (IT), as both a provider of centralisation and decentralisation (Dewett & Jones, 2001) has been a good means of reconciling the need to enable top management to obtain information more quickly and accurately and reducing uncertainty while also making it possible for lower and middle level managers to stay better informed about organisational issues. This reflects the classical organisational system differentiation but its necessary integration, informed by Contingency Theory (Lawrence & Lorsch, 1967).

At the moment of the interviews at Company A, evidence from respondents (Section 4.4.1.2.2.1) show that several performance measurement systems are in operation and have yet to be integrated. Even if the

evolution of performance management techniques have evolved towards the integration of more non-financial data, this centralisation trend, mixed with expanding information technology capabilities, has paradoxically reinforced the usage of financial information which, for the reasons previously exposed, is reducing possible issues of integrity/pre-selection of quantitative information. This is especially true when individual bonuses are involved (Ittner & Larcker, 2003). Finally, this centralisation led to the constitution of a dual channel performance measurement which seems to emerge from respondents' statements and has been detailed in section 4.4.2.2.2. This would tend one to assume that in organisations where Information Systems are not integrated the PMS is decoupled (i.e. a corporate formal vs. operations customised metrics).

4.5.1.4 Substantive hypotheses emerging from the Action/ Interaction Strategies adopted at Company A

In handling the phenomenon under investigation management strategies have established, such as the development of a decoupled PMS. Action/interaction strategies related to Company A's PMS have been identified in section 4.5. These three conditions were presented in Figure 7 and are recalled in Table 13 below. The researcher has then identified the main relationships between the environmental labels and the phenomenon under investigation. Hypotheses are therefore generated from evident relationships between these labels and the phenomenon. The results of the analysis suggest the three following substantive hypotheses:

Table 13: Emerging Action/Interaction Strategies and Hypotheses

Action/ Interaction Strategies Labels	Quantitative and qualitative metrics	Formal development of NFPMs and Specific Conception and usage of NFPMs	Centralisation of Performance Information
Hypotheses	<ul style="list-style-type: none"> Operational qualitative and quantitative metrics tend to be used more at operations level and are modified to be reported to top management 	<ul style="list-style-type: none"> Isomorphic NFPMs development are a means to triangulate FPM information for sceptic stakeholders (financial analysts) FPMs NFPMs balance depends on levels of management and are used opportunistically by managers When traditional cost savings are limited, NFPMs are developed 	<ul style="list-style-type: none"> In organisations where Information Systems are not integrated the PMS is decoupled (corporate formal vs. operations customised metrics)

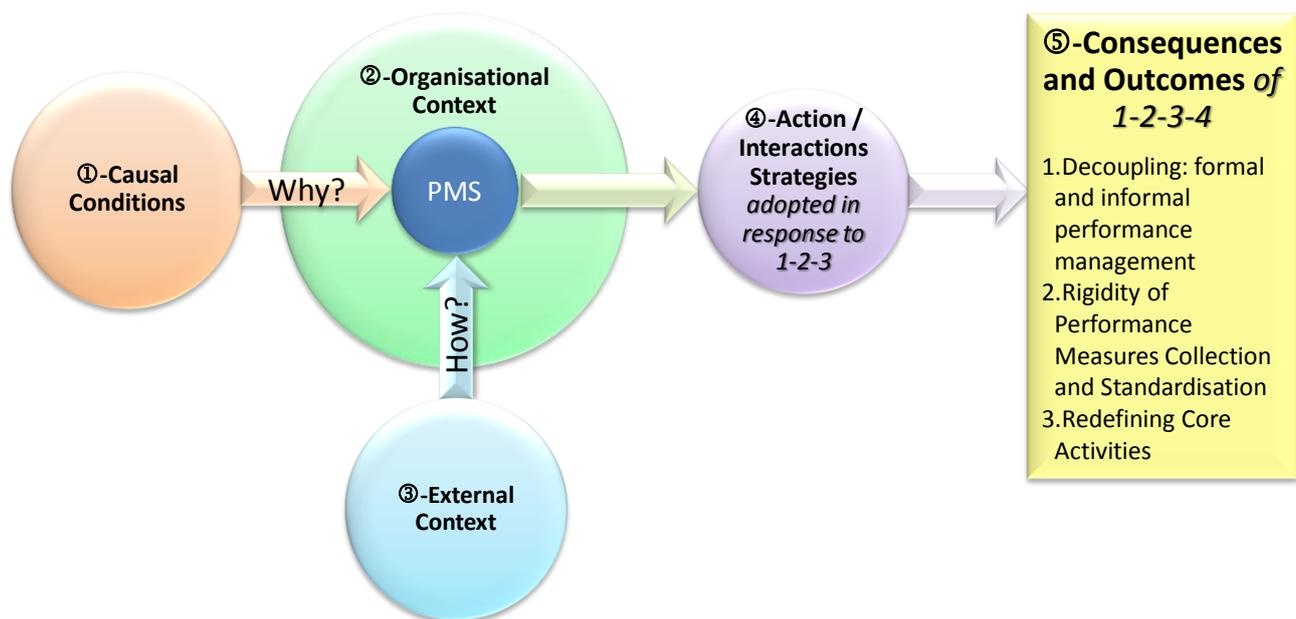
4.6 Outcomes of using the PMS at Company A

Outcomes or consequences are the results of action/ interaction strategies that have been taken by management to run the PMS. In other words, Company A's adoption of a PMS, as well as management strategies, have resulted in a number of management and accounting consequences which are now summarised and further discussed.

4.6.1 Summary of Strategies and Consequences resulting from the usage of its PMS at Company A

The emerging outcomes of running the PMS at Company A are impacting management action through shaping a set of operational indicators which remain largely financial as a means of improving and redefining the operational model of the company. Figure 8 below summarises the findings described in Section 4.6, which covers the consequences and outcomes of the actions and the interaction strategies that management adopted in response to the causal, external and organisational conditions emerging from interviews performed at Company A, as well as triangulation evidence emerging from the case study context.

Figure 8: Summary of Consequences and Outcomes of Using the PMS at Company A



4.6.1.1 Formal and Informal Performance Management and rigidity of performance measures collection and standardisation

Company A has developed a set of tools to enhance management decision effectiveness. Metrics implemented consists of a “set of operational indicators which are used to improve planning” (A9). Operational indicators are still primarily composed of financial metrics for the straight forward reasons mentioned above. The evaluation of performance is organised by responsibility centre, which implies geographic area, store or department, but also by product (family, reference⁷⁰) with simple and fairly traditional overhead allocation rates, such as by income, square metre, and number of employees. Store formats are consistent, thus performance is assessed on progression rates and they constitute, for respondents, a more objective way of assessing performance than imposing a goal. Company A also uses benchmarking (i.e. league tables) which implies the existence of internal company competition. Performance

⁷⁰ Variety of product sold by a distributor and having one or more distinctive characteristics compared to other products it sells. Example: chocolate nut milk, sold in batches of three tablets of 100g.

evaluation is not done at the same frequency for top management, middle and lower management. Top management is subject to a monthly performance review which is financial, whereas middle and store management is involved in a daily and weekly assessment which is more diverse in the mix of financial and non-financial metrics used. These are still financial, but in a non-direct way, by expressing a non-financial indicator in financial terms, such as inventory level for example.

As evidenced earlier, this performance management tends one to assume that the rigidity of performance measures collection and its standardisation is aimed at stakeholders' reassurance and explains the decoupling of Company A's PMS. This latter assessment procedure is considered more operational by respondents because it implies managing metrics which are more easily activated and monitored by management in the short run (on a day to day basis for example), but also because at this level of operations, management has a limited impact on more global costs, such as personnel for example. Another reason explaining this custom is that in this type of industry, supplier credit terms, which are longer than the stock turnover, are among the financing sources for the development of retailers (Colla & Dupuis, 2002, p. 111).

The need for reactivity, which is consubstantial with the short term adaptation/reactor strategy of Company A within the industry (Colla, 2001), explains the reason that the metrics involved in its PMS are more financial and aimed at monitoring the maximisation of income, and the balance of price and sales force bonus computation on a day to day basis so that 'instant' reactivity is encouraged. The expression of this performance measurement and management is a decoupled PMS which generates strategic inconsistency between a 'long term' strategy and a short term practice and explains the reactor strategy of Company A.

4.6.1.2 Redefining Core Activities

Another consequence of performance management at Company A is a product mix improvement policy which covers two main strategies. On the one hand the firm is rationalising its growth strategy as well as its store assortment in order to increase the supply in food sections. This is done by means of a thorough analysis of all product references, an increase of owned brands, and the development of specialised products and broadening the range of products when necessary. On the other hand, the company is reducing or simply eliminating some food and non-food sections which are not profitable in hypermarkets, as well as downsizing their biggest hypermarkets. As far as supermarket formats are concerned, the company is switching to one single banner for all store formats - just as TESCO did in the U.K. - introducing more and more owned brands in its general assortment and increasing the number of product references at least 10%. This redefinition of the industrial activity of Company A comes in association with the formal emergence of NFPMs which complement traditional FPMs as evidenced above.

4.6.1.3 Substantive hypotheses emerging from the Outcomes of using a PMS at Company A

Outcomes - or consequences - are the results of action/interaction strategies that have been taken to manage the phenomenon. Section 4.6 presented in Figure 8 the emerging consequences resulting from Company A's management strategies regarding the use of its PMS. The researcher then identified the main relationships between outcomes and the phenomenon under investigation. Hypotheses are therefore generated from evident relationships between the categories. The results of the analysis suggest the three substantive hypotheses presented in Table 14 below:

Table 14: Outcomes Labels and Hypotheses

Consequences Labels	Decoupling: formal and informal performance management	Rigidity of Performance Measures Collection and Standardisation	Redefining Core Activities
Hypotheses	<ul style="list-style-type: none"> Decoupled PMS generates strategic inconsistency between a long term strategy and a short term practice 	<ul style="list-style-type: none"> The rigidity of performance measures collection and standardisation is aimed at stakeholders' reassurance and creates decoupling of the PMS 	<ul style="list-style-type: none"> The formal emergence of NFPMs complements traditional FPMs and is associated with the redefinition of the industrial activity

4.7 Substantive hypotheses emerging from the application of the Strauss and Corbin Grounded Theory methodology (1998) to the case of Company A

The Strauss and Corbin Grounded Theory methodology (1998) aims to explore a phenomenon so that substantive and subsequent formal hypotheses are generated. This case is structured to produce a thorough depiction of Company A and discusses the PMS phenomenon in detail. The explanations for using such a performance measurement system, the PMS itself, action and interaction strategies and the consequences of its usage have been discussed in prior sections. In this final section, hypotheses that have been identified during this analysis are generated from the patent relationships between the components of the five dimensions of the Strauss and Corbin Grounded Theory methodology (1998) and the phenomenon. The results of the analysis have suggested substantive hypotheses which have been presented in causal, organisational, environmental, action and interaction strategies and outcomes sections of this case study. They are shown in Table 15 below:

Table 15: Summary of Emerging Labels (or Conditions) and Substantive Hypotheses for Case A

Labels/Hypotheses	Labels	Label 1/Hypothese 1	Label 2/Hypothese 2	Label 3/Hypothese 3	Label 4/Hypothese 4	Label 5/Hypothese 5	Label 6/Hypothese 6
Causal Labels	<ol style="list-style-type: none"> 1. Industry Nature 2. Economic Environment Sensitivity 3. Company Culture and Performance Management Reporting Structure and Process 4. Growth Model 5. Resistance to Change, company tradition of financial Metrics 	<ul style="list-style-type: none"> • The industry sophistication and short term constraint (cash and revenue) makes operations metrics and FPMs prominent in the PMS of organisations 	<ul style="list-style-type: none"> • In unstable environment the PMS is structured around quantitative and financial metrics which are fast and flexible metrics for industry benchmark (stakeholders) 	<ul style="list-style-type: none"> • FPMs are prominent in the organization because they are holistic, and are understood by everyone internally and externally 	<ul style="list-style-type: none"> • Operations and FPMs are prominent in the PMS of organizations whose growth model is reactor 	<ul style="list-style-type: none"> • In organizations where performance is traditionally measured with financial metrics and with high resistance to change tend to not change their formal PMS 	
Organisational Labels	<ol style="list-style-type: none"> 1. Corporate History & Culture 2. Corporate Structure Stability 3. Employee Management (education and management competences) 4. Strategy (adaptive and cost-focused) 5. Information Systems 6. Change Management 	<ul style="list-style-type: none"> • Company History & Culture and management practice associates performance with industry operational and financial metrics. NFPMs are primarily developed for isomorphism purposes (not for performance evaluation) 	<ul style="list-style-type: none"> • The FPMs/ NFPMs balanced structure of the PMS depends on the stability over time of the organisation's dominant coalition 	<ul style="list-style-type: none"> • performance and NFPMs benefits are not clear and FPMs are perceived more objective/fair than NFPMs by managers who shape the PMS to be structured around more FPMs than NFPMs 	<ul style="list-style-type: none"> • Low cost and reactor-type strategy implies a rigid and standardized PMS structured around FPMs 	<ul style="list-style-type: none"> • In organizations where Information Systems are not integrated the PMS is decoupled and promotes the emergence of local informal NFPMs 	<ul style="list-style-type: none"> • Revolutionary change initiates PMS redesign starting with FPMs and expanding to the isomorphic emergence of NFPMs
Environmental Labels	<ol style="list-style-type: none"> 1. Competition 2. Environment 3. Industry Nature 4. Trends: Political regulations, commercial and media 	<ul style="list-style-type: none"> • The modification of the competitive environment from competitors, customers and regulators generates a stress on financials and explains the prominence of FPMs 	<ul style="list-style-type: none"> • Under stakeholder (incl. financial analysts) pressure for proof of profitability in tightened (uncertain) economic conditions organizations focus on cash and revenue and tend to develop more rigorous isomorphic centralized Formal financial and non-financial metrics and informal financial and operations metrics 	<ul style="list-style-type: none"> • The industry cyclical short term constraint (cash and revenue) makes organisations focus on fast action operations metrics and FPMs 	<ul style="list-style-type: none"> • State and media pressure explains the isomorphic development of formal NFPMs 		
Action/ Interaction Labels	<ol style="list-style-type: none"> 1. Quantitative and qualitative metrics 2. Formal development of NFPMs and Specific conception and usage of NFPMs 3. Centralization of Performance Information 	<ul style="list-style-type: none"> • Operational qualitative and quantitative metrics tend to be used more at operations level and are modified to be reported to top management 	<ul style="list-style-type: none"> • Isomorphic NFPMs development are a means to triangulate FPM information for skeptic stakeholders (financial analysts) • FPMs NFPMs balance depends on levels of management and are used opportunistically by managers • When traditional cost savings are limited, NFPMs are developed 	<ul style="list-style-type: none"> • In organizations where Information Systems are not integrated the PMS is decoupled (corporate formal vs. operations customized metrics) 			
Outcomes Labels	<ol style="list-style-type: none"> 1. Decoupling: formal and informal performance management 2. Rigidity of Performance Measures Collection and Standardization 3. Redefining Core Activities 	<ul style="list-style-type: none"> • Decoupled PMS generates strategic inconsistency between a long term strategy and a short term practice 	<ul style="list-style-type: none"> • The rigidity of performance measures collection and standardisation is aimed at stakeholders' reassurance and creates decoupling of the PMS 	<ul style="list-style-type: none"> • The formal emergence of NFPMs complements traditional FPMs and is associated with the redefinition of the industrial activity 			

5 Case B

The case study of Company B, one of the biggest retailers in North America is divided into seven sections. Section 5.1 provides the reader with a summary about Company B. Section 5.2 describes the interviews and the data collection and analysis method. Section 5.3 summarises the findings emerging from this second case study. Section 5.4 presents the causal conditions for adopting a Performance Measurement System (PMS) at Company B, as well as organisational and intervening conditions which affected the design and the operation of its PMS. Section 5.5 exposes the action/interaction strategies which management adopted as a result of the implementation of a PMS. Section 5.6 discusses the consequences of using a PMS: that is to what extent it has been adopted and how successful it has been at Company B. At the end of each section the reader is provided with relevant hypotheses emerging from the dimensions of the Strauss and Corbin Grounded Theory methodology (1998). Finally section 5.7 provides the reader with a summary of all the hypotheses which have emerged from this case.

5.1 Company B Overview

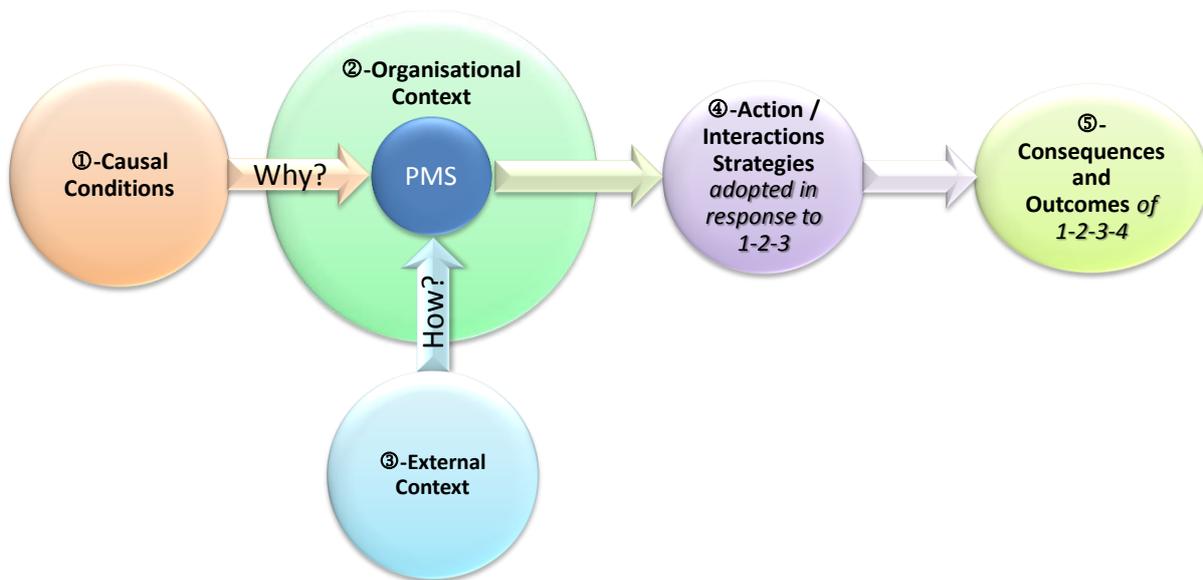
Company B was founded in the early 1960's. It is an international retailer that currently operates in three business segments: 'stores', warehouse clubs and international. It currently has over 8.000 stores worldwide, which represents nearly 87 million square metres sales capacity as of August 2009. The company made over \$400 billion of net sales under its banners in 2009 and its profit reached over \$25 billion. Its market capitalisation was approximately \$190 billion as of October 2009. It employs over 2 million persons worldwide. The reader will find further detailed information about the company at Section 5.4.2 page 111 which provides Organisational Conditions which have affected the design and the operation of Company B's PMS.

5.2 Data Collection and Data Analysis

5.2.1 Data Collection

The interview guide used at Company B was structured around the identical five sections already documented in the prior case study of Company A. These dimensions, altogether complemented by company external and internal documentation informed the five dimensions of the Strauss and Corbin Grounded Theory methodology (1998) as shown in Figure 9 below:

Figure 9: Company B Data Analysis within the Strauss and Corbin Grounded Theory methodology (1998)



Similar to the set of interviews performed at Company A, the interview schedule at Company B also took over one year and was completed in 2007. Interview data was handled confidentially for both respondents and the company. The interview process faced traditional (Girin, 1990) but also specific access to information issues. As a matter of fact, gathering qualitative information has been a very challenging process for the researcher in the North American retail context, because all the retail companies contacted declined their participation in any form of research. One company accepted to take part in this research by means of its Chief Financial Officer's (CFO) agreement, but later withdrew its participation after only two interviews took place. To fulfil his research objective, the researcher had to find alternative ways of obtaining qualitative, individual and retail industry focused interview information. After exploring an extensive quantity of different means of data collection, the range of respondents at Company B was finally obtained using the LinkedIn social networking site⁷¹. Using the information made available on personal pages on LinkedIn, the researcher initially contacted individuals based on their company employer, their disclosed job description and their acceptance to be contacted for industry-related inquiries. Contacts were always firstly established using respondents' corporate e-mail addresses. Interviews were all performed by telephone in the U.S., at their office, during working hours. The researcher tried, as much as possible to obtain interviews with an identical range of providers and users of performance measurement and management tools as for Company A's interviews. The means through which interviews were obtained produced a more multidimensional range of respondents than the one provided upon the CFO's suggestion at Company A. However, the researcher recognises that the outcomes of this

⁷¹ LinkedIn is a business-oriented social networking site. Founded in December 2002 it is mainly used for professional networking. As of 8 April 2010, LinkedIn has more than 65 million registered users, spanning more than 200 countries and territories worldwide. <http://www.linkedin.com/>

second case study and their subsequent interpretations could be biased by this specific means of respondents' selection. Initials of the ten respondents and their respective functions are detailed in the table below. Interviews at Company B lasted one hour or so and were recorded when agreed by the respondent.

Table 16 : Details of Company B 10 Respondents

Respondents	Functions
B1	Sr. Manager, Retail Formats Intelligence
B2	Sr. Director, Strategic Sourcing, Home Division
B3	VP – Internal Audit
B4	Marketing Manager
B5.	Sr. Director, Business Development & Strategy International Financial Services
B6	Sr. Director, Office of the Vice Chairman
B7	Sr. Director, International Sourcing
B8	Director of Communication Planning
B9.	Workforce Planning
B10	Chief Financial Officer

Two types of external interviews also complemented the data gathered at Company B. One financial analyst at Goldman Sachs in New York provided the researcher with an external stakeholder's view of performance measurement and management in the North American context. This interview process was complemented with the interview of the Vice President of Margin Planning at a large Home Store retailer in New York.

5.2.2 Data Analysis

This case study is articulated around the exploration process followed by the researcher in applying the Strauss and Corbin Grounded Theory methodology (1998). As for Company A, case emerging labels were gathered into categories relating them to the phenomenon under investigation (the PMS) in terms of Causal Conditions (Section 5.4.1), Organisational Conditions (Section 5.4.2) and External (i.e. Intervening) Conditions (Section 5.4.3) impacting action/ interaction strategies of using the PMS (Section 5.5), and ending in having effects and outcomes (Section 5.6). The following sections illustrate the relationships that the researcher has established between category labels emerging from the data collected and the central category that is the PMS. The hypotheses which were subsequently developed are provided at the end of each related section.

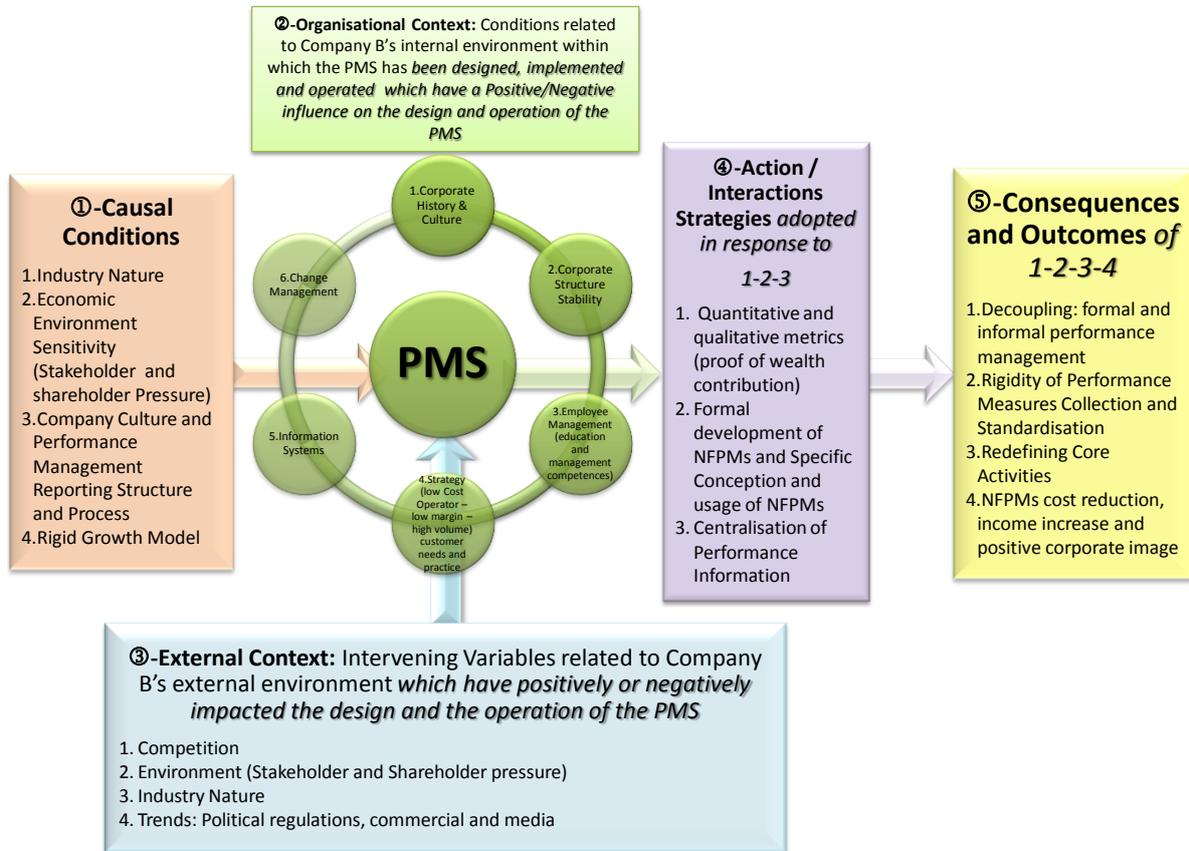
5.3 Summary of the Key Elements arising from the case study

Company B is a North American retailer operating internationally. Company B, like Company A shares some implicit and basic characteristics of the retail business that is, it is a labour intensive industry which attracts low skilled employees; it is very focused on short term (i.e. daily) business operations (see Company A case study which details retail industry short term focus). The PMS at Company B has mainly been structured around operations and FPMs expressing this short term focus embedded in scorecards. Even though NFPMs have traditionally been involved in the performance measurement and management system of the company because of its specific corporate history and roots culture, respondents actually do not perceive NFPMs as being as objective as FPMs. They also declare NFPMs are the kind of performance measures a company can 'afford' when it is in 'good health'. The reasons explaining the prominence of FPMs over NFPMs are attached to the nature of the industry to which the publicly listed company belongs, which is focused on short term operations management with a view to deliver the financial returns its stakeholders are expecting. Stakeholder pressure (i.e. shareholders and the financial community such as financial analysts who need proofs of company wealth) combined with slowing domestic growth and recent changes in customer needs and shopping habits have pushed the company to deal with a mid-life crisis. These, along with domestic and international competition have reinforced the company's corporate low cost – low margin – high volume analyser⁷² strategy. This latter is typically assessed by highly structured and formalised control structures (Miles & Snow, 1978; Porter M. , 1982) which rely for a large part on a very well-developed information system which mainly uses operations and FPMs complemented by classic NFPMs. The latter are focused on employee related metrics such as service and quality but also embed Corporate Social Responsibility (CSR) and Sustainability Development indicators which some respondents associate with a legitimacy seeking strategy aimed at corporate image improvement.

Figure 10 below summarises the findings of following sections 5.4 to 5.6 which cover Causal, External and Organisational Conditions emerging from interviews performed at Company B within the Strauss and Corbin Grounded Theory Grounded Theory methodology (1998), as well as Action/ Interaction Strategies that management has adopted in response to them and their subsequent Consequences and Outcomes.

⁷² According to Miles & Snow (1978), the 'analyser' strategy is a mix of 'prospecter' and 'defender' types, "Analysers are organisations which operate in two types of product-market domains, one relatively stable, the other changing. In their stable areas, these organisations operate routinely and efficiently through use of formalised structures and processes. In their more turbulent areas, top managers watch their competitors closely for new ideas, and then rapidly adopt those which appear to be the most promising" (Miles & Snow, 1978, p. 29).

Figure 10: Summary of the Strauss and Corbin Grounded Theory methodology (1998) applied to the case study of Company B



5.4 The Reasons Why Company B decided to have a Performance Measurement System (PMS) and how it has evolved

Causal conditions refer to the events which make the phenomenon happen in the setting of the case study. In this second retail case, we consider different events that have generated the phenomenon under investigation.

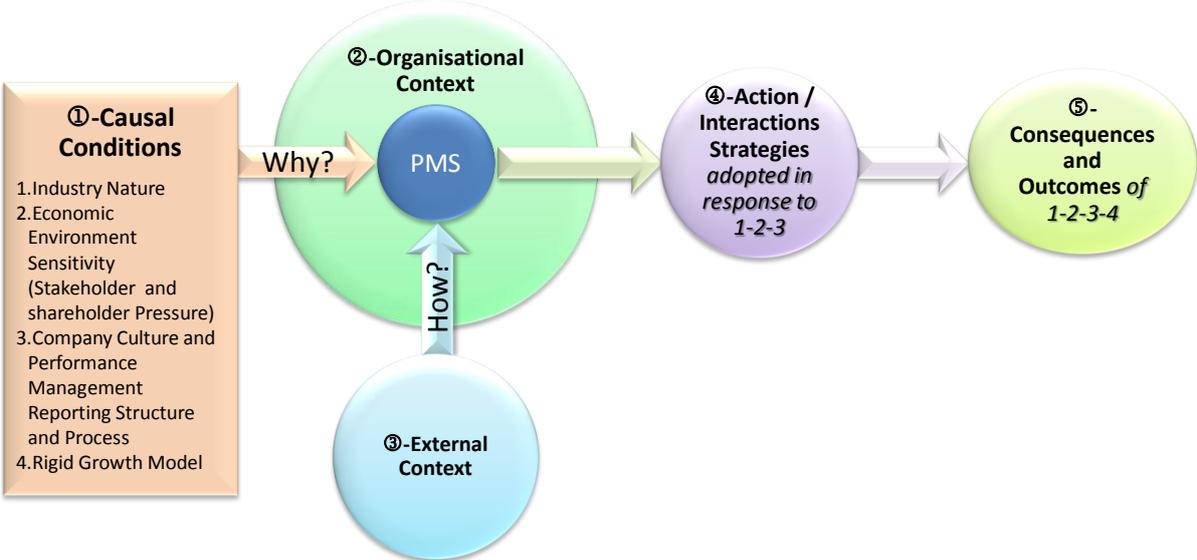
5.4.1 Summary of the Causal Conditions for adopting a PMS at Company B

The emerging Causal Conditions which influence the adoption of a PMS at Company B are related to the industry in which the company operates and the pressure exercised by shareholders and stakeholders to a wider extent in a constrained economic environment. These Causal Conditions are also related to company culture, its environment, its rigid performance reporting structure and its growth model.

The retail industry is focused on short term operations and profitability. In this context FPMs at Company B are perceived as particularly relevant in a business context where respondents associate

performance with profitability. This tendency is reinforced by shareholders and financial analysts' expectation to see how this publicly traded company meets challenges such as consumers' behaviour changes and still generate profits. In this context, respondents mainly relate NFPMs to a human resource routine rooted in a corporate culture and history which value 'employee commitment'. Figure 11 below summarises the findings presented in section 5.4.1. This figure covers the Causal Conditions emerging from interviews performed at Company B as well as triangulation evidence emerging from the case study context.

Figure 11: Summary of Causal Conditions relating to the adoption by Company B of its current PMS



5.4.1.1 The different Causal Conditions for adopting a PMS at Company B

Following the interviews that have been performed, complemented by triangulation information emerging from the case study context, management's reasons for using a PMS at Company B appear to have been decided for several reasons relating to Company B's nature of activities and industry, its environment, its culture and growth model. Company B has officially implemented a PMS which is structured around its functional organisation. Examples of measurements used for assessing performance at Company B are similar to the ones used at Company A, and they are coming from different sources. These can be published by specialised retail and distribution ranking institutions such as Planet Retail⁷³ and the National Retail Federation⁷⁴ and to a lesser extent Interbrand⁷⁵.

⁷³ www.planetretail.net
⁷⁴ www.nrf-arts.org
⁷⁵ www.interbrand.com

Measurements are of course also sourced from within of the company. These are of different natures. For example at Company B, internal financial performance measurement comprehends traditional retail industry metrics covering performance dimensions such as financial, customer, logistics/warehousing and human resources for industry comparison (i.e. 'same store'/ 'comp store' sales for example) and absolute value as shown in Table 17 below:

Table 17: FPM Used in North American Retail Industry

FPM Used in North American Retail Industry ⁷⁶
Administrative costs
Average inventory level
Contribution margin
Gross margin
Net sales
Sales per square foot
Stock turnover days
Turnover
Free cash flow evolution
Inventory cash
Evolution of earnings per share
Return On Capital Employed (ROCE)
Customer gross profit
Customer profitability

Internal non-financial performance measures comprehend internal metrics such as human resource indicators and service quality (incl. logistics quality) metrics. They are presented in Table 18:

⁷⁶ (NRF-ARTS, 2009)

Table 18: NFPM Used in North American Retail Industry

NFPM Used in North American Retail Industry ⁷⁷
Employee turnover
Employee training
Absenteeism
Equal opportunity ratios
Responsiveness to shoppers
Transaction time span at cashier
Ghost shopper evaluations
Customer surveys
Customer complaints
Customer purchase frequency count

Company B also monitors indicators which assess its market shares and environment, global sourcing, people, community investment and involvement metrics along with its traditional corporate and financial reports. The frequency of performance monitoring is differentiated by hierarchical level and increases when it gets closer to the operational level. These issues will be documented in Section 5.4.2., which deals with organisational conditions impacting the shape and operation of the PMS.

5.4.1.1.1 Retail Industry related Causal Conditions

The nature of the industry in which Company B operates represents an emerging Causal Condition which influences the adoption of a PMS. The range of metrics deployed at Company B complies with the ones traditionally used in the retail industry and shown in Table 17 and Table 18 above⁷⁸. When respondents at Company B are asked about how performance is measured at their company, quantitative financial metrics are the first ones quoted. The reason for this is that the majority of respondents perceive sales level and particularly ‘Comparable Stores Sales’ (i.e. ‘Comp Sales’ or ‘Same Store Sales’) as the ‘expression of profitability’. This metric concerns sales of “stores that have been open for at least one year” (B7). This measurement is completed “in absolute terms, relative terms [i.e. in relation with competitors] and trends” (B6). Another respondent confirms the importance of this measure by adding: “Same stores sales evolution is the main measurement” (B4).

⁷⁷ (NRF-ARTS, 2009).

⁷⁸ As documented by the National Retail Federation (NRF-ARTS, 2009).

One reason which explains this financial focus on 'Comp Sales'/ 'Same Store Sales' is the relative saturation of the North American market in terms of store openings: with over 200 new Company B stores being opened each year, the rapid growth in the number of stores in the US ended up placing newer stores close to older ones which implied cannibalisation⁷⁹. As a consequence, the company has taken on evaluating performance more on growth of comparative sales for stores than growth sales arising from expansion (i.e. opening new store locations): *"Same store sales by category. In our company we are growing because we are growing our business, we are growing on store front, but this is not a real reliable way to measure our overall performance, because you can't open stores forever, we need to make sure our same stores sales are growing as well at a comfortable pace"* (B4).

Respondents reinforce this reason for using 'Comp Sales' by adding that they are not only conceived as *"pretty standard across the business"* (B6) and *"pretty standardised as shown on reports"* (B2) but also because they provide a way of measuring performance which neutralises the store opening effect (i.e. growth capacity): *"(...) because they add capacity every year, therefore they monitor how much sales increase in relation to the increase in square meters"* (B2). Other justifications of the usage of such financial metrics have already been evidenced at Company A (i.e. 'simple', 'straightforward measurement of performance' and 'not linked to personal judgment') and can also be found in respondents' statements at Company B: *"[this is] how we judge our entire business, sales per day, week, month, year, and profitability for the same time"* (...) *"That's how we measure our performance"* (B7). However, the fact that 'Comp Sales' is declared to be used in the business does not mean that it is calculated the same way everywhere across the industry and also within the same company. As a matter of fact the average time required to be considered a 'comp store' at Company B has recently been reduced from 19 month to a little more than a year for example. This reflects, to some respect, the pressure imposed by stakeholders (i.e. shareholders, financial analysts and the environment in general) on the business by shortening the 'mercy' time given to a new business until its activity is actually compared to the one of existing stores of the same category.

When it comes to performance evaluation, noteworthy is the weight of financial metrics and their stated relevance over non-financial metrics. Some Company B respondents actually emphasise statement-like questions which actually embed what seem to be obvious answers for them: *"[and] how are you going to do it qualitatively? Number of customers?"* (B7). This set of justifications tends to confirm existing literature on the cultural dimension of performance assessment tools in its typical North American pragmatic dimension (Bourguignon, Malleret, & Nørreklit, 2004). As a matter of fact,

⁷⁹ Company B has chosen Oklahoma City as a test market for its saturation strategy. The strategy includes building every five miles a 200,000-square-foot Supercentre adjacent to a 100,000-square-foot warehouse Club, which also sells food. Additionally, a 40,000-square-foot Neighbourhood Market is built two miles from each Supercentre/Warehouse Club combined location (Progressive Grocer, 2002).

respondents declare that if performance management is such at Company B, it is because financial metrics are *“specific, measurable, accurate and give you a good baseline for comparison (...) [it is to] judge against ourselves more than we judge against our competition, we compare against competition for benchmark”* (B7). These respondents’ statements confirm the importance of league tables in performance evaluation in the retail industry but also bring some relativism to the actual importance of external pressures in the adoption of financial metrics.

One more explanation provided by respondents is that these financial metrics are made very easily accessible through the information management system at Company B: these are *“fed right directly from the cashier in real time, 3500 stores in the U.S., sales, in one store in one cash register every hour”* (B7).

Performance measurement categories monitored at Company B are also summarised by some respondents as *“growth, returns, and people”* (B6). This explains that financial metrics are internally supplemented by other quantitative financial metrics such as inventory positions (i.e. inventory productivity⁸⁰ and inventory turnover⁸¹), customer credit and other customer related metrics (i.e. customer experience at the cashier, price value, store cleanliness, and friendliness), earnings per share, Free Cash Flow (FCF) and ROI (B2).

The proportion of FPMs and NFPs quoted by respondents at Company B tends to be the same as the one suggested by respondents at Company A: *“80/85% financial, 15% qualitative”* complemented by direct declarations on the way performance is measured in the North American retail industry, relegating NFPs to other business areas, but the retail industry: *“there is no getting around that”* (B6), and *“if you are a supplier you may do scorecards, but in retail that’s 100% financial and I don’t see that shift”* (B7). Moreover, this statement is reinforced when questions are asked about any perceived evolution of performance measures towards non-financial metrics. The justification provided by respondents for this prominence of FPMs lies in the short term environment pressure of the retail business.

This rather radical statement on ‘100% financial’ performance evaluation however remains to be challenged for the specific case of Company B, mainly because of this company’s corporate culture. This culture tends to stress personnel’s (i.e. ‘associates’) involvement/ engagement/ motivation by

⁸⁰ Around 60% – 80% of a typical retailer’s total assets are in inventory. It is therefore essential that retailers know how their inventory investment is performing. Retail Inventory productivity can be defined as the amount of sales and gross profit dollars an inventory investment generates over a given period of time, usually a year. And the most basic measures of inventory productivity are inventory turnover and gross margin return on investment (GMROI). GMROI (Gross Margin Return on Inventory Investment) indicates how much gross margin they get back for each dollar “invested” in inventory. It answers the following question: How many gross margin dollars did the inventory investment generate to pay for all of other business expenses, such as payroll, rent, utilities, insurance, and so on? It is calculated as such: Gross Margin Dollars / Average Inventory Value (at cost).

⁸¹ Inventory turnover answers the following question: how many times were we able to turn the inventory into cash, buy more, and turn that into cash?

gathering and measuring data which is qualitative, immediately coming second to a first quoted classical set of financial performance data. Using Institutional Theory lenses (DiMaggio & Powell, 1983), this would tend to support both the assumption that Company B has a formal and an informal performance management system and that, in contradiction with prior cross cultural management accounting literature, performance evaluation has been more multidimensional in this North American retail firm than it has been in its French counterpart. Moreover, the reasons leading to the existence of a formal and informal performance management system would come from the same environmental pressure than the French company but would involve less design efforts from the North American retailer than the French one because of its historical cultural – roots – formalised multidimensional performance measurement system. Further evidence provided by respondents also shows that Company B's growth, while formally relying on an historical-cultural mix of FPMs and NFPMs, nevertheless recognises the extensive usage of FPMs to complement stakeholder-reassuring formal NFPMs.

Qualitative performance data collection is done externally and internally, even though this second means is not the first one quoted by respondents: *"outside agencies collect qualitative data and internally at the cashier when paying"* (B7). This, as for Company A, would confirm existing literature on the differentiation of performance measures by organisational levels (Euske, Lebas, & McNair, 1993).

The relevance of non-financial operational measures is stressed by respondents on the issue of the international strategy of the company as well as its international growth in general. The use of and emphasis on NFPMs is correlated for one expatriate respondent to the development of organised retailing in a given market/country. For example, in India, where organised retail is considered less than 3% of the market, there are *"lots of ma and pap stores in India, the concept of mall is new in India"* (B3). FPM are considered *"too long term focused"* (B3), therefore performance assessment, even though described as a *"mix of both"* [FPM and NFPM] (B3) consists of more quantitative NFPMs. Nevertheless, as already evidenced for Company A, the same respondent confesses that *"monitoring the financials at the end of the day is the bottom line"* (B3). This is congruent with the assumption that the growth of Company B relied on the two types of metrics with a tendency to rely on financial metrics as the ultimate measure of performance.

This focus on financial metrics explained by the easiness of their availability is also reinforced by findings from prior research showing that the success of large retail formats depends on the level of modernisation of the retail environment (Goldman, 2001; Alexander & Myers, 2000; Arnold & Narang Luthra, 2000). In the example of India, the low level of modernisation as perceived by

respondents would subsequently explain that large formats like hypermarkets would easily be profitable and their managers would not require other metrics than the set of basic financial ones.

Moreover, as already mentioned for Company A, the nature of metrics considered and used also depends on the level to which it/they is/are addressed. At corporate level, respondents perceive metrics and interests as financial, therefore *“performance measurement at the corporate level is going to be about financial metrics”* (B2) whereas *“at the local level, integration of non-financial customised metrics because each function is different”* is metric specific (B2). The same respondent however adds that NFPMs are *“all tied back to free cash flow”* (B2) because the mission of the corporation is about *“maximising the free cash flow”* (B2). This once again would tend to confirm prior literature (Euske, Lebas, & McNair, 1993).

One aspect of the official HR culture of the company which arises from interviews is that respondents more spontaneously refer to human resource performance by means of qualitative/ soft metrics measuring the ‘wellbeing’ of their workforce at Company B than they do at Company A. In the French case, when human resources are quoted by respondents it is primarily because the nature of the retail business basically involves a large number of low to medium skilled workers, and the subsequent set of direct financial basic performance evaluation metrics are simple to understand. In the European setting, this can also be explained by regulatory pressures on companies to provide *“information [which] should not be restricted to the financial aspects of the company's business. It is expected that, where appropriate, this should lead to an analysis of environmental and social aspects necessary for an understanding of the company's development, performance or position”*⁸². This would tend to contradict the perceived traditional multidimensional nature of French performance management. One assumption to explain the importance of FPMs could also be cultural: following the concepts underlined in *“The Logic of Honour”*, Philippe d'Iribarne shows that in the French cultural context the human resource ‘wellbeing’ issue is so obvious that one does not need to mention it, therefore even measure it (D'Iribarne P. , 1993).

The justification that Company B respondents give for referring to the human resources (HR) side of performance management is through its costing side: retail is a *“service oriented economy where people are the cost”* (B2) but this is also a place where *“semi-annual reviews are done and, compensation is tied to profitability”* (B6). Once again obviously, the ‘mediating’ metric which is tied to human resources is underlined because it is linked to a financial indicator. Following this trend, the role of HR performance measures is perceived as an alternative means of control to the design or the

⁸² Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003 on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings.
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32003L0051:EN:HTML>

adoption of more elaborate instruments such as the BSC for example: *“motivate and reward (...) If you are not using the balanced scorecard, you are using HR discipline”* (B2). However, if some respondents actually indicate they monitor the wellbeing of the workforce through *‘associate engagement’* metrics, justifying this interest by *“the happier the better performance”* (B6), metrics identified as monitored are still going back to the basics which are *“productivity, labour productivity, wages/percentage of sales, sales per labour hours, sales per linear foot, square foot, etc...”* (B6). Some respondents acknowledge an evolution of performance measurement towards more non-financial data, but nevertheless admit that the basics remain financial: *“it [performance measurement] has become a lot more multidimensional, but the reality is you meet the sales figures or not”* (B5.). This leads to several assumptions concerning the necessity to contract a performance side which would be considered obvious in some non-North American cultures but it also assumes the emergence of these HR related NFPM (e.g. employee job satisfaction, trust and fairness) because they are perceived as linked to the improvement of the social image of a company (Lau, Berry, & Mitchelle, 2009; Lau & Olger, 2007). These will be further documented in Section 5.4.2.

5.4.1.1.2 Economic Environment related Causal Conditions

The pressure of stakeholders (i.e. in a wider sense, covering shareholders and the financial market) with whom Company B deals represents another causal condition emerging from the case study which influences the adoption of a PMS. One theme which arises again from this second case study, thereby feeding substantive theory, reinforces the impact of shareholder, stakeholder and financial market pressure on the adoption and the use of FPM and NFPM when it comes to measuring and managing performance in the retail industry.

As a matter of fact, customers are becoming more conscious, especially, but not only, about the environment. Retail companies are also becoming more conscious about their reputation: *“Consumers are more and more wanting to know what you’re doing”* (B4); another respondent expresses a corporate concern that: *“people are really conscious. It becomes business practice, maybe people will stop shopping with us.”* (B5.) Consumers are increasingly focused on the environmental impacts of their consumption. Therefore environmentally sensitive goods and practices are winning a growing share of customer money. Purchasing environmentally sensitive goods is becoming more and more important for customers and retailers need to *“both be green and sell green products if they plan to cash in on this trend (...)* in 2007, Home Depot committed to invest \$100 million over the next decade to build more than 100,000 affordable green homes and plant three million trees through its home Depot Foundation; J.C. Penney is building a Fairview, Texas store that will use 41% less energy and 20% less water than similar sized stores; Whole Foods Market

became the first Fortune 500 company to buy wind-generated power to cover all purchased electricity used throughout its U.S. operations” (Kopacz & Davis, 2009, p. 7). However, this shift in performance evaluation does not mean that the pressure of shareholders to see profits generated is reduced at all, as they want to see the benefits from a sustainable development policy such as carbon footprint decrease for example. But this subsequently impacts performance evaluation at the company as *“there is a metric that translates that [non-financial indicator] into a financial figure”* (B6).

5.4.1.1.3 Company related Causal Conditions and rigid growth model

Among other characteristics of the company, such as its grass-roots culture, its growth model and rigid performance reporting structure (see section 4.4.2), being a publicly traded company represents another causal condition which influences the adoption of a PMS at Company B. One respondent declares that the *“pressure of the externalities pressures to measure performance using these financial metrics”* (B2). This may not be the case for companies which are not listed, as cited by respondents both at Company A and B: private companies where *“short term pressure of the stock price is not there and they might not worry about the next quarter”* (B2); Another respondent adds: *“We do look at financial, comp sales year after year (...) that’s what the stock market looks”* (B5.). Moreover, *“the reality is that the shareholders still are a huge pressure, when you are a publicly traded company and the price of the stock drops, your business will be affected. There is no question about this, and that unfortunately is still. You’ve got to keep your eye on your quarterly performance. The reality is the stock market has not changed, they are not patient”* (B5.).

This reliance on financial performance evaluation and the impatience of the market is also reflected in the ‘contract’ that the corporation makes with its environment, especially with the market: *“Achieving the figures that were forecasted is very important; if not, even if the activity was good, the stock plummets”* (B5.). This pressure is reinforced by the short termism imposed by the market and reflected by management performance reporting practice: *“The key time period for Company B is on the weekly basis, because that’s the way our Comp Sales are reported, that’s the primary metric that our corporation as a whole reports to Wall Street and everything end up to the weekly performance”* (B1). The pressure exercised by the market is particularly important when the rigid initial growth model of the company which relies on a sustained increase is challenged by economic conditions of the 2000’s. This rigid growth model also explains the reliance of the company on a PMS which is mainly structured around FPMs. These elements will be further evidenced in the following sections.

5.4.1.2 Substantive hypotheses emerging from the Causal Conditions for adopting a PMS at Company B

This section demonstrated the main Causal Conditions which make the phenomenon under investigation happen. Hypotheses are generated from relationships between Causal Conditions and the phenomenon. The result of the analysis suggests the four substantive hypotheses presented in the table below:

Table 19: Emerging Causal Labels and Hypotheses

Causal Labels	Industry Nature	Economic Environment Sensitivity	Company Culture and Performance Management Reporting Structure and Process	Growth Model
Hypotheses	<ul style="list-style-type: none"> The industry sophistication and short term constraint makes operations metrics and FPMs prominent in the PMS of organisations 	<ul style="list-style-type: none"> In unstable environment the PMS is structured around quantitative and financial metrics which enable fast and efficient industry benchmark to reassure stakeholders (shareholders) 	<ul style="list-style-type: none"> FPMs are prominent in the organisation because they are holistic, embody profitability and are understood by everyone internally and externally 	<ul style="list-style-type: none"> Operations and FPMs are prominent in the PMS of organisations whose growth model is rigid

5.4.2 Organisational Context in which the PMS was designed and operates at Company B

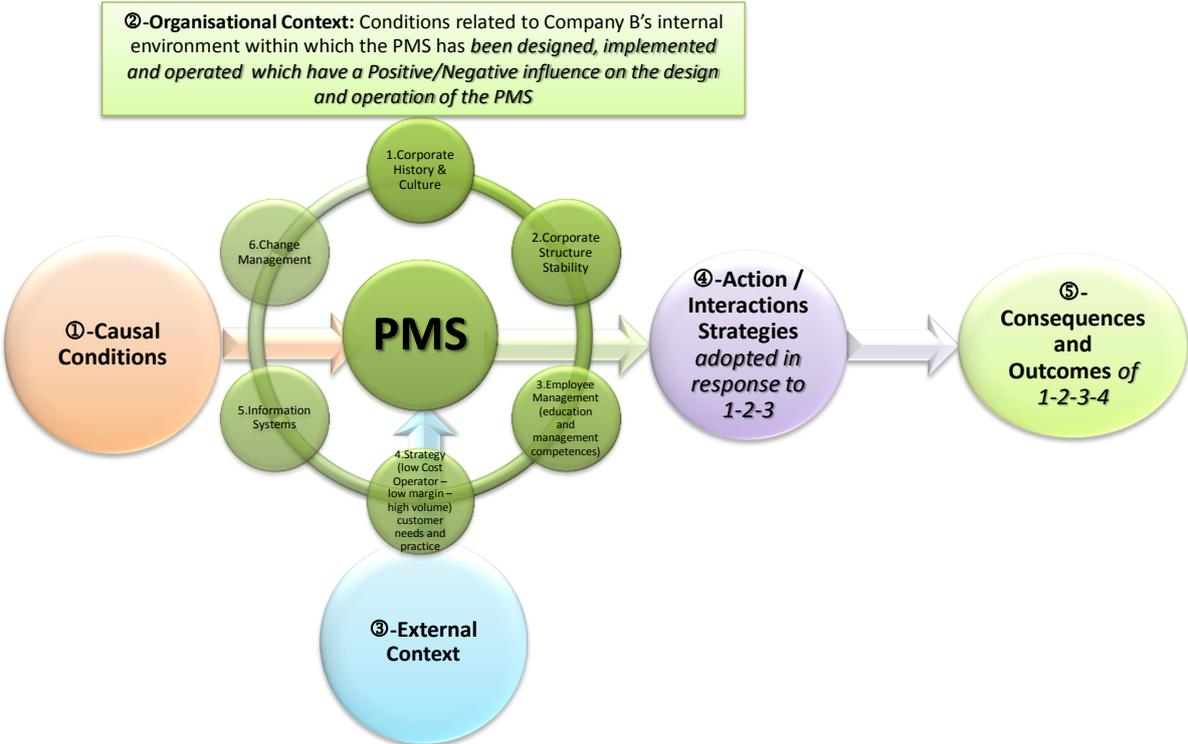
The organisational context refers to a particular set of internal characteristics and circumstances in which the phenomenon has occurred. In this research we consider the organisational context to be similar to the organisational environment which surrounds the phenomenon under investigation. The context finds its source in causal conditions, which facilitates management’s awareness of understanding PMS causal relationships. Contextual conditions create a set of circumstances to which Company B management responds through actions and interaction strategies. Contextual conditions may have a positive or a negative impact on the phenomenon under investigation. In this case the PMS exists within the context of Company B which directly affects the use of such a performance management system.

5.4.2.1 Summary of Organisational Conditions’ impact on the Company PMS

Company B follows a low-cost operator strategy and has adopted a formal structure and a subsequent typical intense supervision, tight cost control, and frequent and detailed control reports related to this type of organisation (Porter M. , 1982). The ‘mid-life crisis’ which the company faced in the mid 2000’s led management to develop initiatives to find ways to change a negative public image and officially complement its traditional usage of FPMs with more NFPMs that is, for example, reflected in the employee recruitment strategy of the company which is based on low paid – low

skilled persons and has promoted the monitoring of some human resources related NFPMs. This however has not changed its history/ roots and culture which are still based on a certain ‘welfare capitalism’ where values such as family, the community, Christian/Protestant egalitarianism are strong principles which depart from Company A’s. Figure 12 below summarises the findings of section 5.4.2., which covers the Organisational Conditions emerging from interviews performed at Company B as well as triangulation evidence emerging from the case study context.

Figure 12: Summary of Organisational Conditions' Impact on Company B PMS



5.4.2.2 Organisational Conditions' Impact on the design and the operation of the Company's PMS

The organisational Conditions or Factors are the contextual circumstances or conditions which have an impact on how the phenomenon works within the organisation. In this case the PMS exists within the context of Company B which directly affects the use of such a performance management system.

5.4.2.2.1 Company background

Company B was founded in the early 1960’s. It is an international retailer that currently operates in three business segments (‘stores’, warehouse clubs and international) with six main formats: hypermarkets, discount department stores, grocery stores, convenience stores, warehouse clubs and a web based retail activity. Most of the stores are built in sub-urban areas where real estate prices are affordable. Stores are built spaciouly which enables them to store a wide assortment of goods. The company’s hypermarkets offer food and non-food products. They represent over 40% of the

company's global activity. The discount department store business mainly provides a broad range of non-food products and a small segment of food products. This format is declining in numbers and currently represents approximately 25% of Company B's overall activity. The grocery stores format, introduced in the late 90's, offers a quick and convenient shopping experience for customers who need groceries, pharmaceuticals and general merchandise. This format represents less than 20% of Company B's activity. The convenience stores business was introduced in 2008. They are small community pilot grocery stores specialising in fresh meals at low prices in small outlets (about half the size of grocery stores). Convenience store format accounts for less than 1% of the company's national business. Finally, warehouse clubs retail food and non-food products in large batches for customers holding membership cards. This store format represents 10% of the company global activity. Company B, like Company A, markets two types of products: leading brands and its own brands which stress value for money.

As Company B's growth slowed nationally at the beginning of the 1990's, it initiated its internationalisation through different means such as the acquisition of existing heterogeneous foreign retailers, which makes it rather complicated to classify its international activity in relation to its national operation formats. Previous research actually distinguishes three internationalisation periods for Company B (Burts & Sparks, 2001). The first one from 1991 until 1994, which corresponds to its entrance in adjacent markets (e.g. Canada and Mexico); the second one from 1994 until 1999, which corresponds to an exploration of a few markets worldwide. After 1999, the third phase has been characterised by a higher attention to financial performance, where the strategy has been the acquisition of strong locally established firms. The company currently operates in four geographic markets: North America (around 75% of its total income and somewhat saturated), Latin America, Asia and Europe. Outside North America, it is present in over 15 countries where around 25% of its income comes from. The income stability of Company B, until 2009, is due to an emphasis on square meter profitability rather than new store openings on the national market. From an international point of view, the average size of a retail point is half the similar national retail point. This explains that with a stable income, Company B's recent decline in net sales has been compensated by the number of new openings, especially in Asia. This implied that for income sustainability, the company had to develop more internationally. This tends to confirm existing literature by showing that the race for international development in the retail industry results from a desire to increase value for shareholders through sustained growth rather than reaching a particular critical threshold (Colla & Dupuis, 2002).

5.4.2.2.2 Company Ownership and Management and Organisational Structure Stability

Around 45% of Company B shares are held by insiders and 5% owners (i.e. public); then around 40% consists of shares held by institutional and mutual fund owners. Senior management changed in early 2009 with the appointment of a new CEO who formerly managed the international operations of the company. This happened at the same time the firm roared back to 'success' as people looking for bargains tend to shop more at discounters in economic slowdown situations. Still, the company faced difficulties ahead amid slowing growth in the U.S., and some analysts say the decision to tap an internal international executive served as a 'testament' that the company sees its future growth overseas.

The Board of Directors is composed of fifteen members. Five specialised committees exist within the Board of Directors: the Audit Committee who are appointed by the Board, assist the Board in monitoring the integrity of the financial reporting process, the systems of internal controls and financial statements and reports of the business, the performance of the company's internal audit function, and the compliance of the company with legal and regulatory requirements. It is directly responsible for the appointment, the compensation and the oversight of the company's independent auditor employed to prepare an audit report. Then the Compensation, Nominating and Governance Committee's mission is first to discharge the Board's responsibilities relating to the compensation of the company's directors, executive officers and associates; and second to assist the Board in the implementation of corporate governance principles and practices. The Executive Committee, who are appointed by the Board, exercises the 'powers and duties' of the Board between meetings and while the Board is not in session, it also implements its policy decisions. The Equity Compensation Committee who are appointed by the Board of Directors administer certain of the company's equity-based compensation plans. Finally the Strategic Planning and Finance Committee, appointed by the Board, reviews and analyses financial matters and assists the Board in long-range strategic planning.

The functional structure adopted by Company B summarises what has been documented above. It is characterised by the classic three following dimensions: specialisation, which concerns the type and number of jobs required to complete work; centralisation, which is the degree to which decision-making authority is retained at higher managerial levels; and formalisation, which is the degree to which formal rules and procedures govern work. This functional structure has contributed to the emergence of a low-cost culture in which the company employees are encouraged to try to find ways to reduce the costs incurred to execute their work. This contributes to a better understanding of the financial orientation of the PMS at Company B.

5.4.2.2.3 Company Management Strategy and Performance

5.4.2.2.3.1 *Low Cost Operator – Low Margin – High Volume Strategy*

As documented above, Company B has adopted a specific structure to implement its cost leadership strategy (Porter M. , 1980). Like all firms using this type of strategy, the company intends to sell large quantities of standardised products to a segment's typical customer. Simple reporting relationships, few layers in the decision making and authority structure, a centralised corporate staff and a strong focus on process improvements characterise the cost leadership form of a functional structure. In terms of centralisation, decision making authority is centralised in a staff function to maintain a cost-reducing accent within each organisational function. The centralised staff encourages cost reduction and also verify that further cuts in costs in one function won't adversely affect productivity levels in others. Job specialisation is accomplished by dividing work into homogeneous subgroups. This allows employees to increase their efficiency, at the same time it reduces the company's costs. Highly formalised rules and procedures, often emanating from the centralised staff, guide the work completed in the company. Company B's functional structure in both its three retail formats and speciality divisions is designed to continuously drive costs lower.

Replicating the business model of Company B has however not been very successful for its competitors, partly because of the particular rigid strategy and structure fit of Company B's business units (Porter & Siggelkow, 2008; Csaszar & Siggelkow, 2010). If Company B's strategy of process standardisation has been successful in the North American context, it has shown its limits in some countries, for example in Germany, where a better adaptability to the local labour market⁸³ (Konzelmann, Wilkinson, Craypo, & Aridi, 2005) would have been required to secure a local presence (Hugill, 2006). In the latter case, prior research shows that this lack of adaptability was also coupled with inappropriate decisions concerning both the timing and the price for which stores were bought in Germany as well as the diversity of formats chosen which happened to be too large (Durand C. , 2007; Palmer, 2005; Christopherson, 2006). This rigidity of Company B's business model, which may have been perceived as a model of success in the North American setting, has shown its weakness in its inability to implement abroad the same labour management as in the U.S. (Durand & Wrigley, 2009) This flexibility/adaptability issue has noticeably been managed with more success at Company A (Hurt & Hurt, 2005) whose initial growth took place during the 1960's at the same the time that labour rights and social benefits were fought for by labour unions in France.

⁸³ In Germany for example, the retailer was defeated by a law court which prohibited the implementation of its « ethical code of the employee » which is an important tool of labor discipline in the U.S. (Durand C. , 2007, p. 20).

Company B's strategy as a leading retailer, is based on the firm's investment in technological innovations and logistics both at the service of a centralised organisation. The operations of Company B are based on the constant reduction of labour costs (Cascio, 2006) and the establishment of a specific corporate identity. Without going into detail into the stages of the commercial development of Company B, the following two axes of analysis emerge from its history: its significant investment in new technologies associated with a particular employment policy on the one hand, and its identity and culture on the other.

Company B has not invented new retail formats but rather imitated them (wholesale membership club inspired from Costco) or borrowed and adapted them (hypermarket concept from Meijer and other European brands) to the U.S. market (Vance & Scott, 1994). However, with a view to streamline its logistics and distribution systems, Company B made information technology an integral part of its retailing business strategy (Tibi & Brusle, 1994). In the early 1980's, the company introduced Electronic Data Interchange (EDI) systems that helped track the movement of goods and refilling the stock, not only reducing incidences of stock-outs across its stores in North America, but also costs. Since the late 1980's, Company B has owned one of the largest private networks of satellite communications in North America. This system allows the company to exercise strong control from its headquarters, linking together suppliers, distribution centres and stores. This includes its own TV broadcasting system for videoconferencing purposes on the occasion of weekly or monthly performance reviews, for example.

Information systems are very important at Company B. It shares the inventory and sales data via computer with its major suppliers and reloads the stock whenever demand arises at stores. At the same time, among other Information Technology (IT) based tools, the company built a "Data Warehouse System" able to maintain a considerable database of customer information, analysing buying behaviours, needs and preferences for new products. In recent years, this IT based tool development process culminated in the deployment of Radio Frequency Identification Technology⁸⁴ (RFID) allowing the company to manage its merchandise more efficiently. By using this technology, products at Company B are embedded with electronic codes which help the retailer streamline its supply chain network and distribution system more effectively: tracking the movements of goods, eliminating counterfeiting, duplication, out-of-stock, and excess delivery. All management instructions, including the layout of items on the store shelves, are sent from headquarters to stores, and only the headquarters are able to assign ranges of products ordered and distributed. The

⁸⁴ Radio-frequency identification (RFID) is a technology that uses communication via electromagnetic waves to exchange data between a terminal and an object for the purpose of identification and tracking. One of the usages of RFID is in enterprise supply chain management to improve the efficiency of inventory tracking and management. (Source: Wikipedia). In 2007, the University of Arkansas' Information Technology Research Institute released a report on its preliminary study of the impact of RFID on reducing retail out-of-stocks and concluded that RFID reduced out-of-stocks by 21% over non-RFID based stores.

centralised organisation of the firm relies on a strict management of just in time orders (Colla & Dupuis, 2002, p. 108). This system, added to the considerable bargaining power of the company, puts an additional pressure on suppliers, including its many Chinese producers.

An organisational condition which has consequently emerged from our research and explains why the PMS at Company B is such, is the low cost operator strategy (Colla & Dupuis, 1997; Porter M. , 1982) adopted by the firm which is at the roots of its foundation and constitutes its *“primary differentiator”*. This low cost strategy is not only reflected in the functional structure adopted at Company B, but also in the way it manages its operations. The company has a *“portfolio approach”* to its various operations in different countries, therefore explaining its different focus in terms of metrics’ adaptation to different slow/ rapid growth modes and therefore short-term, average-term strategies. However, this is not camouflaging that the *“ultimate overriding element”* is that the company is a *“low priced retailer”*, therefore, everything *“we do is around having a low cost delivery, so that means square footage efficiency, supply chain efficiency”* (B10); *“the metrics are biased towards financial rather than non-financial, and I think the metrics then are also biased towards short term rather than mid to long term”* (B10). Another respondent adds that as far as strategy is concerned *“It depends on which retailer, for Company B: its price and cost reduction. Customer savings: if we are saving customers money, then we know that they are going to come back and shop with us again, that’s another financial metrics that we rely on heavily. That does align with our strategy perfectly”* (B4).

5.4.2.2.3.2 Corporate History and Culture and Employee Management

This investment in advanced logistics systems is associated with the promotion of a particular employment policy which is linked to the origins and the local history of the company. The company was established in a rural, poor, white and non-unionised region of the U.S. Both the agricultural revolution which depopulated farms, and road construction in the 1950’s, condemned little traders to inner city poorly-located spots, thereby contributing to the existence of an initial available workforce for the company. The company’s social management is based on low wages, overtime and high turnover. In the 1980’s, the company expanded nationally while lowering wages⁸⁵. Then, one favourable condition for retailers going international, including Company B, was the liberalisation trend during the 1990’s (e.g. the adoption of free trade agreements), which included the entry of China into the World Trade Organisation in 2001 (Durand C. , 2007, p. 16). Company B’s financial performance has been consistent in spite of the recent unfavourable economic situation. In the third quarter of 2009, even with lower sales (still above \$100 billion), the company saw its earnings grow.

⁸⁵ a 35% decline in real wages minimum since the 1970’s.

2009 third quarter showed like for like hypermarket sales that are down 1.4% but 2010 free cash flow is above that of 2009 at \$14 billion.

Another emerging organisational condition for adopting a PMS at Company B then relies on the company's history/ roots and culture. While maintaining the image of small business people, the company has successfully developed its business model by increasing its presence nationally. "The initial development of the company took place in small cities of the south and the west of the United States, a geographical area well known for its hostility to trade unions and its weak wages" (Durand C. , 2007, p. 17). This development has not changed the original ideological culture of the company which is supported by a staff recruiting policy based on low-paying, low responsibility managerial positions which, as shown by literature, are unattractive to business school students (Commins & Preston, 1997; Hugill, 2006). Actually, the hiring strategy of Company B has consisted of recruiting young managers from second class, religious southern universities. The company gradually managed to form a network to recruit trainees in small universities: second class - mostly male - students, often young people who were the first in their family to pursue higher education, and who could easily commit themselves to the 'ethos' and the culture of the company.

The ideological culture of Company B presents some aspects of a certain 'welfare capitalism' already instigated by other large North American companies before the First World War. Values like family, the community, Christian/Protestant egalitarianism are the principles on which the identity of the company relies. They are to be reflected in the frequent contacts organised between employees ('associates') and managers in the stores on the occasion of weekly performance reviews for example.

These meetings are the occasion of linking company overall performance to individual one: "*line management is broken by month, weeks; you can always see where you are*" (B5.). On this occasion, the portion of the PMS which is used is more non-financial rather than financial. This is because it is assumed that non-financial metrics will have a greater tactical impact on employee reactivity. As a matter of fact, the closer one gets to the shop floor level, the more metrics become disconnected with the financials, at least directly (i.e. stock level monitoring is of course, in the end, translated into a financial metric). As for Company A, this practice confirms existing literature (Euske, Lebas, & McNair, 1993).

This issue is actually highlighted in a specific performance measure which comes immediately after the financial performance pool of metrics: "*associate engagement, how engaged, happy, motivated are they, do they understand how they fit in the overall business?*", because "*there is a direct correlation between stores that have high engagement scores and good performance*" (B5.). For

some respondents, the usage of these performance metrics is associated with the specific culture of the company *“from the ‘get go⁸⁶’: grass roots. How happy are you working for the company? (...) Making everybody feels that they have an active role (...) Work hard and feel good about it”* (B5.).

The integration of NFPM seems to be disseminated at different levels of the company. There is a *“real movement towards engagement/ profit sharing: the more somebody is interested the more they feel they are part of something”* (B5.), because this creates loyalty and reduces employee turnover in an industry where this ratio is very high. At top management level, associate engagement is perceived as very important: *“senior management takes that very seriously”* (B5.) because of the nature of the employment structure (e.g. low skills and high turnover) in this industry, but also because of goals set at top management levels where *“you can have soft goals: at higher level: engagement goal for the VP for example”* (B5.). However this is nuanced by another respondent who adds that *“HR policies do not drive the rationale for operational performance metrics; HR helps facilitate, shepherds”* (B1). Performance information is declared to be available at all levels; respondents emphasise that the transparency of internal information diffusion is part of the culture of Company B, besides legal requirements such as Sarbanes Oxley: *“Sharing information goes back to the culture of the company”* (B2).

In 2006, Company B suffered from a ‘midlife crisis’ aggravated by its development and excessive ‘cheap chic’ campaign offers aimed at defeating its rivals. This midlife crisis constitutes a change in management which contributes to explaining the decoupling of its PMS. Its regular customers were jostled by offerings of products in constant evolution, while high-end consumers disdained the retailer they identified as the ‘embodiment of corniness’. After piling a wide range of products in its stores for years in order to expand its clientele, Company B wanted to simplify its image and sacrificed the prices of its most popular items. It decided to expand its customer base, thereby announcing the end of the ‘one size fits all’ strategy, and organised stores interchangeably to reflect each of the U.S. demographic groups (i.e. African-Americans, the “affluent”, “empty-nesters”, Hispanics, suburbanites and rural residents). At the end of 2007, the company launched a new slogan which reflects the three main groups that Company B formed among its 200 million customers: "brand aspirational" (i.e. low-income people who have a desire for brands), "price-sensitive affluents" (i.e. wealthier customers who like good value for money) and "value-price shoppers" (i.e. customers who seek low prices and can buy more expensive merchandise). This change in strategy - including the shift from selling to branding - occurred just as the economic crisis appeared, explaining the current sustained growth of Company B.

⁸⁶ i.e. from the origins of the company.

In 2009, the strategy of Company B has engaged in two directions. First, the company chose to rationalise its store offerings by retailing either 'winning, participating or presenting' products. The first cluster of goods retailed by the company is the one where it can 'win' over its competitors, with high-demand products such as flat screen televisions, including high-end models. Company B has actually doubled its market share in this sector, up 16% in 2008, while increasing the average revenue from \$489 to \$660 over two years. Then, areas in which Company B adopts a 'participating' product strategy are those, like clothing, where it is present but knows it is unlikely to dominate the market. The company constrains its offer to products that sell very well, such as \$20 jeans, and limits its stocking of high end products. Finally, the types of products to implement a 'presenting' strategy are those who meet basic necessities. These are also sold in specialty retailers such as hardware chains, but are needed to compete with stores such as Lowe's and Home Depot, however the width of a specific product on offer at Company B is very limited compared to the one carried by its competitors.

Second, the company tried to renovate its image: warm colours, wider retailing areas have replaced the brand traditional colours and the overstocked narrow alleys. The introduction of wooden floor areas for specific products (e.g. 'corners') and natural lighting, which have been successful for some competitors such as Target, have also been encouraged. Within this process to change its image to keep existing customers and attract new ones, the company also engaged in 'branding', which consisted of shifting its image from a distributor of low-cost and low-priced products to a company which sells value for price with a view to improve consumers' lives, introducing CSR. Also, in its continuing expansion and to avoid cannibalisation, Company B prevented its own new store settlements near its own existing locations, which departed from its traditional market saturation strategy. This new strategy has largely taken into account global U.S. retail tendencies suggested by the 2009 Grant Thornton report: buyers choosing clicks over bricks, private-labels gaining ground over name brands, the need of retailers to "both act green and sell green products if they plan to cash on this trend", the emphasis on customer loyalty, process improvement to lower costs and the need to boost customer satisfaction (Kopacz & Davis, 2009, p. 2)

5.4.2.2.3.3 Traditional usage of FPM

Another organisational context condition which has emerged from our research and explains why the PMS at Company B is such relies on its traditional – mostly financial – performance management. Several justifications of the persistence of traditional financial performance management systems are given and reflected in some of the organisational and environmental contexts which follow in this research; however, the main reason provided by respondents regarding this third condition is the

fact that Company B is a U.S. based listed company. As already documented, there is no one single measure of performance at Company B, where both financial and non-financial metrics are presented and used. As far as financial measures are concerned, profit and loss account traditional related measures are presented first: like for like and same store basis metrics such as sales, profit, and margin are quoted, they are complemented with balance sheet metrics (e.g. return on invested capital, ROA, FCF, net cash from operations). The second batch of performance measures are non-financial, still traditional, being labelled "*less tangible, softer metrics*", such as very frequently quoted second in-line on performance measurement: employee involvement or "*associate engagement*" (which is presented as being part of the core "*grass roots*" culture of the company), then complemented by market share, customer image, brand image and customer service metrics, etc... These last metrics are indirectly provided by outside survey companies. This practice assumes that when it comes to the core of the business, important information derives from within the company and it is financial ('comp sales') or remotely financial: "*you have an engagement score, translation of the engagement into a financial metric*" (B5.). Non-financial information is used as a benchmark and comes from outside and from within of the company to a lesser extent, as if the leverage of the company was so big that 'accessory information' (e.g. for benchmark purposes) could be dealt with externally. The prominence of financial metrics '80%' versus '20%' for non-financial metrics, comes along with the obligation of a quarterly "*repetitive*" reporting (including the "*expectation of the market*") which actually puts a "*further burden on financial metrics*" (B10). Company B which as a typical U.S. based public corporation, emphasises the financial budget as well as the key profit targets which are set for the year. This is congruent with prior classic literature on the influence of competitive strategy on the design of the management control system (Langfield-Smith K. , 1997; Porter M. , 1980; Miles & Snow, 1978; Govindarajan & Fisher, 1990). This also fosters the assumption that if the nature of strategy influences management tools, it would be the process of this emergence that shows how to use them (Simons, 1995; Simons, 1988; Simons, 1991). This emphasises the complexity of the interaction process between strategies and controls and promotes the usage of case studies for research. "For researchers, this evidence leads to waive a methodology based on the testing of binary relations and opt for a qualitative approach. In other words, seeking to understand the process from case studies and not only taking still pictures of configurations" (Bouquin H. , 2000).

Traditional compensation also comes as a justification of the use of financial performance metrics. Compensation is "*not a practice, it's a rule: we are a 100% given based on company performance and that's 100% based on company profitability*" (B7). The justification of the practice goes back to the cultural roots of the company which also reflects the contractual side of the North American culture:

compensation “should be based on what you produce, it’s a reward for performance, it’s not a gift” (B7). The incentive for personnel is defined as “profit sharing: if you perform well you are going to get a piece of that” (B5.). Bonuses are calculated “once a year 100% based on company profitability” and this can be monitored by employees “once a month [they] log onto the system, read individual results” (B7). The definition of company profitability is however made of two elements: the individual’s contribution and the overall company profitability. On the other hand, qualitative performance “would be used on your yearly evaluation (...) for evaluation and personal performance: one on one with your boss once a month and all ‘handwriting’” (B7).

5.4.2.3 Substantive hypotheses emerging from the Organisational Conditions for adopting a PMS at Company B

Context refers to a particular set of characteristics or circumstances which surrounds the phenomenon and in which it has occurred. The researcher has identified organisational characteristics that relate to Company B using its PMS. The researcher has identified the main relationships between the categories and the phenomenon under investigation. Hypotheses are therefore generated from evident relationships between the categories. The results of the analysis suggest the following six substantive hypotheses:

Table 20: Emerging Organisational Labels and Hypotheses

Organisational Labels	Corporate History & Culture	Corporate Structure Stability	Employee Management (education and management competences)	Strategy	Information Systems	Change Management
Hypotheses	<ul style="list-style-type: none"> Company History & Culture and management practice associates performance with traditional industry operational and financial metrics. NFPMs are primarily developed for isomorphism (not for performance evaluation) and benchmark purposes and are associated with the leverage capacity of the organisation 	<ul style="list-style-type: none"> The FPMs/ NFPMs balanced structure of the PMS depends on the stability over time of the organisation’s dominant coalition 	<ul style="list-style-type: none"> Performance and NFPMs benefits are not clear and FPMs are perceived more objective/fair than NFPMs by managers who shape the PMS to be structured around more FPMs than NFPMs 	<ul style="list-style-type: none"> Low cost strategy implies a rigid and standardised PMS structured around FPMs 	<ul style="list-style-type: none"> In organisations where Information Systems are not integrated the PMS is decoupled 	<ul style="list-style-type: none"> Revolutionary change initiates PMS redesign starting with FPMs and expanding to the isomorphic emergence of NFPMs

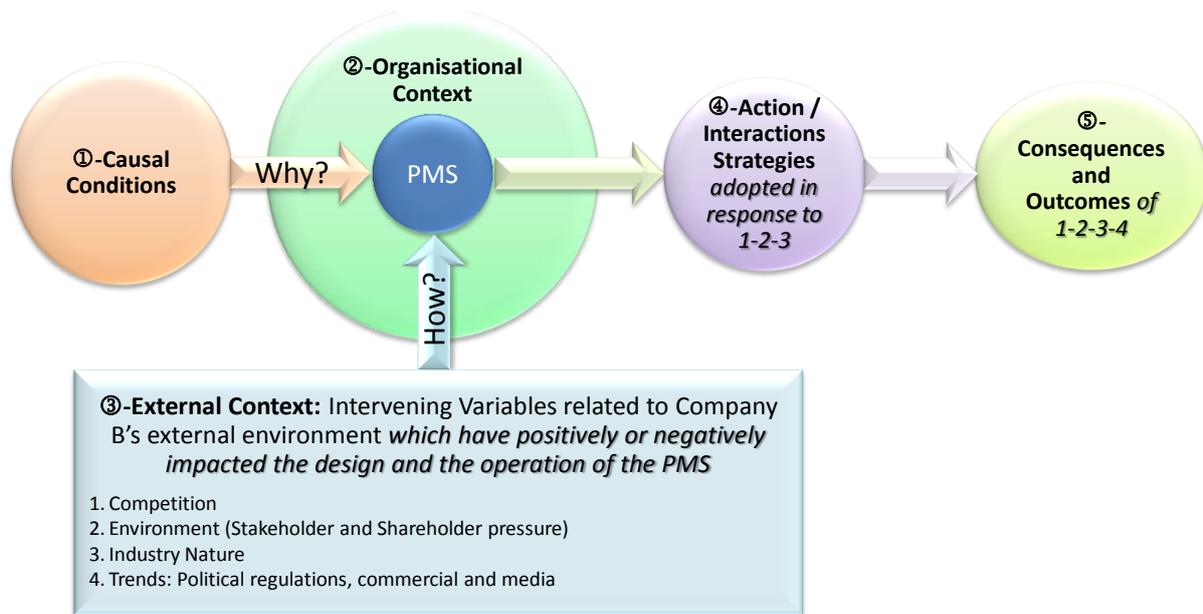
5.4.3 Aspects of the External Environment in which the PMS was designed and operates at Company B

According to Strauss and Corbin Grounded Theory methodology (1998), intervening conditions are general conditions that influence the phenomenon and the strategies that Company B can apply. In this research intervening conditions are conceived as environmental conditions that surround Company B and have a direct impact on the phenomenon and the company strategy.

5.4.3.1 *Summary of Environmental Conditions' impact on the Company B's PMS*

Competition in the North American retail industry is an important factor which impacts the strategy of Company B. This is especially true when shareholders and the financial community are looking at their financial profitability at the same time that the company has to learn to manage slower growth. This new element is very important because it means the company has to change a traditional performance strategy which used to be efficient. This impacts its PMS in the way it reinforces the pre-eminence of FPMs and officially develops specific NFPMs. The regulatory environment is not as constraining in North America as it is in Europe. However this does not mean that stakeholders do not have means to impact the way U.S. retailers operate their business. This influences the PMS at Company B by officially developing and communicating on specific NFPMs such as sustainable development metrics. However the extent to which these are really used to measure and manage performance is yet to be challenged. At a time of slower growth, the company needs to find ways to reach new customers which may not be as attracted by its traditional low-cost strategy but more by ethical dimensions such as CSR and sustainable development which also impact the company's PMS. Figure 13 below summarises the findings of section 5.4.3, which covers the External Conditions emerging from interviews performed at Company B as well as triangulation evidence emerging from the case study context.

Figure 13: Summary of Environmental Conditions' Impact on Company B PMS



5.4.3.2 Aspects of External Environment's impact on the design and the operations of the PMS at Company B

Intervening conditions can moderate or reinforce the impact of causal conditions on the phenomenon and the company's strategies altogether (e.g. environmental influences have either a negative or positive impact on the use of a PMS). An organisation's relationship with its environment is reciprocal and the environment of Company B will influence its selection of a specific set of measurements in evaluating its performance.

5.4.3.2.1 Competition in the Retail Industry

Most information regarding retail industry trends comes from widely recognised annual publications. The information provided below extensively uses the following sources: Deloitte Global Powers of Retail 2009 and 2010 reports, which not only cover trends from a worldwide perspective, but also from a local point of view with the contribution of its local offices providing relevant North American market information. Other worldwide as well as European and French focused sources of retailing market information also include the annual Interbrand report, Planet Retail Newsletter as well as Planet Retail's Top 30 rankings.

5.4.3.2.1.1 International Competition

The international competition of Company B is similar to the one presented at the same section for Company A. Company B is competing against global competitors as well as other strong local players in each country. In Germany, for example, where the discount industry is well established, Aldi and

Lidl proved to be strong enough so that Company B had to withdraw from their market. The retail industry trends isolated for Company A case study are shared by Company B.

5.4.3.2.1.2 Domestic Competition

Company B’s closest competitors on the North American market were the following:

Table 21: Top 10 U.S. Retailers, 2008

North America			
1	Wal-Mart	\$401,244	U.S.
2	Kroger	\$76,000	U.S.
3	Home Depot	\$71,288	U.S.
4	Costco	\$70,977	U.S.
5	Target	\$62,884	U.S.
6	Walgreens	\$59,034	U.S.
7	CVS Caremark	\$48,990	U.S.
8	Lowe's	\$48,230	U.S.
9	Sears Holdings	\$46,770	U.S.
10	Best Buy	\$45,015	U.S.

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This ranking has slightly changed since its publication in the Deloitte Global Retail Powers 2010 report published in January 2010, because of the downturn most companies, including retailers, have faced in 2008 and 2009. As of October 2009, based on retail sales in U.S. \$ billions, the retailer ranking would now be the following: Kroger, Costco, the Home Depot, Target, and Sears-Kmart. This ranking is legitimate, only if it is considered that the Deloitte’s publication is a reference one, when it comes to the analysis of retail industry trends. For example, reference to this year’s Fortune 500 ranking yields other results and controversy about the method used to rank businesses. For its part, Newsweek publishes an environmental based ranking of America's 500 largest corporations⁸⁸, while Interbrand issues another different ranking based on retailers’ brand value in million dollars⁸⁹. Company B’s competitive environment is described hereafter.

The Kroger Company was founded in 1883 and is based in Cincinnati, Ohio. It operates as a food retailer in the United States. The company operates supermarkets under four formats: combination food and drug stores, also known as combo stores, multi-department stores, marketplace stores, and price impact warehouses. As of January 31, 2009, the company operates approximately 2,481 supermarkets and multi-department stores under two dozen banners of which 781 stores have fuel centres, as well as approximately 771 convenience stores and 385 jewellery stores. As of January 2009, Kroger’s revenue was \$76 billion, gross profit \$17.5 billion, and net income \$1.2 billion.

⁸⁷ (Deloitte Touche Tohmatsu, 2010, p. 23).
⁸⁸ <http://greenrankings.newsweek.com/companies/industry/retail>
⁸⁹ http://www.interbrand.com/branding_feature.aspx?bfeatureid=8&langid=1000

The Costco Companies, Inc., was founded in 1976 and is based in Issaquah, Washington. Since 1983 Costco Wholesale Corporation operates membership warehouses that offer a selection of branded and private label products in a range of merchandise categories in self-service warehouse facilities. The wholesale club serves primarily the upper middle class customers both in the United States and abroad by operating in different retail and memberships formats, still in the bulk sales format. As of February 15, 2009, Costco operates a chain of 550 warehouses comprising 403 in 40 states and Puerto Rico, 76 in Canada, 21 in the United Kingdom, 6 in Korea, 5 in Taiwan, and 8 in Japan, as well as 31 warehouses in Mexico through a 50%-owned joint venture. It also offers its products through Web sites in the U.S. and in Canada. As of August 2008, its revenue was \$72 billion, gross profit \$8,9 billion, and net income \$1,2 billion.

The Home Depot, Inc. was founded in 1978 and is based in Atlanta, Georgia. It is the second largest retailer in the U.S. market in 2009. Home Depot focuses on home improvement with a do-it-yourself (D-I-Y) appeal, as well as do-it-for-me (D-I-F-M). Home Depot operates more than 2233 stores, including 160 stores in Canada, 12 in China and 64 stores in Mexico. Home Depot is a force to consider in the low cost retail industry. Its declining revenue as of February 2009 was \$71 billion, gross profit \$24 billion, and net income \$2,2 billion.

Target was founded in 1902 and is headquartered in Minneapolis, Minnesota. It appeared on the discount store scene in 1962 by opening its first outlet in downtown Minneapolis. Target Corporation operates general merchandise and food discount stores in the United States. Target projected itself as an upscale merchandiser catering to the “urban” consumer. It focused so far on product design rather than its price and also spent more on advertisement and promotion. As of January 31, 2009, it operates 1,682 stores and 34 distribution centres in 47 states. At the same date its revenue was \$65 billion, gross profit \$21 billion, and net income \$2.2 billion.

The formerly known Sears Company was founded in 1899 and is based in Hoffman Estates, Illinois. Sears Holdings Corporation, the publicly traded parent of Kmart and Sears Roebuck and Co., was U.S.’s fourth largest retailer with over \$50 billion in annual revenues in 2006. Kmart, which was founded in Garden City, Michigan, operated, as of January 2006 a total of 1416 Kmart stores across 49 states, Guam, Puerto Rico and the U.S. Virgin Islands. Its success was based on offering quality products at low prices. As of January 31, 2009, the company operates approximately 1368 Kmart stores, 856 Full-line stores, 73 Sears Essentials/Grand stores, and 1233 specialty stores in the United States, as well as 122 full-line stores, 171 dealer stores, 5 appliances and mattresses stores, 11 outlet stores, 30 floor covering stores, 1858 catalogue pick-up locations, and 106 travel offices in Canada. At the same date, its revenue was \$47 billion, gross profit \$12 billion, and net income \$53 million.

Domestic pressure is important in the North American retail industry and has contributed to Company B's 'mid-life crisis' initiatives and its subsequent focus on FPMs and development of NFPMs.

5.4.3.2.2 The Environment

The evolution of legislation is not a very important variable as respondents recognise less regulatory pressure⁹⁰ from the government in the U.S. as opposed to the E.U. (B2). Performance measurement practices adopted at Company B are mostly perceived by respondents as good customs or practices that the company adopted before they became fashionable (or regulated) either because these were aligned with the company corporate culture, or because they made common sense and were therefore aligned with the company cost cutting strategy (Langfield-Smith K. , 1997). As such, these meet shareholders requirements on profits. Another example of how respondents feel about specific NFPM is diversity: *"Making sure that you have a diverse population: in retail you really need to reflect the population you are serving"* (B5.). The extent to which corporate social responsibility, as well as community involvement - *"an important part of what Company B is"* (B5.) - are linked to a tarnished public image which needs to be improved (by becoming a bank for suppliers who could not pay their bills anymore in 2009, for example) is unclear. However, as stressed before, the adoption of new non-financial performance metrics such as sustainable development and CSR ones is also driven by the fact that there is more to lose by not adopting them in the current environment especially taking into account the present consciousness of customers (*"maybe people will stop shopping with us"*) than to actually adopt them. One respondent reflects on this by stressing the limited risk of the practice, as this may even end up positively on the costing side of the equation for the company [it] *"probably end up saving us money"* (B5.). At the same time, this engagement does not only impact the retail industry, but the supply chain: *"producers are going to talk with us, because of the leverage we have"* (B5.), which in turn is positive for the corporate image, because it sets the company in a leading virtuous position.

Following external pressure to adopt performance assessment practices such as embedding NFPM into the Company's BSC, recent research has shown that consistent with Institutional Theory perspective "many multinational clothing and retail companies (despite their differences in size and origin) adopt similar social standards such as the International Labour Organisation's (ILO) fundamental principles and rights at work. This may be because all of the companies experience similar sustained pressures from Non-Governmental Organisations (NGO) and the media" (Islam & McPhail, 2010).

⁹⁰ For example the Modernisation and updating of accounting rules Directive such as 2003/51/EC which aims at urging companies not to evaluate performance on sole financial information.

5.4.3.2.3 The Retail Industry Nature

The industry in which Company B operates emerges as an important environmental condition which influences the adoption of a specific PMS shape. As for Company A Financial indicators are presented by respondents as being particularly suitable for a short term focused and adaptable activity such as the retail industry. The importance of these factors have been discussed in the previous sections.

5.4.3.2.4 Trends

The change of customer needs and purchase practices towards more environmental consciousness is an emerging external condition which influences the shape and operations of the PMS at Company B. This influences a shift of performance evaluation at retailers, however it does not mean the pressure of shareholders to see profits generated is reduced at all, as they want to see the benefits from a sustainable development policy such as a carbon footprint decrease. Subsequently *“there is a metric that translates that into a financial figure”* (B6). Still on sustainability metrics, some respondents state that at Company B *“just because who they are”* [...] *“we have to make sure we are really doing something that has a positive impact on the world (recycling, renewable energies)”* (B5.). *“At Company B, we are exceeding this. We were not being forced to take a stand on healthcare. Other aspect to that is reputation with potential consumer”* (B5.) [...] *“We are big enough to take a stand and have an impact. We have the ability to do that, to take that to the next level. Because of the leverage we have”* (B5.).

5.4.3.3 Substantive hypotheses emerging from the External Conditions for adopting a PMS at Company B

External (Intervening) conditions are general conditions that influence the phenomenon and the strategies that a company can apply. This section demonstrated the intervening conditions that relate to the PMS. The researcher has then identified the main relationships between the environmental labels and the phenomenon under investigation. Hypotheses are generated from evident relationships between these labels and the phenomenon. The results of this analysis consequently suggest the following substantive hypotheses:

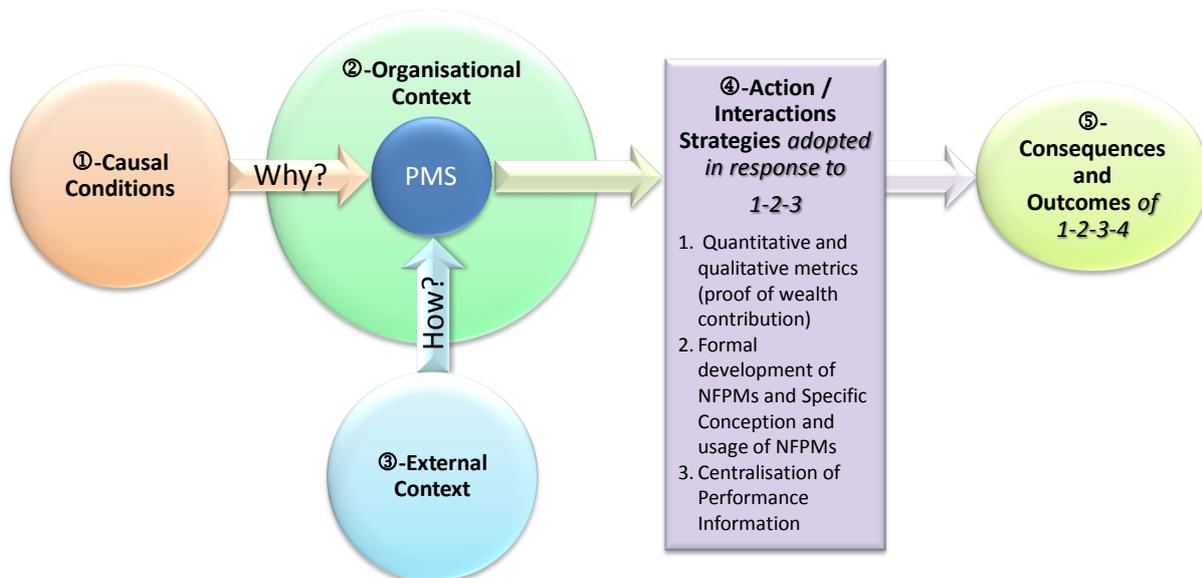
Table 22: Emerging External Labels and Hypotheses

Environmental Labels	Competition	Environment	Industry Nature	Trends: Political regulations, commercial and media
Hypotheses	<ul style="list-style-type: none"> The modification of the competitive environment from competitors, customers and regulators generates a stress on financials and explains the prominence of FPMS 	<ul style="list-style-type: none"> Under stakeholder pressure for proof of profitability in tightened (uncertain) economic conditions organisations focus on cash and revenue and tend to develop more rigorous isomorphic centralised Formal financial and non-financial metrics and informal financial and operations metrics NFPMS development is limited by the sophistication of the retail environment 	<ul style="list-style-type: none"> The industry cyclical short term constraint (cash and revenue) makes organisations focus on fast action operations metrics and FPMS 	<ul style="list-style-type: none"> Stakeholder, state and media pressure explains the isomorphic development of formal NFPMS

5.5 Action/ Interaction Strategies which management adopted at Company B in response to Causal, Organisational and External Contexts

In handling the phenomenon under investigation, management strategies are developed. Company B management has therefore implemented a certain number of practices. Respondents perceive the way performance measures are internally evolving between financial and non-financial contents both as a response to competition and the result of the strategy of Company B. The use of NFPMS is perceived as depending on the current trend of the economy, the state of company growth, and the linkages between the two. Figure 14 below summarises the findings of section 5.5, which covers the actions and interaction strategies that management has adopted in response to the causal, external and organisational conditions emerging from interviews performed at Company B.

Figure 14: Summary of Action/ Interaction Strategies adopted by management at Company B



5.5.1 Quantitative and qualitative metrics as a proof of wealth

One emerging action and interaction strategy that has been implemented as a result of the operation of its PMS is Company B's usage of FPM. Respondents perceive the way performance measures are internally evolving between financial and non-financial content both as a response to competition and the result of the expansion strategy of Company B. Some respondents even assume that it is because of external pressures arising from competition and the market that the company has evolved towards more FPM 'shifting away' from traditional/ industry specific NFPM: *"It is evolving as the market becomes more competitive and expand overseas: we rely more on financial metrics whereas historical non-financial metrics have been very important; customer satisfaction, number of stores, etc..."* (...) *"As we become more competitive, the financial metrics become more and more important, and the market tightens"* (B4).

This seems paradoxical considering management accounting literature on the historical path which led to the emergence of the BSC proposition by Kaplan and Norton for example, but also considering Company A's emerging evidence. Consequently, this would lead one to assume that within the retail industry, this specific company used NFPM as one basis of its development. This respondent's perception of the balance or even pre-eminence of NFPM over FPM in the development of the company could be explained in different ways. First, it could be explained by the strategic importance of the home-grown information system of Company B (e.g. its CRM) which embeds both quantitative and qualitative information such as local market trends that enabled the company's mapping of the North American market. This could also be explained by the confusion some respondents make between FPMs and NFPMs, as they often have difficulties in distinguishing between a qualitative and a quantitative metric or even worse, between a leading and a lagging indicator. It could finally be explained by the strategic change made at the company as of 2006 when it decided to take action to change its image and engaged in remodelling its stores and CSR initiatives.

5.5.2 NFPMs as 'second class' and 'luxury' Performance Measures

Another emerging action and interaction strategy that has been implemented as a result of the operation of its PMS concerns the specific conception and the usage of NFPMs at Company B. Respondents declare that the use of NFPMs depends on the current trend of the economy, the state of company growth, and their mutual relations: *"It [the usage of different types of performance metrics] really follows the economy: as the economy grows we tend to use more qualitative metrics, and then as the economy shrinks we then say « wait, let's go back to our roots, let's go back to our*

financial metrics ». *The other thing is the growth of the company: as the company grows and is expanding rapidly I think we tend to rely more on qualitative metrics, as that growth shrinks, we tend to rely more on quantitative metrics. The growth of a company and the economy kind of mirror each other, the growth of the company is a little behind the economy. It takes a few months. This is leading us back to financial metrics*" (B4). This would incline one to assume that when this company faces uncertainty, for security reasons, it would have a tendency to rely on quantitative financial metrics rather than non-financial metrics. Moreover, according to the perception of risk by some other respondents, qualitative information is *"getting more and more important as to where we stand against our competition"* (B7). This would tend to assume this company refers to non-financial information when getting closer to operations, but also when it comes to comparing to competitors. This would partially contradict management accounting literature on the matter of 'safety' provided by the forward looking capacity of NFPMs over FPMs.

One specific evidence emerging from both interviews and literature about this company, is that even if performance management *"has become a lot more multidimensional"* (...) *"the reality is you meet the sales figures or not"* (B5.). This would tend one to assume that if NFPM are developed at Company B, 'at the end of the day' the major indicators would however remain financial. This also would tend one to assume that the PMS is run by finance with an on-going cost-leadership strategy in mind. The company investment in NFPM definition/ creation is actually limited because they are perceived and presented as being customarily used by the corporation, though not widely circulated. As a matter of fact, some respondents declare that NFPM are not *"new measures"* of performance because *"they already existed, but were not shared and consistent"* (B6), which is perceived as especially the case for sustainable development metrics. Another respondent adds that *"Company B is at the forefront, it has a very pragmatic way of approaching new topics"* such as sustainability. Noteworthy is the fact that Company B has chosen not to develop specific NFPMs but rather, as evidenced above (section 5.5.1), to attach its investment to concerns contributing to the improvement of its public image through a traditional quantitative/ financial metric such as the ROI for example: *"Company B chooses to not develop new metrics (that would show the success of this effort in sustainability) but tie new topics to existing fundamental metrics that we always use such as the number of trucks on the road, reduction of the size of detergents by 33%, etc..."* (B1). On this latter issue, for example, Company B has indicated to its suppliers that they wished to reduce the packaging size of the detergents and fabric softeners they sell. One justification of this practice in terms of public image is because product concentration/ size reduction implies less water/ less transport and therefore less carbon footprint, but this is not to forget the cost benefit of saving stores shelving space at an 'equivalent product benefit'.

5.5.3 Centralised performance information

According to some respondents, it is possible to assume that whereas the company engaged in activities which would call for more usage of NFPMs, it paradoxically called for more FPMs because of the way the company centralises performance information. This makes one assume a dual communication channel aimed at the different stakeholders of the company: NFPMs targeted to a wide public as a means to improve a deficient public image and FPMs targeted at the market, to show evidence that the NFPMs which are used for image related reasons actually get a positive financial return for shareholders. Moreover, according to answers provided by academics specialising in the North American retail industry, this shift from NFPM towards FPM for performance evaluation is also complemented by another one, initiated in 2006, which consists in changing the image of the retailer. As a matter of fact, the remodelling of its stores which has replicated some of the successful arrangements of Company B's competitors shows a clear shift from its 'low cost - low price' image towards a 'better value for money' proposition. Considering the external pressure for profitability, it can easily be assumed that this qualitative strategy has required FPMs as an ultimate evidence of success.

Furthermore, another trend of reasons provided to sustain this extensive use of quantitative financial metrics at Company B is that *"the amount of money we have to work with is shrinking, everyone is going after the same dollar – e.g. capture the dollar of the customer who has less and less to spend - so we need to have more quantitative measurable metrics that we can make decisions on"* (B4). As a matter of fact, the use of financially-tied quantitative metrics is reinforced by management's need to show that their individual business operations actually contribute to a positive ROI, and that this contribution is good enough so their mission is preserved: *"In marketing, we need to show a positive ROI on everything we do: prove every dollar we spend in marketing which is often qualitative, (...) we need to prove in a quantitatively way that, that dollar brought in another dollar, or two dollars, or three dollars... in order to get the budget for next year"* (B4).

In addition, an international respondent at Company B adds that financial measures will be used over non-financial metrics because, in developing markets, 'soft' (e.g. non-financial metrics) are not available at the stage of development of these specific markets and so is the building of the brand on the local front: as *"the balanced scorecard is not developed. Financial measures are easier to access in certain markets, where soft data doesn't exist yet"* (B2). Another explanation for this provided by the same respondent concerns the frequency at which the performance information is to be reported, which only financial metrics can meet: *"and also dictated by the frequency of reporting"* (B2).

5.5.4 Substantive hypotheses emerging from Action/ Interaction Strategies for adopted at Company B

In handling the phenomenon under investigation management strategies have established, such as the development of a decoupled PMS. Hypotheses are therefore generated from evident relationships between these labels and the phenomenon. The results of the analysis suggest the following substantive hypotheses:

Table 23: Emerging Action/Interaction Strategies and Hypotheses

Action/ Interaction Strategies Labels	Quantitative and qualitative metrics	Formal development of NFPMs and Specific Conception and usage of NFPMs	Centralisation of Performance Information
Hypotheses	<ul style="list-style-type: none"> Operational qualitative and quantitative metrics tend to be used more at operations level (to show manager’s contribution to a positive ROI) and are modified to be reported to top management 	<ul style="list-style-type: none"> Isomorphic NFPMs development are a means to triangulate prominent FPM information for demanding stakeholders (financial analysts, shareholders and the community) and improve public image When traditional cost savings are limited, NFPMs are developed 	<ul style="list-style-type: none"> In organisations where Information Systems are not integrated the PMS is decoupled (corporate formal vs. operations customised metrics)

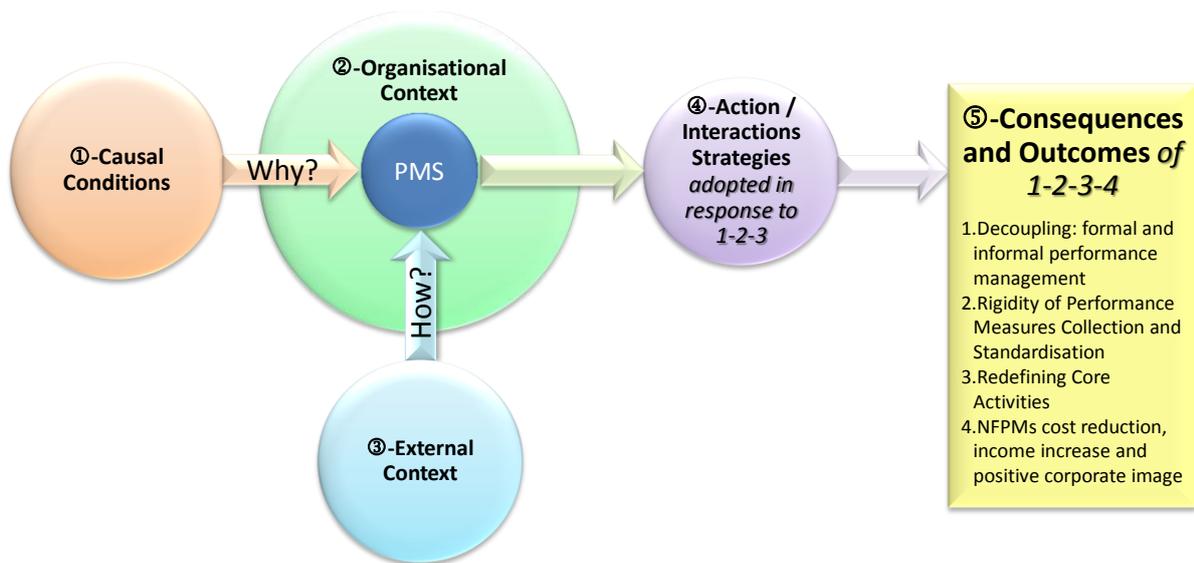
5.6 Outcomes of using the PMS at Company B

Outcomes or consequences are the results of action/ interaction strategies that have been taken to manage the phenomenon. Company B’s adoption of a PMS and management strategies have resulted in a number of management and accounting consequences which are now summarised and discussed.

5.6.1 PMS related strategies and consequences summary

Consistent with contingency theory and strategy literature (Miles & Snow, 1978; Porter M. , 1982) the supervision, tight cost control and frequent and detailed control reports strategy of Company B impacts the structure and the usage of its PMS not only in terms of rigidity but also in terms of reinforcement of FPMs. Respondents perceive emerging NFPMs as partially aimed at public image improvement. Figure 15 below summarises the findings of section 5.6, which covers the consequences and outcomes of actions and interaction strategies that management has adopted in response to the causal, external and organisational conditions emerging from interviews performed at Company B.

Figure 15: Summary of Consequences and Outcomes of Using the PMS at Company B



5.6.2 Rigidity of Performance Measures Collection and Standardisation

The business model of Company B is not flexible and has been confirmed by prior literature (Alexander & Myers, 2000). This is not surprising considering the high volume, low cost/ low margin strategy adopted by the company until 2006. The rigidity of Company B’s business model explains both the fit and the non-fit and subsequent success or failure of this organisation in specific geographical locations as well as the various fortunes of Company B’s competitors in their ability to replicate this specific model. The price to pay for its domestic and international success has consisted into organic growth and a high degree of process standardisation which both relied on the building of a considerable information system able to provide instant data. As a matter of fact, the company deals with an “enormous amount of data (day to day) terabytes of data” (B6), this being formatted “on the Quantitative POS⁹¹ system: feed into the home office” (B5.).

Subsequently, performance data collection instruments at Company B are perceived by respondents as “more centralised and less customised” (B4). The explanation suggested by the same respondent for this rigidity is that this standardisation eases management decisions: “All standardised and makes

⁹¹ As documented by the National Retail Federation (NRF-ARTS, 2009), “a ‘Point Of Sale’ (POS) or ‘checkout’ is the location where a transaction occurs. A ‘checkout’ refers to a POS terminal or more generally to the hardware and software used for checkouts, the equivalent of an electronic cash register. A Retail Point of Sales system generally includes a computer, monitor, cash drawer, receipt printer, customer display and a barcode scanner. It can also include a weight scale, integrated credit card processing system, a signature capture device and a customer pin pad device. The POS unit handles the sales to the consumer. This includes a large number of functions such as sales, returns, exchanges, layaways, gift cards, gift registries, customer loyalty programs, BOGO (buy one get one), quantity discounts, pre-planned promotional sales, manufacturer coupon validation, foreign currency handling and multiple payment types. This is however only one part of the entire POS system used in a retail business. ‘Back-office’ computers typically handle other functions of the POS system such as inventory control, purchasing, receiving and transferring of products to and from other locations, store sales information for reporting purposes, sales trends and cost/price/profit analysis. Customer information may be stored for receivables management, marketing purposes and specific buying analysis. Many retail POS systems include an accounting interface that feeds sales and cost of goods information to other accounting applications”.

decisions easier to make" (B4). This characteristic emerges as a shared feature with Company A. In this labour intensive industry, this facilitates an easier appropriation of performance information by employees both for setting up targets and their ensuing assessment. This also bears a 'contractual cultural' (Bourguignon, Malleret, & Nørreklit, 2004) side by providing employees with simple and basic metrics which are the top-down renditions of the organisation's strategy.

Respondents do not perceive this centralisation as rigid because it is supposed to be *"proper to the country"* (B3) and specific to hierarchical ranks *"templates are differentiated by levels"* (B6). The nature and the balance of metrics used at Business Unit (B.U.) levels are perceived by respondents as mainly standardised yet with a proportion of customisation. They also are mostly financial: *"All business units have specific KPI (75% are shared) and 25% specific to each B.U. (defined, assessed on a quarterly basis) still 80/85% financial, 15% qualitative"* (B6).

5.6.3 Prominence and persistence of very traditional FPM

Performance measures are *"very transparent at the company"* (B1). This notion of transparency of performance measures comes back several times in the interviews as one of the core distinctive cultural features of the company. Although not declared by respondents, this emphasis on transparency of performance metrics assumes its positive impact on the 'public' image of the organisation, for employee motivation through the clarity of the simplicity of the metrics deployed, and the aspect of fairness they convey. It also assumes a positive impact on the public image of the company towards external stakeholders such as shareholders, financial analysts and customers. Respondents add that these are internally available to everyone at all levels because it is not only perceived as having a positive impact on performance, but also because it is appreciated as a way to demonstrate the contribution of individuals to the global performance of the company: *"it is good for performance and to relate individual performance to overall performance"* (B4).

The importance of financial metrics such as sales level is perceived by respondents as meeting the different requirements of some of the company stakeholders: the evaluation of employees through bonus calculations; the 'market' (e.g. shareholders) and financial analysts through stock valuation: *"incentives, bonuses, available at all levels: because everything that's done throughout the retail industry end down to how your sales are doing, and how your sales are doing, same store sales doing, I think they are also used extensively by financial analysts on Wall Street to value the stock, that's probably the most important financial metric that we have: that's the key to it all"* (B4). From this latter statement emerges again the 'holistic/ summarising capacity' of financial metrics in expressing the ultimate goal of the retail business and subsequently their place in performance evaluation. This constitutes another common characteristic between Company A and B. As a matter of fact, one of

the recent statements from the Company's executive vice president and CFO actually reinforces the mediating power of financial metrics as a persistent way of measuring the effectiveness of the company strategy: "our plan for growth is clearly intended to increase shareholder value"⁹².

5.6.4 Non-Financial Performance Measures, Decoupling and Public Relations

Respondents declare that for some NFPM to be used, they have to be related to cost reduction issues and financial information such as Return On Investment (R.O.I.): "*R.O.I. is attached to non-financial performance*" (B6). In other words, when management thinks about doing something within the business, such as its recent remodelling of the existing store base for example, it is thought about in terms of R.O.I.: "*we know what the R.O.I. would be, the sushi bar for customer experience for example*" (B6). Respondents however do not declare that NFPM have to be linked to a financial metric to be worth reporting to top management.

A second emerging aspect of usage of NFPM concerns customer relations with two metrics. The first one is the 'Brand Health Monitor'. This metric deals with the public 'image' of the company, that is how Company B is perceived by customers. Respondents depict this indicator as a qualitative metric concerned with the perception of the brand by the consumer (B5.) which allows a company rating against competitors. The second metric is the 'Customer Attractor', which is concerned with store cleanliness. These are qualitative indicators which meet questions about how the company operates. Both metrics are part of manager's performance evaluation, including top management such as country presidents (B5.).

The third NFPM most quoted by respondents deals with 'sustainability' issues. The North American legal environment not yet being as constraining as the European one in terms of sustainable development and CSR, the usage of NFPM linked to sustainability issues is presented by respondents as reacting more to an external pressure concerned with a popular current issue both from customers and the 'market' - e.g. Public Relation (P.R.) -, rather than a federal government disposition: "*there are not as many sustainable laws and regulations that we have to follow: the qualitative results that you measure through your P.R., very popular right now, if they can increase that amount of positive P.R., it can cut cost of your company, it can also cut cost from your suppliers*" (B4). Respondents also declare that if this type of qualitative metric is primarily referred to as having a positive impact on P.R.: "*sustainability is about reputation, it's about the right thing to do to satisfy the concerns of our customers*" (B5.) they can also positively, but as a secondary benefit, impact the costs of the organisation and those of its suppliers.

⁹² <http://investors.walmartstores.com/phoenix.zhtml?c=112761&p=irol-newsArticle&ID=1345359&highlight>

It is therefore assumed that qualitative metrics linked to sustainability or corporate social responsibility (CSR) issues are not primarily used for performance evaluation, but as a means of positive communication to improve the public image of the company. As a matter of fact, it is interesting to see that in 2006 (see section 5.4.2.2.3) Company B was faced with two main difficulties. The first one consisted in meeting shareholder pressure to sustain the company's two digits growth rate which had been recorded for 40 years. This meant keeping the pace of stores opening (domestically and internationally) avoiding cannibalisation and make them attractive enough to expand the company's insufficient customer base into an environment characterised by a second difficulty for the company, which was its clear lack of a positive public image. Subsequently, in order to attract new customers - which had not shopped there so far -, the company engaged in redefining core activities through a strategy of image revamping involving both store remodelling and appealing to a wider community using 'sustainable development themes' and CSR, which has been emphasised as being a growing concern for consumers (see Section 5.4.1.1.1). Evidence shows that this strategy, as far as sustainable development is concerned for example, has consisted of (instrumentally?) hiring sustainable development sensitive top management previously involved in green lobby groups to promote this strategy within the company and to the eyes of the public.

The place of sustainability and CSR as a pushing trend towards more NFPM is however not over-emphasised at Company B. First because the pressure of the market and shareholders on financial issues is strong and the impact of such NFPM is ultimately reflected in cost terms: *"To an extreme case, the market decides what the company is going to do, and if it is not profitable to be sustainable, probably in the retail industry we are not going to be sustainable (...) But it is sustainable: by reducing the number of trucks you have on the road, by reducing the amount of energy that your buildings use, and it is actually perceived as a benefit for the customer, you have an excuse to cut cost. It has not to be regulated if the retail industry sees the benefit in it, not only the PR and marketing benefits, but the real bottom line benefits cutting those costs"* (B4).

This is secondly evidenced in an alternative way by another respondent which balances external consumer pressure to adopt sustainable development and CSR practices and metrics in performance evaluation, and shareholder pressure (e.g. "good business sense" to satisfy the market), 'genetic' corporate culture and a 'non-reactor'⁹³ type' strategy of the company: *"The true reason why this corporation is sustainable is not from a desire to succumb to external pressures as much as it just makes good business sense and it forms an alignment with the culture and the strategic alignment of the company itself"* (B1). A retail sector specialist also explains the role of external consumer

⁹³ Using Miles and Snow typology (Miles & Snow, 1978).

pressure in the adoption of sustainable development and CSR metrics at retail companies by stressing the difference between what is said and done by shoppers who declare they are sensitive to sustainable development and CSR issues. As a matter of fact, the content of their shopping basket may show a different concern, especially when the goods which correspond to their concerns in terms of sustainable responsibility cost considerably more.

Finally, sustainability is also not over emphasised in comparison to 'associate engagement', a metric quoted second to the pool of financial performance indicators. The latter are considered as having a direct impact on the business, whereas the former, paradoxically almost perceived as genetic/natural to the company, is relegated to not having a direct impact on the wealth of the company: *"Sustainability is at the beginning, it doesn't have a direct impact on the business, and engagement has a direct impact on the business"* (B5.). This focus on 'associate engagement' can also be explained by the high personnel turnover of the retail business, among its other characteristics (see 5.4.2.2.3).

The conclusion of respondents about the above mentioned set of NFPM is quite direct and explains their place and role at Company B as well as the persistence of very traditional FPM (same store sales for example) as well: *"Hot topics at the moment have a very difficult time getting into operational performance metrics at Company B"* (B1). Another respondent concludes that metrics used there, whether they are financial or non-financial, ultimately have to be linked to a ROI calculation: *"There are two things: the future of the planet and the profits that the shareholders are asking, therefore they have to reconcile both and develop metrics to go from one action to its R.O.I."* (B6). Following Institutional Theory (DiMaggio & Powell, 1983), the specific justifications provided by respondents at Company B for their management of FPM and NFPM, even though they depart from the ones evidenced at Company A, would lead one to assume the same resulting formal and informal management of performance.

5.6.5 Substantive hypotheses emerging from the Outcomes of using a PMS at Company B

Outcomes - or consequences - are the results of action/interaction strategies that have been taken to manage the phenomenon. The researcher identified the main relationships between outcomes and the phenomenon under investigation. Hypotheses are therefore generated from evident relationships between the categories. The results of the analysis suggest the four substantive hypotheses presented in the Table below:

Table 24: Outcomes Labels and Hypotheses

Consequences Labels	Decoupling: formal and informal performance management	Rigidity of Performance Measures Collection and Standardisation	NFPMs cost reduction, income increase and positive public image	Redefining Core Activities
Hypotheses	<ul style="list-style-type: none"> Decoupled PMS generates strategic inconsistency between a long term strategy and a short term practice 	<ul style="list-style-type: none"> The rigidity of performance measures collection and standardisation is aimed at stakeholders' reassurance and creates decoupling of the PMS 	<ul style="list-style-type: none"> The emergence of NFPMs is positively associated with the improvement of corporate image, cost reduction and income increase 	<ul style="list-style-type: none"> The formal emergence of NFPMs complements traditional FPMs and is associated with the redefinition of the industrial activity

5.7 Substantive hypotheses emerging from the application of the Strauss and Corbin Grounded Theory methodology (1998) to the case of Company B

In this final section, hypotheses that have been identified during this analysis are generated from the patent relationships between the components of the five dimensions of the Strauss and Corbin Grounded Theory methodology (1998) and the phenomenon. The results of the analysis have suggested substantive hypotheses which have been presented in causal, organisational, environmental, action and interaction strategies and outcomes sections of this case study. The results of the analysis suggest the following substantive hypotheses:

Table 25: Summary of Emerging Labels (or Conditions) and Substantive Hypotheses for Case B

Labels/Hypotheses	Labels	Label 1/Hypothese 1	Label 2/Hypothese 2	Label 3/Hypothese 3	Label 4/Hypothese 4	Label 5/Hypothese 5	Label 6/Hypothese 6
Causal Labels	<ol style="list-style-type: none"> 1. Industry Nature 2. Economic Environment Sensitivity (Stakeholder and shareholder Pressure) 3. Company Culture and Performance Management Reporting Structure and Process 4. Rigid Growth Model 	<ul style="list-style-type: none"> • The industry sophistication and short term constraint makes operations metrics and FPMS prominent in the PMS of organisations 	<ul style="list-style-type: none"> • In unstable environment the PMS is structured around quantitative and financial metrics which enable fast and efficient industry benchmark to reassure stakeholders (shareholders) 	<ul style="list-style-type: none"> • FPMS are prominent in the organisation because they are holistic, embody profitability and are understood by everyone internally and externally 	<ul style="list-style-type: none"> • Operations and FPMS are prominent in the PMS of organisations whose growth model is rigid 		
Organisational Labels	<ol style="list-style-type: none"> 1. Corporate History & Culture 2. Corporate Structure Stability 3. Employee Management (education and management competences) 4. Strategy (low Cost Operator – low margin – high volume) customer needs and practice 5. Information Systems 6. Change Management 	<ul style="list-style-type: none"> • Company History & Culture and management practice associates performance with traditional industry operational and financial metrics. NFPMS are primarily developed for isomorphism (not for performance evaluation) and benchmark purposes and are associated with the leverage capacity of the organisation 	<ul style="list-style-type: none"> • The FPMS/ NFPMS balanced structure of the PMS depends on the stability over time of the organisation's dominant coalition 	<ul style="list-style-type: none"> • performance and NFPMS benefits are not clear and FPMS are perceived more objective/fair than NFPMS by managers who shape the PMS to be structured around more FPMS than NFPMS 	<ul style="list-style-type: none"> • Low cost strategy implies a rigid and standardized PMS structured around FPMS 	<ul style="list-style-type: none"> • In organisations where Information Systems are not integrated the PMS is decoupled 	<ul style="list-style-type: none"> • Revolutionary change initiates PMS redesign starting with FPMS and expanding to the isomorphic emergence of NFPMS
Environmental Labels	<ol style="list-style-type: none"> 1. Competition 2. Environment normalisation (Stakeholder and Shareholder pressure, incl. financial analysts) 3. Industry Nature (cyclical and sensitive) 4. Trends: Political regulations, commercial and media 	<ul style="list-style-type: none"> • The modification of the competitive environment from competitors, customers and regulators generates a stress on financials and explains the prominence of FPMS 	<ul style="list-style-type: none"> • Under stakeholder (incl. financial analysts) pressure for proof of profitability in tightened (uncertain) economic conditions organisations focus on core business operations and cash & revenue (i.e. 'rationality of performance evaluation') and tend to develop more rigorous isomorphic centralized formal financial and non-financial metrics and informal financial and operations metrics. This process is slowed down b/c of company culture and social contract preservation 	<ul style="list-style-type: none"> • The industry short term constraint (cash and revenue) makes organisations focus on fast action operations metrics and FPMS 	<ul style="list-style-type: none"> • Stakeholder, state and media pressure explains the isomorphic development of formal NFPMS 		
Action/ Interaction Labels	<ol style="list-style-type: none"> 1. Quantitative and qualitative metrics (proof of wealth contribution) 2. Formal development of NFPMS and Specific Conception and usage of NFPMS 3. Centralization of Performance Information 	<ul style="list-style-type: none"> • Operational qualitative and quantitative metrics tend to be used more at operations level (to show manager's contribution to a positive ROI) and are modified to be reported to top management 	<ul style="list-style-type: none"> • Isomorphic NFPMS development are a means to triangulate prominent FPM information for demanding stakeholders (financial analysts, shareholders and the community) and improve public image • When traditional cost savings are limited, NFPMS are developed 	<ul style="list-style-type: none"> • In organisations where Information Systems are not integrated the PMS is decoupled (corporate formal vs. operations customized metrics) 			
Outcomes Labels	<ol style="list-style-type: none"> 1. Decoupling: formal and informal performance management 2. Rigidity of Performance Measures Collection and Standardization 3. Redefining Core Activities 4. NFPMS cost reduction, income increase and positive corporate image 	<ul style="list-style-type: none"> • Decoupled PMS generates strategic inconsistency between a long term strategy and a short term practice 	<ul style="list-style-type: none"> • The rigidity of performance measures collection and standardisation is aimed at stakeholders' reassurance and creates decoupling of the PMS 	<ul style="list-style-type: none"> • The formal emergence of NFPMS complements traditional FPMS and is associated with the redefinition of the industrial activity 	<ul style="list-style-type: none"> • The emergence of NFPMS is positively associated with the improvement of corporate image, cost reduction and income increase 		

6 Case C

This third case study presentation is about Company C, a French corporation which is a large player in the airline business. This case study is the first of the airline industry matched pair cases undertaken by the researcher. It will be more detailed than its North American counterpart because its intention is to avoid the repetition of unnecessary information which will be documented here. The researcher also acknowledges this case is more detailed than its retail equivalent due to the large quantity of information available in this much regulated and highly monitored industry⁹⁴. This case study is divided into seven sections. Section 6.1 provides the reader with a brief summary about Company C. Section 6.2 details the interviews and the data collection and analysis procedures. Section 6.3 summarises the findings emerging from the case study. Section 6.4 describes Causal Conditions for adopting a PMS, as well as Organisational and External Conditions which affected the design and operation of Company C's PMS. These conditions explain the action/ interaction strategies which Company C's management adopted as a result of the implementation of its PMS in Section 6.5. Section 6.6 discusses to what extent the PMS has been adopted by the company and how successful it has been. At the end of each sections the reader is provided with relevant hypotheses emerging from the dimensions of the Strauss and Corbin Grounded Theory methodology (1998). They are finally gathered together in section 6.7.

6.1 Company C Overview

Company C, which was founded in the early 1930's, was nationalised in 1945. This is an international airline which is one of the founders of the second worldwide global airline alliance⁹⁵ (Guidice, Vasudevan, & Duysters, 2003). By means of a merger, this company became the largest European transport group in 2004.

Company C currently manages three typical airline industry activities: passenger operations, cargo and maintenance. The Company makes around €21 billion of annual revenues as of march 2010 and an operating loss of over €(1.3) billion. As of 2010, Company C employs around 60,000 people worldwide.

⁹⁴ Besides providing a comprehensive picture of the airline industry, it also summarises the emerging short and mid-term trends outlined by the major airline associations: the International Air Transport Association (IATA), the *Direction Générale de l'Aviation Civile* (DGAC), the International Civil Aviation Organization (ICAO), the Federal Aviation Administration (FAA), the Bureau of Transportation Statistics (BTS), and the Air Transport Association (ATA).

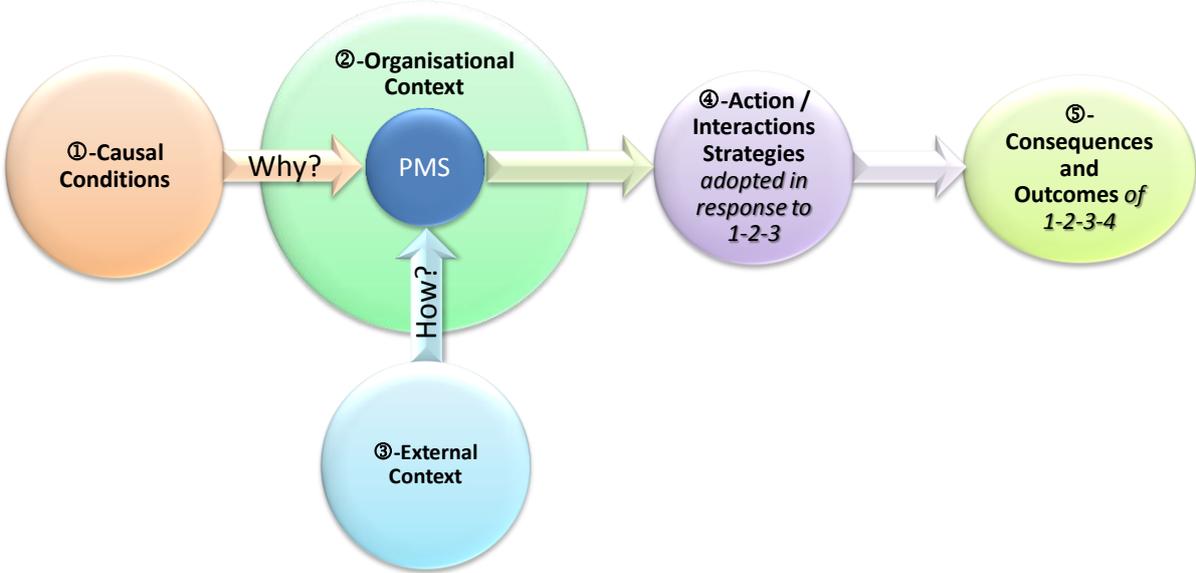
⁹⁵ Created in 2000

6.2 Data Collection and Data Analysis

6.2.1 Data Collection

As documented before, this research uses the Strauss and Corbin Grounded Theory methodology (1998) as shown in Figure 16 below.

Figure 16: Company C Data Analysis within the Strauss and Corbin Grounded Theory methodology (1998)



The interview process at Company C took over one year for completion (2007-2008). The researcher has however limited the scope of the airline industry trends study to the end of 2009⁹⁶ to provide the reader with a better global picture of the average/ long term trends of the business. Interview data was dealt with confidentiality for both interviewees and the company. Interviews at Company C were made possible by personal contact with a top Human Resource (HR) manager of the company. The selection of 6 out of the 13 respondents was suggested by this HR manager after presenting him with the purpose of the research. It is acknowledged the suggestion of respondents by this manager may constitute a bias in this research; however the researcher considers the respondents' selection to be balanced as it has been based on seniority and a range of providers and users of performance management tools. Interviews at Company C each lasted one hour or so and were recorded when agreed by the respondent. Initials of the thirteen respondents and their respective functions are detailed in the table below:

⁹⁶ For a better understanding of the global airline industry picture some 2010 facts and figures are also presented when appropriate.

Table 26 : Details of Company C 13 Respondents

Respondents	Functions
C1	Senior Vice-President Finance
C2	Vice President Corporate Control
C3	B.U. Director Hungary
C4	Senior Vice-President of Ground Operations
C5	Vice-President Marketing
C6	Europe and Domestic Product Manager
C7	Regional Director Operations Central Europe
C8	Corporate Accounts Sales Manager
C9	Airbus 3XX Fleet Director
C10	Human Resources Director
C11	Director of Operations Middle East
C12	Managerial Accountant Middle East
C13	Airbus 3XX Pilot

6.2.2 Data Analysis

The researcher collected a large quantity of data which used the analytical procedures informed by the Strauss and Corbin Grounded Theory methodology (1998) already used to process the two preceding case studies. Subsequently, emerging case labels were gathered into categories relating them to the phenomenon under investigation (the PMS) in terms of Causal Conditions (Section 6.4.1), Organisational Conditions (Section 6.4.2) and External – Intervening – Conditions (Section 6.4.3) impacting action/ interaction strategies of the PMS (Section 6.5), and ending in effects and outcomes (Section 6.6). The following sections illustrate the relationships that the researcher has established between category labels emerging from the data collected and the central category that is the PMS. The researcher then developed hypotheses which derive from the main category's relationship with the other related categories' components.

6.3 Summary of the Key Elements arising from the case study

Company C is a major French born and based international airline. The company has adopted a PMS which is structured around a set of nested *Tableaux de Bord* (TDB) (Horngren, Bhimani, Datar, & Foster, 2005, pp. 800-802). These are, also in the French tradition, customised by hierarchical levels and functions. The majority of these TDB embed quantitative and financial performance measures.

Depending on the hierarchical level of the respondent, the label which is used to characterise the nature of the tool managers use to measure and manage performance appears to be different: from TDB to BSC⁹⁷. Higher level respondents refer more to TDB than BSC as it will be illustrated in this section. Under the unity of an acronym such as the BSC or the TDB, lies a multitude of definitions and subsequent practices which come in addition to managers' variety of beliefs about their structure, function and operation. The reason explaining this prominence of quantitative and FPMs over NFPMs originally lies in the nature of the industry in which the company operates which is cyclical and very sensitive not only to the evolution of worldwide economic conditions, the pressure of financial markets and financial analysts, but also to growing political, commercial and media pressure on issues such as Corporate Social Responsibility (CSR) and Sustainable Development (SD). This industry is highly regulated and monitored via a set of 'objective' industry-wide measures which evaluate performance through the lenses of passenger and freight transport efficiency and other related and mostly quantitative/ financial metrics. This specificity is very important because, like major airlines, Company C has adopted a competitive strategy which heavily relies on high yield⁹⁸ traffic which happens to be particularly sensitive and quick to react to changing economic conditions. The recent economic downturns have seen some large traditional players disappear as this 'main strategy' that numerous airlines adopted was obviously not enough for them to survive tough worldwide competition. This economic evolution has led to environment normalisation⁹⁹ and pushed this security/ safety conscious industry to 'grow up' and become more mature in adopting a more rigorous and 'benchmark able' way of performance evaluation. Even if the environment pressure has pushed Company C to balance the proportion of FPMs and NFPMs used, the prominence of the former is appearing persistent in its PMS. In spite of the start of privatisation in 1999¹⁰⁰, the corporate history of the company fostered by a state-owned management culture has supported the idea of "another way to achieve performance" (C4) as stated by one respondent. This is accomplished through 'global' (i.e. blended) performance measurement and management practices that are able to maintain industrial relations through a sort of 'social contract'¹⁰¹ that is at the roots of the company management life. This social contract is a form of tacit management agreement which considers performance as being global and in which individual performance is drowned subsequently raising the issue of individual managerial responsibility. The outcome of this story are a global dissatisfaction with the PMS which is perceived as not supplying relevant individual

⁹⁷ See

Table 30: Merged visions of "Profitable Growth" through KPIs at Company C and Table 31: Four dimensions of a Country specific BSC at Company C (Hungary) for example.

⁹⁸ Premium and economy full fare (i.e. last minute ticketing) passengers.

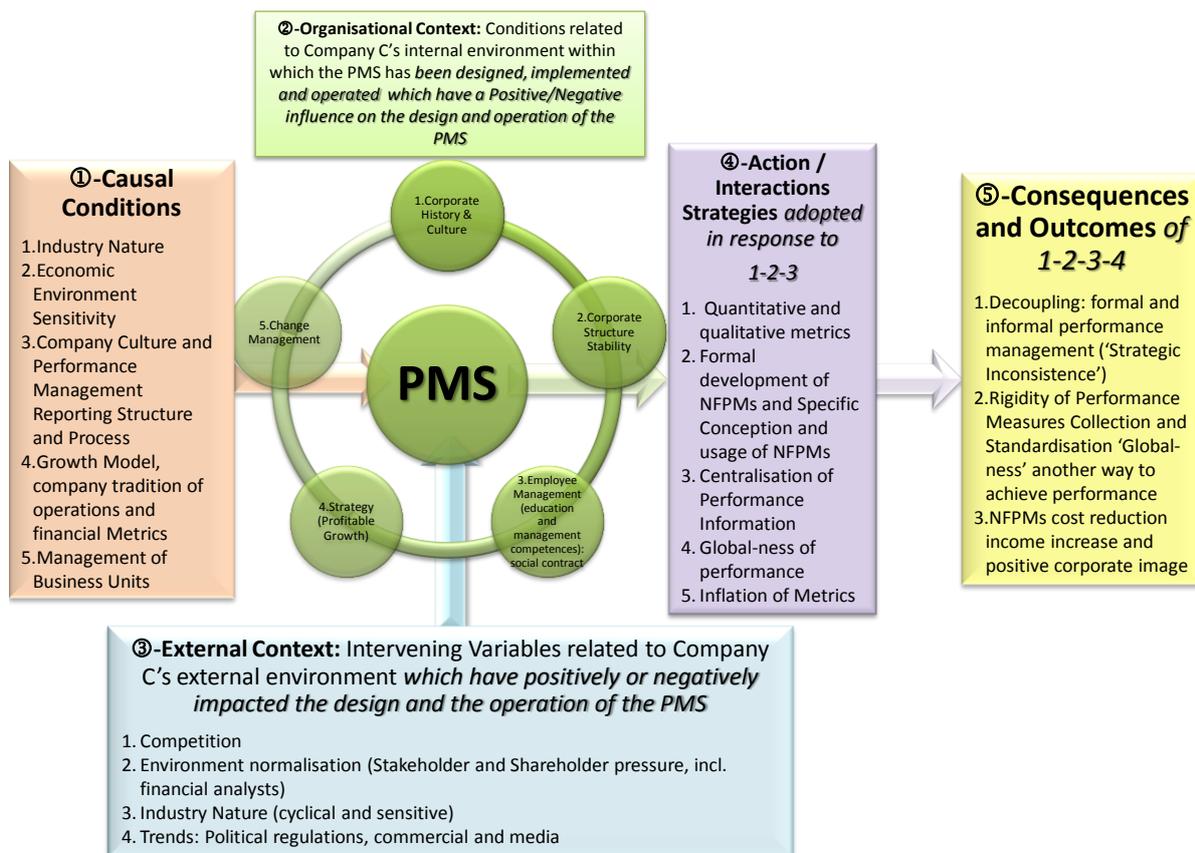
⁹⁹ I.e. rationalisation of the number of international players, performance measurement mostly driven by financial metrics.

¹⁰⁰ Completed in 2004 with a merger.

¹⁰¹ Social contract is understood here as an agreement by the people on a set of rules by which they are managed. This definition derives from social contract theory (Thomas Hobbes, John Locke, Jean-Jacques Rousseau, David Hume).

productivity information, the relative inutility of the management control function and the budget¹⁰², the blending of responsibilities through a ‘global’ performance assessment process which is perceived by some managers as a source of strategic inconsistency¹⁰³. Figure 17 below summarises the content of sections which covered causal, external and organisational conditions emerging from interviews performed at company C within the Strauss and Corbin Grounded Theory methodology (1998), as well as the consequences and outcomes of actions and interaction strategies that management has adopted in response to them.

Figure 17: Summary of the Key elements arising from Company C case study



6.4 The Reasons Why Company C decided to have a Performance Measurement System (PMS) and how it has evolved

The purpose of the following sections and subsections is to inform the reader about the Causal, Organisational and External Conditions – emerging from interviews performed as well as triangulation evidence from the case study context – which led management to adopt its PMS related action and interaction strategies and their outcomes and consequences at Company C.

¹⁰² See Figure 17.

¹⁰³ Which literature has addressed as an ‘analyser’ strategy (Miles & Snow, 1978).

6.4.1 Causal Conditions for adopting a PMS at Company C

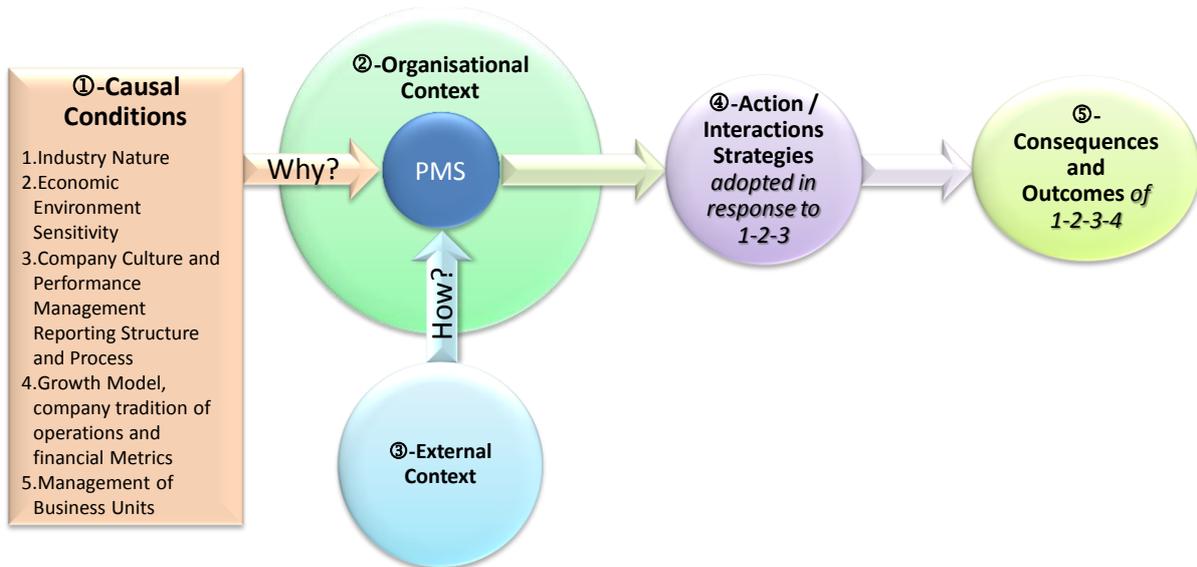
Causal conditions within the Strauss and Corbin Grounded Theory methodology (1998) refer to the events which make the phenomenon happen in the setting of the case study. In this first airline case, we consider different events that have generated the phenomenon under investigation. Each company has its own environment and industry, which gives it its own special characteristics and various different attitudes as to the adoption or not, as well as the evolution over time and use of a PMS.

6.4.1.1 Summary of Causal Conditions for adopting a PMS at Company C

Management's reasons for using a PMS at Company C appear to have been decided for several reasons relating to Company C's nature of industry/ management activities, its culture, growth model, its environment and its stakeholders. The structure and the use of the PMS at Company C are tied to several factors. The industry in which Company C operates constitutes one important parameter in the design and in the usage of the PMS because it is an industry which is traditionally highly regulated and focused on publically disclosed quantitative metrics able to express 'benchmarkable' performance in terms of the efficiency of the massive investments airlines incur (i.e. aircraft, equipment and personnel). This industry is very sensitive to the evolution of economic conditions especially because the fierce competition among airlines has reduced the number of players and weakened a large part of the survivors. The remaining large companies have subsequently widely adopted a subsistence strategy which has mostly consisted of targeting the 20% specific kind of consumers¹⁰⁴ who generate 80% of revenues. This massive adoption of a single strategy has seen its limits with the recent economic downturn. This has pushed airlines, including Company C, to focus on basic survival necessities: income and cash. This behaviour has reinforced the industry already traditional prominence of FPMs usage over NFPMs in performance measurement and management. The former state-owned corporate culture of Company C, through a 'profitability is not an issue' and its subsequent 'global-responsibility-blending' conception of performance, also has participated in the shaping of a PMS structured around more 'engineer-friendly' quantitative and financial performance measures than NFPMs. Furthermore, this tendency was reinforced by a rather traditional 'quantitative – operational – metrics' management of business units (Euske, Lebas, & McNair, 1993). Figure 18 below summarises the content of section 6.4.1.2, which will now give detailed Causal Conditions emerging from the case study and explaining the adoption of a PMS.

¹⁰⁴ Premium and economy full fare customers

Figure 18: Summary of Causal Conditions relating to the adoption by Company C of its current PMS



6.4.1.2 The different Causal Conditions for adopting a PMS at Company C

Following the interviews that have been performed, complemented by triangulation information emerging from the case study context, management’s reasons for using a PMS at Company C appear to have been decided for several reasons relating to Company C’s nature of activities, its environment and its stakeholders.

6.4.1.2.1 Airline Industry related Causal Conditions

One emerging reason for the development of a PMS at Company C relates to competitor benchmarking requirements of the cyclical and very economic-events-sensitive industry in which it operates. The company has adopted a *tableau de bord* shaped PMS embedding the specific nature of the ‘competition-relative’ quantitative information which is self-imposed and mainly used across this highly regulated business area which is the airline industry: *“In an industry like the airline, where everyone considers it is cyclical, financial analysts to start with, it is an industry which has never yielded much money. Your performance is measured against your position among your competitors: it is either you are considered at the top; if you win a lot of money and the others are losing money, then you are considered very good. We are not in a normalised environment. We are a specific sector, very cyclical, very sensitive to exogenous events: a threat, influenza, a war, a terrorist attack, etc...”* (C4). As a matter of fact, according to some respondents, this would lead one to assume the reason why performance measurement and management is focused on industry indicators in the airline sector is because the maturity of this business is such that performance has to mainly consist of a relative evaluation to competition and not an absolute evaluation.

The Company PMS is also designed to adapt to another specificity of the airline industry which combines the management of expensive capital (i.e. aircraft) as well as personnel. In this sense the PMS should provide at least three of the classical financial metrics quoted by respondents: EBIT, ROCE and Free Cash Flow: *“We see that in the airline business, it is not the same thing as other areas (...) since we have to deal with different subjects: we capitalise a lot, this is a service business, we are not a disincarnated job, therefore the level of fixed costs is important, with fragile margins in view of internal and external environment, equity analysts for example”* (C1).

Respondents’ answers lead one to assume that there is not only one single PMS, but differentiated scorecards adapted to management information requirements of the different business units of the Company. As a matter of fact, Table 27 below actually shows a sample of the elements of Company C’s set of *tableaux de bord* and the way they are expressed. Their purpose is to provide simple, straightforward, industry-specific metrics that are used both to evaluate internal performance, but also as an agreed basis of benchmarking among worldwide airlines.

Table 27: Company C Passenger Activity (in millions) March 2010 ¹⁰⁵

STATISTICS						
Passenger activity (in millions)						
	March			Year to date		
	2010	2009	Variation	2009-10	2008-09	Variation
Total Group						
Passengers carried (000s)	5,893	5,689	3.6%	71,394	74,445	(4.1%)
Revenue pax-kilometers (RPK)	16,776	16,030	4.7%	202,455	209,060	(3.2%)
Available seat-kilometers (ASK)	20,831	21,233	(1.9%)	251,012	262,356	(4.3%)
Load factor (%)	80.5%	75.5%	5.0	80.7%	79.7%	1.0
Europe (including France)						
Passengers carried (000s)	3,977	3,884	2.4%	48,492	51,042	(5.0%)
Revenue pax-kilometers (RPK)	3,070	3,002	2.2%	38,635	40,466	(4.5%)
Available seat-kilometers (ASK)	4,570	4,784	(4.5%)	55,217	58,432	(5.5%)
Load factor (%)	67.2%	62.8%	4.4	70.0%	69.3%	0.7
Americas						
Passengers carried (000s)	688	673	2.3%	9,018	9,351	(3.6%)
Revenue pax-kilometers (RPK)	5,187	5,074	2.2%	67,354	69,968	(3.7%)
Available seat-kilometers (ASK)	6,092	6,285	(3.1%)	78,300	83,536	(6.3%)
Load factor (%)	85.1%	80.7%	4.4	86.0%	83.8%	2.3
Asia / Pacific						
Passengers carried (000s)	479	443	8.3%	5,397	5,574	(3.2%)
Revenue pax-kilometers (RPK)	4,067	3,792	7.2%	46,165	48,070	(4.0%)
Available seat-kilometers (ASK)	4,596	4,585	0.3%	54,185	56,865	(4.7%)
Load factor (%)	88.5%	82.7%	5.8	85.2%	84.5%	0.7
Africa / Middle East						
Passengers carried (000s)	457	440	3.9%	5,484	5,462	0.4%
Revenue pax-kilometers (RPK)	2,413	2,333	3.4%	28,923	28,831	0.3%
Available seat-kilometers (ASK)	3,046	3,150	(3.3%)	36,796	36,432	1.0%
Load factor (%)	79.2%	74.1%	5.2	78.6%	79.1%	(0.5)
Caribbean / Indian, Ocean						
Passengers carried (000s)	291	250	16.6%	3,005	3,017	(0.4%)
Revenue pax-kilometers (RPK)	2,040	1,828	11.6%	21,378	21,725	(1.6%)
Available seat-kilometers (ASK)	2,527	2,430	4.0%	26,514	27,092	(2.1%)
Load factor (%)	80.7%	75.2%	5.5	80.6%	80.2%	0.4

¹⁰⁵ Company C Internal document.

For this latter purpose, these metrics, because they are industry specific are also monitored, agglomerated and disclosed in growth percentages by geographic area by the major airline associations such the International Air Transport Association (IATA), as shown in Table 28 below:

Table 28: International Passenger and Freight Markets Evolutions in % (25th August 2010)¹⁰⁶



The first metric documented is RPK, which stands for Revenue per Passenger Kilometre. It is a measure of passenger traffic which corresponds to the number of paying passengers times the kilometres flown. In this sense RPK (PKT in French) is a measure of sales volume of passenger traffic. The second metric is ASK. This means Available Seat Kilometre. ASK (SKO in French) measures an airline's passenger carrying capacity. It is a metric which multiplies the number of seats available by the distance in kilometres flown. The third metric monitored is FTK. This means Freight Tonne Kilometre (TKT in French). It is a measure of freight traffic which is obtained by multiplying freight tonnes carried by kilometres flown. The fourth metric which is monitored is LF and it stands for Load Factor. It is a measure of capacity utilisation which is obtained by applying the following ratio: RPK/ASK . Load factors are calculated for both passenger and freight activities.

From these typical and simple industry specific metrics (Pilé, 1959), derive most of the main quantitative indicators monitored at Company C. Depending on the nature of the matrix activity exercised within the company (passenger/ freight transport or maintenance and finance, marketing, etc.), these metrics are also complemented by other quantitative non-financial as well as qualitative data. They will be further discussed in the following sections.

6.4.1.2.2 Economic Environment related Causal Conditions

The airline industry is a business which is very sensitive to the evolution of the economy. Under these circumstances, Company C's PMS has to show an aptitude to provide managers with early warning signals especially in the case of an economic recession for example. As an example, this is the case

¹⁰⁶ (IATA Economics, 2010, p. 4).

with the air freight metric which signals turning points in world trade 4-5 months ahead¹⁰⁷. Air freight falls faster than world trade at the start of an economic downturn and then starts to rise faster than overall world trade a few months before the bottom of the cycle in industrial production (Gardiner & Ison, 2007). The extreme sensitivity of the airline industry to the evolution of economic conditions explains the position of air freight as an important performance measure and very timely indicator¹⁰⁸ of overall world trade (Schreindorfer, 2006; Kasards & Green, 2005), especially at a time when major players in the industry have almost solely focused their strategy on high yield¹⁰⁹ business which obviously heavily relies on the wealth of the economy. Subsequently, the company has developed a PMS which is sophisticated enough to supply managers with the benchmarking information¹¹⁰ required by top management. It is also designed to provide early signals of changes in the environment. This explains its organisation around different TDB structured around the main metrics monitored by the industry (e.g. abovementioned ASKs, RPKs and LFs for example).

6.4.1.2.3 Company related Causal Conditions

Several specific internal dimensions of Company C explain the adoption of its PMS: from its past turbulent history and culture as a nationalised and highly unionised airline (Bouaziz, 1998) to its recent development by means of privatisation (1999) and merger (2004) and its subsequent publicly traded strategy status and as one of the largest international players in the airline industry.

The history of Company C summarises the contradiction of the French public sector: a lack of preparation for competition, the rebuttal of deregulation, chaotic industrial relations and a lagging strategy. Within this global picture, the role of the French state has been ambiguous until the late 1990's because it played both the role of a controller and a major shareholder of Company C. As a matter of fact, in 1993, Company C was on the verge of bankruptcy but for a 20 billion French Francs cheque drafted by the French government. This political situation put the company chairman on an ejection seat, a fact which did not contribute to the definition of a clear strategy¹¹¹. Congruent with prior literature (Bourguinion, Malleret, & Nørreklit, 2004), the French government's traditional

¹⁰⁷ As a matter of fact, in its most recent downturn air freight growth turned negative in June 2008 and then fell sharply in September 2008. At the same time growth in overall world trade volumes turned negative in November 2008 and then fell very sharply in December 2008.

¹⁰⁸ "The reason for this is that air freight is a more expensive transport mode, compared to land or ocean transport, but it is much faster. During a recession, when firms are reducing inventory, speed of delivery of components and final goods becomes less important. Shippers switch to the cheaper, though slower transport modes causing a sharp fall in air freight but some delay before overall world trade weakens. The opposite occurs during the recovery phase when firms are seeking to replenish inventory and source components to build up production schedules. Then air freight becomes the transport mode of choice and rises ahead of world trade as shippers switch in the opposite direction" (IATA Economics, April 2009, p. 2).

¹⁰⁹ e.g. corporate travellers flying business class, last minute and economy full fare ticketing.

¹¹⁰ Relative performance assessment.

¹¹¹ The strategy board who have not met since 2007 actually no longer exists at Company C and strategy is discussed directly in board meetings (see section 6.4.2.2.2 for more details).

appointment of 'singled-model educated executives'¹¹² at top management positions in state-owned companies has not encouraged a profitability-oriented management, but rather a certain 'Marxist' conception of the mission of the French public company, whose purpose is to stand where a private company would not be interested/ or could not afford to have operations. This has also been traditionally mixed with the international prestige of operating a flagship company. In addition, this specific top management has customarily not seen any prestige in using performance measurement and management tools which were actually considered too rough/ not sophisticated enough to embrace the complexity of corporate value creation (Bourguignon, Nørreklit, & Malleret, March 2001; D'Iribarne P. , 1993). The characteristics of these state-owned companies, besides others, are high unionisation, and a rather "generous personnel management policy" (C4) which is reluctant to use individual and precise performance assessment and rather favours – if/ when possible – the preservation of global financial equilibriums. Any challenge of this industrial *status quo* immediately launches strikes. This original situation, explains the 'state-protected' status of the 'unconstrained' growth model and performance of the company and the usage of quantitative and financial performance metrics because they provide management with the performance-responsibility blending capacity they require. The fact that these actually are industry metrics which come from outside of the company is explained by the corporate idea that performance is perceived as relative to the performance of other players in the airline industry and not absolute (C4), but also because they provide an easy¹¹³ and objective way to measure performance and stick to the idea that performance consists in sustaining a global financial equilibrium while preserving social consensus. In addition, it must be said that at the same time Company C also coped and still has to manage with the extraordinary paralysation power of pilots and the presence of seventeen corporate labour unions. The recent evolution of the company towards a privatised model has promoted the introduction of a modern PMS able to sustain the modernisation plan on which it embarked after 1993. This plan is perceived as a late awakening of the company subsequent to its 1993 near bankruptcy status and is actually perceived, along with another European industry player's¹¹⁴ initiatives', as rather timid compared to some competitors¹¹⁵ revamping strategies at the same time for example (Lehrer, 2000).

¹¹² X-Mines-Ponts, top, elitist and prestigious French engineer schools and ENA (Ecole Nationale d'Administration), top and elitist administration school training persons with political ambitions.

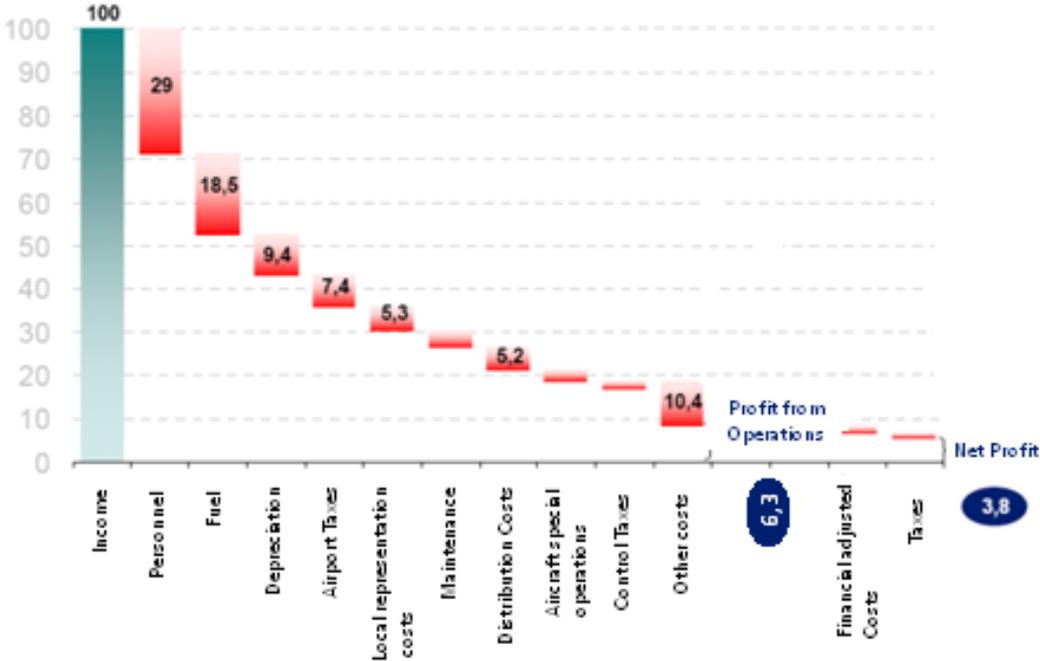
¹¹³ A 'bounded rationality' (Simon, 1957) way of measuring performance. Bounded rationality being the notion that in decision making, rationality of individuals is limited by the information they have, the cognitive limitations of their minds, and the finite amount of time they have to make decisions.

¹¹⁴ Lufthansa.

¹¹⁵ British Airways' revenue management.

Taking into account the specificity of the company cost structure (incl. pilots and crew wages reduction and personnel rejuvenation), Company C’s plan emphasised cost reduction on the different items shown in Figure 19 below:

Figure 19: Company C Cost Structure ¹¹⁶



The company modernisation plan also included network and frequency optimisation, the introduction of the ‘hub’ concept in 1996¹¹⁷ and a focus on customer satisfaction with the development of new business and first class cabins as well as a loyalty program rewarding high yield – mostly business – passengers¹¹⁸. Its 2004 merger with another airline meant coping with a different national as well as a new management culture. In the context of a highly unionised company and subtle personnel management, the 2004 merger has had a specific implementation plan by which most operational activities (e.g. lower levels) have been kept separate between the two companies. The reason for this is an illustration of contingency theory’s differentiation and integration concepts (Lawrence & Lorsch, 1967; Chenhall R. H., 2003; Otley D. T., 1980). According to corporate documents, keeping two differentiated brands is tied to the preservation of company customer image and the emotion proposition. This means ‘a double opportunity for customers in a single group’. This goes through keeping differentiated crews, cabin layouts, business lounges, websites and customer relations. Yet, the 2004 merger also consisted of integrating/aligning certain functions to enhance service access and functionality through common initiatives. This found an expression

¹¹⁶ Company C Internal Presentation Document, 2008.
¹¹⁷ Resulting in 36.8% more flights and 40.6% more passengers in less than two years after its introduction at Charles de Gaulle Airport.
¹¹⁸ Those 35% of passengers which yield 70% of revenues (Bouaziz, 1998, pp. 137-145).

through the simple merger of top management functions from both companies or in some cases, one service of a company simply took over the whole activity for the global entity either for economic, better efficiency and/or political reasons (e.g. a shared frequent flyer programme, ticketing offices, luggage management, global fare combination and e-services). The range of metrics developed at Company C’s PMS is designed to be able to help manage their diverse activities. This explains why the PMS structure and reporting process provides a lot of quantitative metrics which are customised for each business area (ground operations, fleet, maintenance, sales, etc...) within the company. They are not primarily financial at operational level, even though most of them - ultimately - translate into a financial metric. Respondents also admit that these metrics are available even if their usefulness might only actually be ‘limited’ to a very few of them: *“We have several thousands of metrics; however from a personal point of view I may only follow ten of them (on-time arrivals, flight safety, work safety, customer evaluation and luggage performance ...). The few vital indicators are in what I just told you. They are not financial. They adapt to my operational field of activity”* (C4).

6.4.1.3 Substantive hypotheses emerging from the Causal Conditions for adopting a PMS at Company C

The researcher has identified the main relationships between the categories and the phenomenon under investigation. Hypotheses are therefore generated from evident relationships between the categories. The results of the analysis suggest the following five substantive hypotheses:

Table 29: Emerging Causal Labels and Hypotheses

Causal Labels	Industry Nature	Economic Environment Sensitivity	Company Culture and Performance Management Reporting Structure and Process	Growth Model	Management of Business Units
Hypotheses	<ul style="list-style-type: none"> The industry immaturity, short term constrained, highly regulated, capital intensive and engineer friendly nature makes operations metrics and FPMs prominent in the PMS of organisations 	<ul style="list-style-type: none"> In unstable environment the PMS is structured around quantitative and financial metrics which are fast and flexible strategic industry metrics (capacity adjustment) and preserve industrial relations 	<ul style="list-style-type: none"> FPMs are prominent in the organisation because they are global, embody profitability and are understood by everyone internally and externally and blend responsibility 	<ul style="list-style-type: none"> Operations and FPMs are prominent in the PMS of organisations whose growth defined as performance 	<ul style="list-style-type: none"> In organisations where performance information requirement differs from business units the PMS is differentiated

6.4.2 Internal Organisational Context in which the PMS was designed and operates at Company C

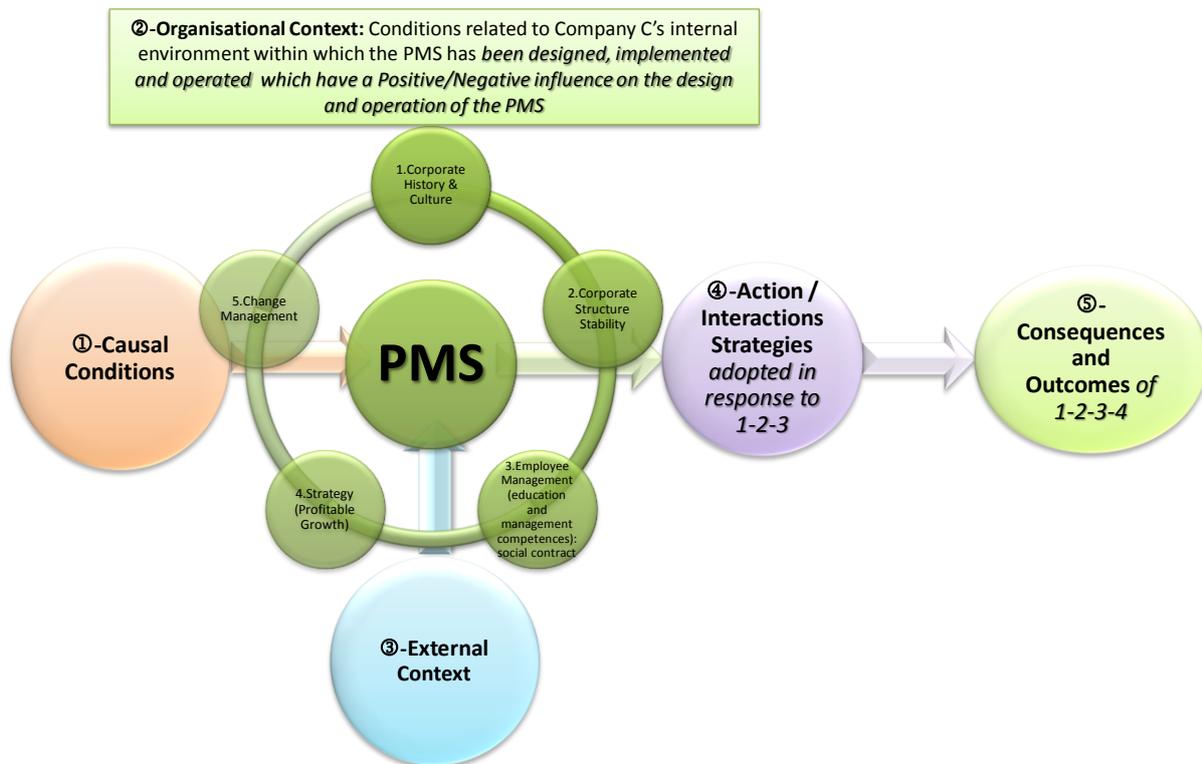
The organisational context refers to a particular set of characteristics/ circumstances in which the phenomenon has occurred. Organisational characteristics – or conditions – that relate to Company C using a PMS have been identified. They create a set of circumstances to which Company C

management responds through action and interaction strategies. Contextual conditions may have a positive or a negative impact on the phenomenon under investigation.

6.4.2.1 Summary of Organisational Conditions for adopting a PMS at Company C

The corporate culture of Company C is characterised by a strong state owned past which produced a social contract whose sustainability is at the roots of the specific nature of performance measurement and management there. Furthermore, the re-shaping of the global airline industry in a growing and fiercely competitive environment has led the company to adopt a ‘profitable growth’ strategy based on the creation of an alliance, privatisation and a merger which largely has contributed to the reinforcement of stakeholder (i.e. shareholders and financial market) pressured quantitative and financial performance measures over NFPMs in the company PMS. Figure 20 below summarises the content of section 6.4.2.2, which will now give detailed Organisational Conditions emerging from interviews performed at Company C as well as triangulation evidence emerging from the case study context explaining the adoption of a PMS.

Figure 20: Summary of Organisational Conditions' Impact on the Company PMS



6.4.2.2 Organisational Conditions' impact on the design and the operation of the Company's PMS

The Organisational Conditions or Factors are the contextual circumstances or conditions which have an impact on how the phenomenon works within the organisation. In this case the PMS exists within the context of Company C which directly affects the use of such a performance management system.

6.4.2.2.1 Company background

Company C was founded in the early 1930's by means of a merger of the four pre-existing French transport companies. Nationalised in 1945, this international airliner was finally listed on the primary stock market in 1999. By means of a merger, Company C became the largest European transport group in 2004. The global airline coalition developed by the company in 2000 comprises 12 members¹¹⁹ and is the second largest worldwide global alliance with around 20% of worldwide market share in 2009. The activity of this alliance encompasses the transportation of approximately 385 million annual passengers to around 900 destinations in nearly 170 countries. The present case study focuses on performance measurement and management at Company C as a part of 'Company C Group' formed by its 2004 merger. Therefore, for consistency reasons, all information provided below solely relates to Company C as a part of Company C Group unless otherwise stated.

Company C currently has three activities. Passenger operations is the main activity and accounts for over 73% of revenues. Company C is actually the European leader in passenger transport with over €15 billion of revenues in 2009-10; then comes Cargo operations which is freight transport and cargo forwarding which together accounted for 11% of revenues in 2009-10 with nearly €2.5 billion of revenues and finally maintenance activity which consists in aircraft repair and maintenance servicing for around 150 companies worldwide, including Company C itself. This latter activity represents 14% of revenues including nearly €1 billion in third-party revenues, with its total revenues amounting to nearly €3 billion. Together these three activities represent 98% of the company's revenues. The remaining 2% is generated by the activity of company subsidiaries that specialise in complementary activities such as airline catering services but also an airline consulting activity which provides management and engineering solutions for air transport. Company C's revenues were approximately €21 billion in 2009-10 for a loss of €(1.3) billion. Company C in 2010 represents over 71 million passengers carried, around 240 worldwide destinations in over 100 countries. As of March 2010, Company C's fleet consisted of nearly 400 aircraft in operation including around 140 belonging to regional subsidiaries. The average lifespan of these aircraft is 9.9 years¹²⁰. This makes Company C's fleet one of the most modern and 'rational' in the airline business worldwide because it is composed

¹¹⁹ As of August 2010

¹²⁰ 8 years for the long-haul fleet and 10.5 years for the medium-haul fleet

of aircraft which are technically similar to one another¹²¹ so that the maximum efficiency¹²² benefit from technical commonality can be achieved. Two thirds of the fleet are fully financed or owned, the remainder are leased. This latter is particularly important because in the recent years, flexibility has become very important in airline industry. This flexibility is an important tool for fleet optimisation. It enables Company C to adjust capacity to demand¹²³. As of March 2010, Company C employs over 60,000 people with around 4,200 cockpit crew, 15,000 cabin crew and over 41,000 ground staff. The company downsized its personnel by 3,000 over one year from March 2009.

As a formerly state owned company, Company C has a strong civil servant culture. This long lasting culture is very slow to change for several reasons and explains why the PMS at company C is perceived by respondents as precise enough to provide performance information up to a certain level of responsibility yet blurry enough to keep performance information 'global' so that social consensus is not hurt and preserved: *"yes I think this blurriness, this general approximation of performance at C is the simple translation that we have not yet finished our journey to normality, towards normalisation, towards a pure and simple private company, the change in minds. We have to get used to it, to the long evolution since 93 where we were almost an administrative department of a state owned company. We have not quite completely yet got into the private model: we will more and more go towards an objective and rigorous evaluation (...) we are in a transition phase"* (C4).

This civil servant culture explains the specificity of employee management through the dilution or the 'globalisation' of performance at the company, which is its non-focus on individual productivity or performance: *"we have a strong culture of collective contribution to a common objective which dates from a period where we were rich in staff and when everyone had a view on each other's work (...) collective work richness creates coherence and a common view, but this takes time"* (C5). This would tend one to assume that the previous state owned company was not paying much attention to performance as long as it was nationalised and employing a large number of unionised people, or at least that it was not a primary concern (i.e. the company has its own definition of performance). This specificity relates to a 'social contract' which insures the stability of corporate structure and implies that the company will be generous and will not focus on individual metrics as long as the overall situation is fine, so to preserve the social consensus: *"We consider the global performance I provide (economic, operational, service to the customer, social): we have a social contract in this company which is important. We have a rich and generous social policy in exchange for reduced conflict, a non-opposition to evolutions which are presented as vital for the company, a non-opposition to its*

¹²¹ This is called the 'family effect' of Airbus technology on medium-haul fleet - 20% of traffic - as well as on long-haul fleet - 80% of traffic.

¹²² This enables tighter cost control in crew training and maintenance.

¹²³ Through contract clauses which enable airlines to adjust delivery deadlines, and/or to modify the version delivered within an aircraft family; operating lease contracts enabling Company C to leverage each year some 5% of its capacity by returning aircraft or extending the lease.

strategic orientations, to its projects of change. Finally the result of this (policy) is the evolution of our result (in absolute value: progress and against competitors)” (C4). The main reason for accepting performance management in such a way is linked to the maintenance of a social status quo within the company: “cost killers in a service company, that doesn’t work: I can announce a layoff plan and you’ll see the reaction of personnel. This has been the case at British Airways. You have to manage this very cautiously; therefore we do not touch productivity and other indicators” (C4).

This past state-owned and managed history is pervasive at Company C and explains the discrepancy between formal and informal performance evaluation: *“this history is omnipresent at C and supports this lag between a will from the general direction to focus on objectives, quantitative metrics, figures on the basis of indicators and, in reality, in practice, it is not the case because it is necessary to keep this global: work is done for nothing” (C8).*

This corporate culture/ weight of tradition also further explains the use of financial metrics such as the ROCE which complements the classic revenue from operations as a pedagogic tool to enhance managers’ consciousness about the importance of investment efficiency: *“we compute the performance of employed capital: we have made this indicator which bears an important pedagogic value because we are in a company where people, managers, are not originally familiarised with the result in relation with employed capital; the reasoning consists in showing that employed capital has a cost and that the result they produce should be higher than this cost” (C2).*

6.4.2.2.2 Company Ownership, Management and Organisational Structure

The ownership structure of the company is very specific and stable with the notable presence of the French state and company employees. As of December 2009, over 82% of Company C’s stock is held by the public, this includes 11% of shares owned by employees. Around 16% of total capital is owned by the French state and 2% owned by the company itself. Geographic allocation of share ownership is constituted of over 60% French nationals. Company C has a Board of Directors which determines the orientation of its activities and ensures their implementation. The mandate of the Board of Directors is traditional (e.g. four year office, 6 executive directors and 6 employees representatives, 1 director representing the French State appointed by ministerial order, 6 directors chosen at the General Meeting). It consists in working with the General Management to ensure operations are in line with the opinions and the recommendations of its specialised committees. Company C has three specialised committees: The audit committee’s mission is to review consolidated financial statements and inform the Board of Directors of their content, to ensure the quality of the information, including the forecasts provided to the shareholders and the market; The remuneration committee is responsible for submitting recommendations for the level of and changes to the

remuneration of executive directors and compensation of the company's senior executives; and the appointments committee which is responsible for proposing candidates to serve as members of the Board of Directors as well as to replace executive directors. In March 2009, the Board of Directors decided to disband the strategy committee which had not met since 2007. The company's strategy is now being discussed directly with the Board of Directors during an annual meeting committed to strategy. Company C has engaged into a joint venture¹²⁴ with a U.S. market leader in 2009, according to which the partners will jointly operate their trans-Atlantic routes by coordinating operations¹²⁵, thereby sharing 50/50 revenues and costs of their trans-Atlantic route network. As of December 2009 this joint venture – a 10 year contract – has already had a positive impact on load factors in a difficult economic environment.

6.4.2.2.3 Company Strategy

The environment in which Company C operates has seen the deepening of the economic crisis since the autumn of 2008. This worsening of the crisis found its expression through the sharp decline in business travel, a drop in international trade, and extreme volatility in oil prices and currencies. As explained earlier, the airline industry is particularly sensitive to world economic growth. The economic situation changed with the 2007-2008 conditions, at which time the company expected a 5 year world GDP annual growth of 3.5%. This growth rate was supposed to generate a 6% increase in demand for long haul traffic, where a rise in fares was assumed to compensate for higher fuel costs. However, at the same time the demand slowed down. The industry economic diagnosis which the company performed at that time however remained and remains the same through the economic downturn. The company subsequently adopted a strategy which has incorporated its perception of a re-drawing of the airline industry landscape through capacity reduction, the acceleration of mergers and acquisitions along with bankruptcies, and the reinforcement of the strongest players through alliances for example.

Company C's 2004 merger has had an influence on the PMS along with the shift of the company from state owned to private status which is progressively pushing the overall 'global/ loose' performance appraisal towards a change (Greenwood & Hinings, 1996) to more objective and rigorous assessment: *"we are changing with privatisation, we have more and more pressure on contribution and the evolution of our profit, however the first parameter is how we are in relation with our competitors (...) We will go for more and more objective and rigorous evaluation. We will no longer*

¹²⁴ Thanks to the effects of the 2007 "Open Skies" deregulation agreement.

¹²⁵ Cooperation of networks and sales. This new joint venture has a significant impact on Company C business as it represents an access to the capacity of the U.S. market leader which represents over 23% of the total trans-Atlantic capacity, more than 240 daily trans-Atlantic flights offering customers some 50,000 seats daily. This yields an expected €145 million profitability improvement in year 3 for Company C (Strategy and Outlook, Company C internal document, page 44).

be able to say: you have not respected so and so, but the environment is so hard that you will not get punished for this; because the environment is becoming more and more normalised that it calls for being more rigorous towards managers in the delivery of performance” (C4). This situation is presented by respondents as the result from a complex hardened business situation (competition, economic slump, restructuration, merger, personnel downsizing, etc...) where the loose performance management which was practised so far cannot persist if the company wants to survive/ remain in the lead. This sort of ‘end of the party’ calls for a management change (Greenwood & Hinings, 1996) which seem to produce/ sustain a ‘schizophrenic’ formal top management and an informal operations level performance management system which is tied between a necessary change to adapt to the current requirements of the business and the weight of the past to maintain a social consensus.

In this changing environment, Company C’s strategy actually assumes that current players such as Low Cost Companies (LCCs) may possibly be put at risk because increases in fares could curtail their business model. In addition, this threat is perceived as concerning carriers with older/aging fleets and also companies who cannot benefit from strong hubs. From this persistent pre-crisis analysis, the strategy of Company C has relied on its adaption to a changing economic environment and a focus on customers. This strategy has impacted the shape and the usage of the company PMS in reinforcing the usage of quantitative and financial performance measures over NFPMs. In short, the company has been looking at building competitive advantages which aimed at strengthening its position against its competitors, to pursue the company development, further cutting costs and emphasising the synergies derived from its 2004 merger (i.e. ‘profitable growth’). In this tendency, the evolution of the balance between quantitative and qualitative metrics has shifted towards more quantitative metrics: *“the tendency is to go for more and more quantitative data (transform qualitative data into quantitative data). The vast majority of performance sanctions are done on a quantitative basis, in the marketing function; we are fore and foremost assessed on the supplemental revenues we bring to the company, satisfaction (metrics) only comes as a support” (C5).*

The first competitive advantage identified by the company relies on building a large - if not the largest - international network linked by two strong European hubs within the framework of an alliance. Company C represents over 60% of all long haul destinations operated from Europe by AEA¹²⁶ members. This situation combines both the highest number of destinations and connection opportunities thanks to a concentration on strong hubs with high growth potential¹²⁷. This strategy is

¹²⁶ Association of European Airlines.

¹²⁷ For one hub: over 1300 possible combinations between short and long haul flights in less than two hours with only 80 aircraft. Hubs serve companies in good or bad times. They enable a growth strategy but also act as shock absorbers because of the diversity of transfer flows which are not all exposed to possible economic downturns in the same way airlines are.

supposed to improve passenger experiences (i.e. fewer delays and more connections) and better productivity (i.e. aircraft usage, maintenance, etc.). This first advantage has also been supported by the setting up of a centralised entity to manage Company C's alliance, with over 460 million passengers yearly.

The second key competitive advantage identified at Company C relies on balancing its business model in terms of international markets and industries served, traffic¹²⁸ and customer base which consists in 75% leisure, 25% business. They respectively account for 52% and 48% of its revenues. In addition, 50% of revenues are generated by the loyalty strategy of the company. The customer approach at Company C relies on product improvement¹²⁹ and quicker response to competitors, flexible fares and scheduling which, according to respondents, call for more quantitative and financial PMs than NFPMs. Nevertheless, one must note that a large proportion of Company C's customer experience improvement strategy is however partly due to the adoption of a revenue strategy which most airlines have so far heavily relied on, that is a focus on high yield¹³⁰ traffic, which has proven to have a very adverse elasticity as soon as a hypothetical economic slump starts.

The adjustment of capacity is the third element of Company C's strategy. This also has been a common strategy throughout the industry over the past 4 years. Company C has moved from a pre-2007/ 2008 growth of 5% to a 4.5% reduction in 2009. Capacity adjustment has been implemented widely with uneven results depending on the ability of companies to adjust capacity to fast changing activity both in passenger and freight traffic. On this issue some players actually exited the market in 2008 (five U.S. domestic companies, two U.S. international and one Asian company). The strength of Company C in capacity adaptation relies on the productivity improvement of its intentionally reduced capacity growth¹³¹ through using larger aircraft. This implies a steady and/or postponed evolution of the fleet structure towards new, larger, flexible and naturally fuel efficient aircraft (B777-200ER/-300ER and the A3XX family). This aptitude to adjust the fleet plan mechanically limits investments and protects cash.

As explained earlier, both the 2007 'Open Skies' agreement and the Anti-Trust Immunity granted by the U.S. Department of Transportation¹³² allowed the signing of a joint-venture with a U.S. airline on

¹²⁸ 55% passenger transfer and 45% point-to-point.

¹²⁹ Company C has engaged in positioning its first class as a genuine luxury product, its business class as a leader in industry standards. It has engaged in improving comfort in its economy class still maintaining reasonable prices and introducing an upper economy class to attract new customers and keep business travellers who move to the back of the cabin when the economy is going down. Besides this, this second advantage is complemented by on-going investment in customer offer through the setup of dedicated business lounges, streamlining the travel experience through smart boarding cards combining biometric technology, RFID, thermal printing, and mobile phone check-in, etc...

¹³⁰ Premium and economy full fare passengers.

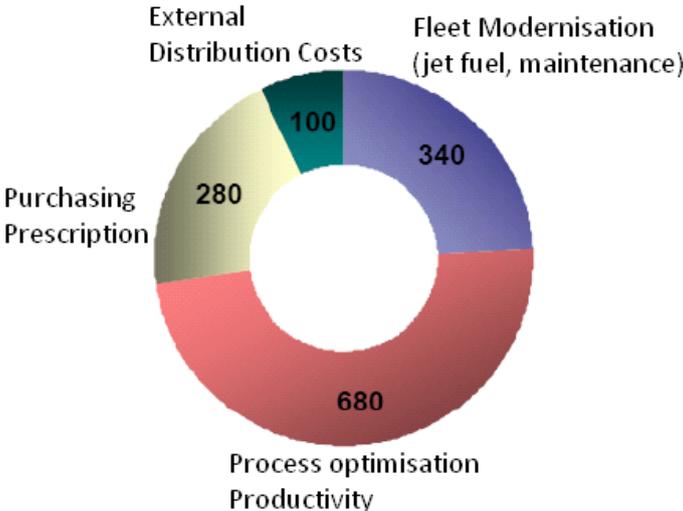
¹³¹ Around 4% combined long and medium-haul in 2009.

¹³² The deregulation process still faces issues on nationality clauses: there are limits set to foreign participation in company financing and management which limit intercontinental mergers: non-European participation is limited to 49.9% in Europe, foreign participation and

North Atlantic routes, enabling the emergence of a fourth strategic lever for Company C which has resulted in an increase in Revenue per Available Seat-Kilometre (RASK) and €145 million in performance improvement. This adds up to one of the first outcomes of the 2007 open skies plan, which meant any European or American airline would be allowed to fly from any city within the EU to any city within the US. This growth driver is supplemented by the strengthening of a strategic partnership with at least one European partner yielding a possible €160 million for Company C.

Finally, the 2004 merger combined with the 2007 de-regulation mean synergy and cost-saving reserves (almost €800 million), which the Company evaluates on at least four criteria. This enables financing a fleet turnover so that it is kept relatively young in the business (9 years on average). This explains the constant decline in fuel consumption of the whole fleet, and its flexibility to adjust capacity when required. A continuing trend to take advantage of consolidation opportunities¹³³ has enabled a targeted cost savings programme on distribution costs, purchases, process, productivity and fleet as shown on Figure 21 below:

Figure 21: The four levers of Company C’s cost reduction plan 2007-2009¹³⁴



The 2004 merger also emphasised the need to preserve a balance between the two companies. The one temptation has been to compete internally on costs through cost alignment. To prevent this tendency the company has brought customer satisfaction as an indicator into the frame to show that cost alignment is not a goal in itself, this has also pushed the development of common indicators not only in the customer satisfaction area: “[the other company] has brought efficacy, we have brought the vision” (C5). This is one reason why, at country business unit level for example (i.e. Hungary in the

effective control limited to 25% in the U.S., foreign participation limited to 49% with a limitation for one shareholder to exceed 25% control in China, foreign participation limited to 49% but forbidden to any airline in India.

¹³³ By sharing activities such as information technology applications, revenue management and central buying organisation for example.

¹³⁴ Company C internal presentation document: 1,4 Billion Euros savings plan for 2009.

specific example we produce), a common Company C merged Balanced Scorecard (BSC) has been introduced which translates the 'profitable growth' strategy of the company through four home grown dimensions of performance. These scorecards are reproduced in the following tables (Table 30 and Table 1 Table 31 below). These tables lead one to assume that some non-quantitative parts of the adopted scorecard have not been primarily implemented for performance measurement reasons but for management consistency and facilitation reasons. Further examination shows that even though the adopted scorecard may address the same four home grown dimensions for both companies¹³⁵ ('Customer Preference', 'Leveraging Assets', 'Working Together' and 'Profitable Growth'), their relevance are different for the two. This is either because the information required to inform these dimensions is perceived as irrelevant or simply not available for example (C3). Furthermore, the four dimensions embedded into the scorecard do not seem to match the four traditional ones of the BSC as expressed by Norton and Kaplan (1992), including causal links. This also leads one to question the replication of a unique BSC at different hierarchical levels, when evidence shows that there are several B.U. specific BSC which exist. This leads one to assume that BSCs at company C tend to be more of a traditional French *tableau de bord* nature, however, shaped like the BSC as evidenced by prior literature. This would tend to question management's ability to differentiate between TDB and BSC and would subsequently impact the way they actually measure and manage performance.

Table 30: Merged visions of “Profitable Growth” through KPIs at Company C ¹³⁶

4. PROFITABLE GROWTH	Company C Merged Company	Key Performance Indicator	Target	RFC	Idx RFC vs target	Idx RFC vs PY	Idx YTD vs PY	
	4,1 Increase REVENUE	Net 1 (in EUR at budget-ROX)						
		TFSR (in EUR at budget-ROX)						
		TFSRP (Partners, in EUR at budget-ROX)						
	4,2 Improve MARGIN	Cost:						
		- Sales Cost						
		- Commissions / Total revenue (TFSR KL+P) - %						
		- Incentives / Total Revenue (TFSR KL+P) - %						
		Margin Operating Revenues Partners - %						
		FTE's - absolute -						

¹³⁶ Company C internal document

Table 31: Four dimensions of a Country specific BSC at Company C (Hungary) ¹³⁷

			Company C	
SP	Objectives	Key Performance Indicator	Target	Actual
1. CUSTOMER PREFERENCE	1,1 Value CORPORATE Customers and expand portfolio	a Corporate Contracted Revenue (all GA,LKA,LA,SME) - YoY idx		
		b SME Revenue (XX BB net1+P & C VR CAM) - YoY idx		
		c HC+MC Corporate contracted Revenue/ total HC+CM CAM - %		
		d Business cabin revenue - YoY idx	refer to c	refer to c
		e Back end discount/Corporate CAM LKA and LA - %	-	
		f Number of visits per sales Rep as per Salto Planning		
		g Corporate visits (incl.prospects) / Total nbr visits - %		
	1,2 Strengthen and value TRADE partnerships	a CY minus PY incentive rate (C/XX incentives / C/XX trade revenue)		
		b Contracted trade revenue growth minus total trade revenue growth		
		c Trade Contracted Revenue / Total Trade Revenue - %		
	1,3 Value and Promote DIRECT CHANNEL offer	a Compliance with 7 Service Standards targets - %		
	1,5 Enhance CUSTOMERS'COMPLAINT HANDLING	a Elites : XX Data insert - within 9d(excl email) / 3d(email) – weighted avg . C Date arrival 9D		
		b Non elites : XX Data insert - within 21d(excl email) / 7d(email) – weighted avg . C Date arrival 28D		

¹³⁷ Company C internal document

Table 32: Four dimensions of a Country specific BSC at Company C (Hungary) ¹³⁸

2. LEVERAGING OUR ASSETS	2.2 Increase Customer LOYALTY	a	FB new enrollments - absolute -		
		b	FB Active members - YoYidx		
		c	FB E-mails Opt-in - YoYidx		
		d	Coverage Rate (FB Revenue / Total Revenue) - %		
	2.3 Pro-Active drive on E-Offering	a	ET rate on E-Eligible routes (end of year target) - %		
		b	ICI-rate of total check-in pax (end of year target, XX PoS , C station) - %		
	2.5 Pro-Active on DIRECT OFFLINE Sales	a	Direct Revenue / Total Revenue (XX net1+P, C CAM) - %		
		b	Sales & Service Centers Revenue (XX net1+P, C CAM) - YoYidx		
3. WORKING TOGETHER	3.3 Focus on STAFF PERFORMANCE & MOTIVATION	a	Staff Survey Results		
		b	Training realisation		
		c	Staff Turnover Rate		
4. PROFITABLE GROWTH	4.2 Improve MARGIN	d	ROI for Online Advertising Tactical Media Campaign		
	4.3 Maximize Profitable CHANNEL SHIFT	a	Direct Online Revenue / Total Revenue (XX net1+P, C CAM) - %		
		b	Direct Online Revenue (XX net1+P, C CAM) - absolute		
		c	Site visitors - YoYidx		
		d	Look to Book ratio (from visitors in the booking tool) - %		
e	Subscribers to XX.com and C.com newsletter - absolute-				

Legend

M = Measurement (for measurement/monitoring purposes only, no specific target will be set)

tba: to be advised

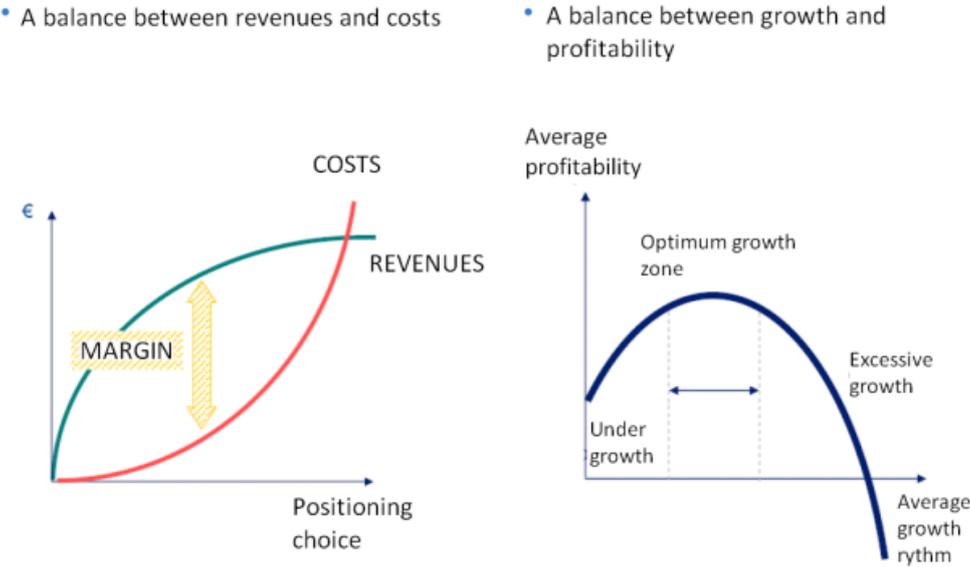
¹³⁸ Company C internal document.

All respondents quote financial metrics as being 'important' and closely monitored by the company as a whole, but add that if these are important, what they monitor on a personal basis is more related to their specific area of business or competence and shift towards more quantitative and qualitative metrics: *"these are not only financial aspects [we monitor], because in the airline industry, the safety criteria is very important, if you have a good brand image, you are a reliable company, this is an important parameter"* (C4). This practice would tend to confirm Euske, Lebas, & McNair (1993).

Performance measurement at Company C is quoted by respondents as being in conformity with the strategy of the company. Congruent with Contingency Theory (Lawrence & Lorsch, 1967; Chenhall R. H., 2003; Otley D. T., 1980), performance management's trend towards the involvement of more qualitative metrics is quoted by some respondents as being part of a strategic shift initiated in 2001 which made the company the first ISO-certified airline in the world. All respondents agree with a common vision of what is the strategy of Company C as very few different definitions have been given to characterise it. The most quoted one defines it as 'profitable growth' along with being an 'industry leader' with an objective which is to grow 'as fast as the industry'. This would tend to assume that the belief of managers as to what they consider being the substance of performance dictates the shape and nature of the metrics embedded in the PMS. In this sense, 'growth' is perceived as a means of profitability and productivity: *"growth at the level of the company is one thing, but growth is a lever of profitability and of productivity (...) growth is a very important lever of productivity"* (C2). In order to fit with the strategy, performance measurement and management at Company C has to provide metrics which track 'growth' related issues. This explains the use of RPK, ASK and FTK's as key performance metrics to measure the level of growth for a company where 85% of the activity consists in passenger transportation. The mix between a former state owned company culture and a 'profitable growth' strategy impacts the PMS and has different consequences which are outlined by respondents. The first one is that, at corporate sales account management level for example, the expression of strategy is that corporate client management must accompany this profitable growth; this means that sales exactly have to match the strategy: no less but no more. And this practice outlines a second consequence which is the bonus attached to reaching an objective is not an incentive because going the extra-mile will not yield an extra bonus: *"the premium is not an incentive: you have to stick to the growth objective, no more and no less, if you're doing 110 or 120%, then you do not get more bonus than meeting the target"* (C8). This is an issue which is rather peculiar of this lagging public 'global-ness' culture, as bonus is also a means of recognition of the activity performed in 'private' companies. Even at the strategic level, the notion of 'global' seems to

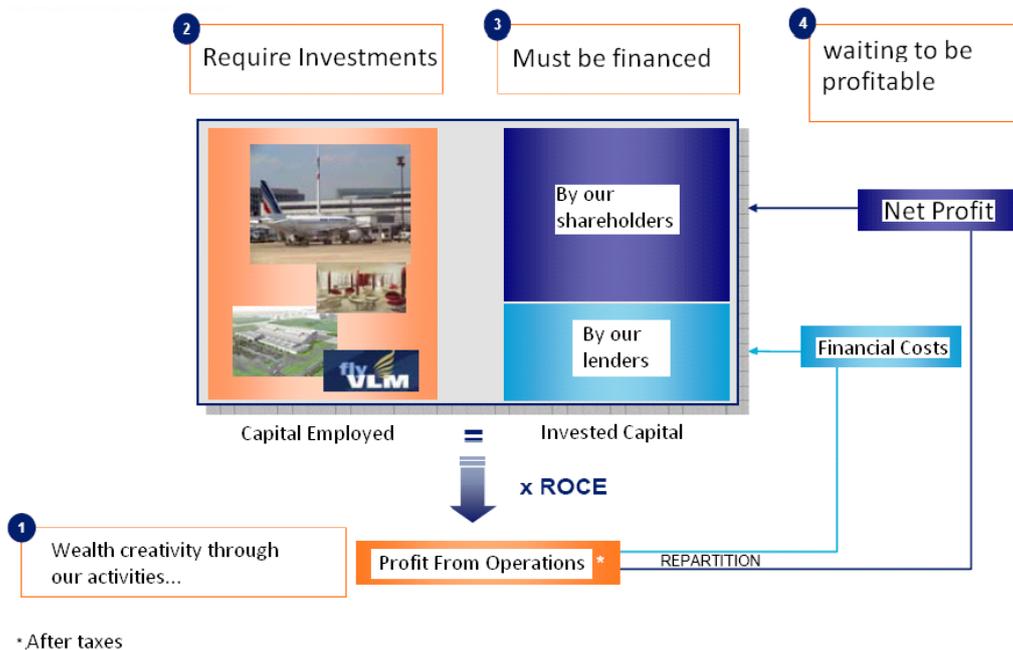
be very important at Company C, the growth strategy is envisaged, as already documented, as revenue development and synergy on costs, but respondents add “not like British Airways and north American airlines by cost reduction, we mean profitable growth. The model is global, including on the social, shareholder and passenger levels” (C5). Finally, this ‘profitable growth’ strategy has an impact on the adoption of a PMS where quantitative and financial metrics are primarily used because it relies on a double equilibrium: revenues and costs on one side and growth and profit on the other as shown on Figure 22 and Figure 23 below:

Figure 22: Profitable Growth: a double equilibrium ¹³⁹



¹³⁹ Translated Company C internal presentation document.

Figure 23: Sustainable Profitable Growth ¹⁴⁰



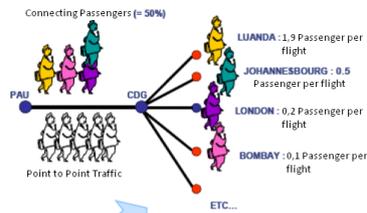
As a matter of fact, respondents working in the financial area see the strategy as requiring fine-tuned financial indicators aligned with the strategy: *“profitable growth, these are not only words in the airline industry, because this is a place where it is easy to do unprofitable growth (...) we require fine-tuned indicators, aligned with strategy: what will the growth be in years to come, that is what we are monitoring with the BSC and the five year target; what are the positioning choices on these markets. It is very important to have good indicators on the way business is going to evolve. C mainly makes profit on the international traffic”* (C1). The same respondent adds that *“the heart of the business is to make profitable growth through taking European business travellers through Charles de Gaulle or Schiphol hubs and sending them on long haul traffic: this is where profitability is”* (C1). This growth strategy is perceived as a differentiation/ analyser¹⁴¹ strategy by some respondents because it not only aims at reducing costs (by means of ‘plane-pooling’ and aircraft/traffic optimisation) but also participates into the sustainable development virtuous loop policy of the company as shown in Figure 24 below:

¹⁴⁰ Translated Company C internal presentation document.

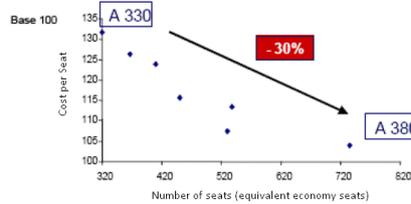
¹⁴¹ a mix of defender and prospector strategies

Figure 24: the "Hub" at the heart of the strategy of Company C¹⁴²

- Gather small flows through carpooling



- Reduce Costs and limit CO₂ emissions



- Optimise the use of resources

More than 1300 connection possibilities with only 80 aircrafts

This also is a reason why the company has integrated qualitative indicators in its performance management.

6.4.2.3 Substantive hypotheses emerging from the Organisational Conditions for adopting a PMS at Company C

The researcher has identified the main relationships between the categories and the phenomenon under investigation. Hypotheses are therefore generated from evident relationships between the categories. The results of the analysis suggest the following substantive hypotheses:

Table 33: Emerging Organisational Labels and Hypotheses

Organisational Labels	Corporate History & Culture	Corporate Structure Stability	Employee Management (education and management competences)	Strategy	Change Management
Hypotheses	<ul style="list-style-type: none"> Company History & Culture (highly unionised) and management practice associates performance with industry operational and financial metrics (which blends responsibility). NFPMs are primarily developed for isomorphism purposes (not for performance evaluation) and are associated with the leverage capacity of the organisation 	<ul style="list-style-type: none"> The FPMs/ NFPMs balanced structure of the PMS depends on the stability over time of the organisation's dominant coalition 	<ul style="list-style-type: none"> Performance and NFPMs benefits are not clear and FPMs are perceived more objective/fair (and preserve the social contract of the company) than NFPMs by managers who shape the PMS to be structured around more FPMs than NFPMs Lack of competence and accuracy of managers generates inappropriate metric selection the performance reporting process 	<ul style="list-style-type: none"> Analysing strategy implies a rigid and standardised PMS structured around FPMs 	<ul style="list-style-type: none"> Revolutionary change initiates PMS redesign starting with FPMs and expanding to the isomorphic emergence of NFPMs

¹⁴² Translated Company C internal Presentation Document

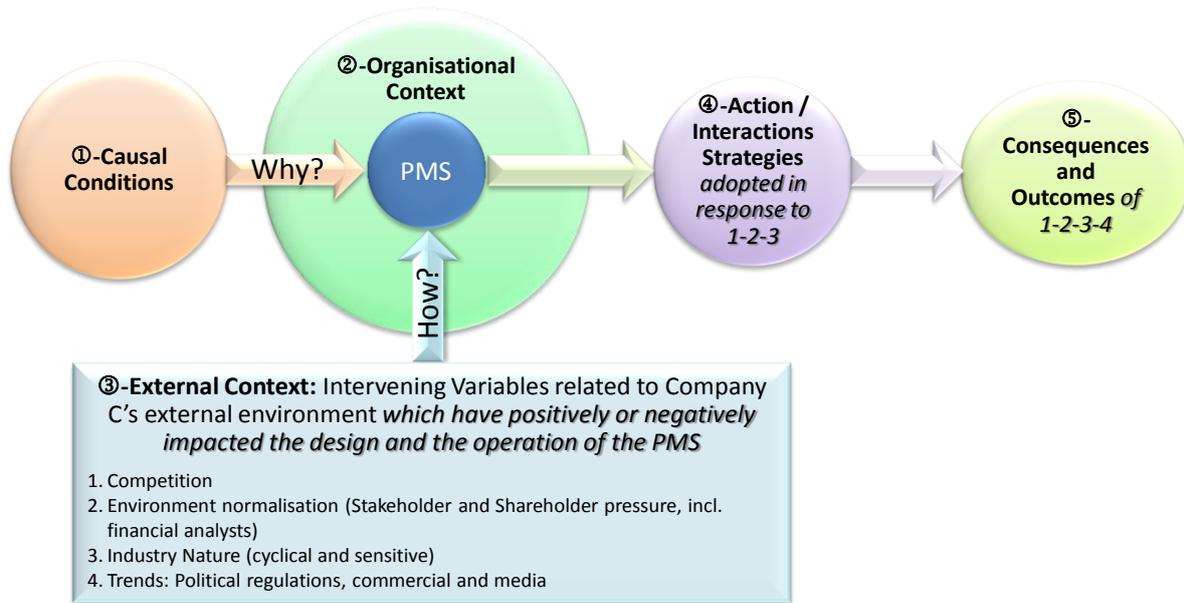
6.4.3 Aspects of the External Environment in which the PMS was designed and operates at Company C

According to Strauss and Corbin (1998), intervening conditions are general conditions that influence the phenomenon and the strategies that a company can apply. In this research intervening conditions are conceived as environmental conditions that surround Company C and have a direct impact on the phenomenon and the company strategy.

6.4.3.1 Summary of External Conditions for adopting a PMS at Company C

The airline industry is sensitive to cyclical and economic conditions that it has established easily available, widespread quantitative-based benchmark metrics as the principal means of performance measurement and management. At the same time, the recent evolution of the global economy has pushed some major airlines to bankruptcy. The survivors have adopted a strategy aimed at securing their continued existence by meeting the basic financial expectations required by their stakeholders (i.e. shareholders and financial analysts) yet at the same time embracing trends imposed by political, commercial and media pressure such as sustainable development for example. Figure 25 below summarises the content of section 6.4.3.2, which will now give detailed External Conditions emerging from interviews performed at Company C as well as triangulation evidence emerging from the case study context explaining the adoption of a PMS.

Figure 25: Summary of Environmental Conditions' impact on the Company C PMS



6.4.3.2 Aspects of the External Environment's impact on the design and operation of the PMS at Company C

Intervening conditions can moderate or reinforce the impact of causal conditions on the phenomenon and the company's strategies (e.g. the environmental influences have either a negative or positive impact on the use of a PMS). An organisation's relationship with its environment is reciprocal and the environment of Company C will influence its selection of a specific set of measurements in evaluating its performance.

6.4.3.2.1 Airline Industry Sensitivity to World Economic Conditions

Based on financial data compiled by the International Civil Aviation Organisation (ICAO), between 2000 and 2007, world airlines showed cumulative operating profits of \$53 billion. However since 2008 they recorded losses of \$18 billion (FAA, Fiscal Years 2009-2025). The aviation business climate is structurally influenced by several factors which, among others, include: oil price instability (with the recent escalating fuel prices), economic uncertainty (with the collapse of the U.S. housing market and its subsequent credit crunch which started in May 2008) and possible downturn in world trade, sky congestion concerns, and also environmental and regulatory issues. Both 2008 and 2009 have been challenging years for airlines. In 2009, commercial aviation, which was barely recovering from

the 9/11 aftermath, found itself in very hard economic conditions: unpredictable jet fuel prices and a softening global economy both hurt the industry.

After showing its first net positive profits since 9/11 in both 2006 and 2007, the airline industry posted a net loss in 2008, with a similar outcome for 2009 as shown in the breakdown of the succinct industry profit and loss account provided in Table 34 below. With the U.S., Europe and Japan in recession, the global industry net losses for calendar year 2008 were \$16.8 billion, with \$9.5 for North America and a \$0.2 profit for Europe. As the end of 2009, global industry net losses were to reach \$11 billion, with \$2.6 for North America and \$3.8 for Europe. This industry information is also confirmed by geographic areas in Table 35 below.

Table 34: Airline Industry Net Profit 2001-2010F ¹⁴³

System-wide global commercial airlines	2001	2002	2003	2004	2005	2006	2007	2008	2009E	2010F
REVENUES, \$ billion	307	306	322	379	413	465	510	564	483	545
% change	-6.4	-0.5	5.2	17.7	9.1	12.6	9.6	10.5	-14.3	12.9
Passenger	239	238	249	294	323	365	398	439	369	414
Cargo	39	38	40	47	48	53	59	64	49	61
Traffic volumes										
Passenger growth, tkp, %	-2.3	-1.0	1.4	16.7	7.0	5.4	5.7	0.4	-2.1	7.1
Passenger numbers, millions	1640	1639	1691	1888	2022	2124	2281	2271	2224	2382
Cargo growth, tkp, %	-6.0	8.7	3.9	7.9	0.4	3.9	4.0	-1.2	-9.8	18.5
Freight tonnes, millions	28.8	31.4	33.5	36.7	37.6	39.8	41.8	40.5	36.5	43.3
World economic growth, %	2.2	2.7	2.8	4.2	3.4	4.0	3.8	1.7	-2.2	3.1
Passenger yield, %	-4.4	0.3	3.3	1.0	2.7	7.4	3.0	9.9	-14.0	4.5
Cargo yield %	1.9	-9.5	2.0	7.4	2.4	6.9	5.9	10.2	-14.2	4.5
EXPENSES, \$ billion	319	311	323	376	409	450	490	573	484	533
% change	0.5	-2.7	4.0	16.2	8.9	10.1	8.8	16.9	-15.4	10.0
Fuel	43	40	44	65	91	107	134	189	113	140
% of expenses	13	13	14	17	22	24	27	33	23	26
Crude oil price, Brent, \$/b	24.7	25.1	28.8	38.3	54.5	65.1	73.0	99.0	62.0	79.0
Non-Fuel	276	270	279	311	318	343	356	384	371	393
cents per atk (non-fuel unit cost)	39.4	39.0	39.2	39.5	38.6	40.1	39.6	42.4	43.1	43.3
% change	0.9	-1.0	0.7	0.6	-2.1	3.9	-1.4	7.2	1.6	0.5
Break-even weight load factor, %	61.3	61.9	60.9	61.9	62.0	61.3	60.8	63.8	63.4	64.5
Weight load factor achieved, %	59.0	60.9	60.7	62.5	62.6	63.3	63.3	62.8	63.2	66.1
OPERATING PROFIT, \$ billion	-11.8	-4.8	-1.4	3.3	4.3	15.0	19.9	-8.9	-1.2	12.7
% margin	-3.8	-1.6	-0.4	0.9	1.0	3.2	3.9	-1.6	-0.3	2.3
NET PROFIT, \$ billion	-13.0	-11.3	-7.5	-5.6	-4.1	3.6	12.9	-16.0	-9.9	2.5
% margin	-4.2	-3.7	-2.3	-1.5	-1.0	0.8	2.5	-2.8	-2.1	0.5

Source: ICAO data to 2008. IATA 2009 estimates and 2010 forecasts. Excludes exceptional accounting items and mark-to-market fuel hedging losses from net profits

¹⁴³ (IATA Economics, 2010, p. 4).

Table 35: Airline Industry Operating and Net Profits Details 2007-2010F

System-wide global commercial airlines	2007	2008	2009E	2010F	2007	2008	2009E	2010F
	EBIT margin, % revenues				Net profits, \$ billion			
Global	3.9%	-1.6%	-0.3%	2.3%	12.9	-16.0	-9.9	2.5
including exceptional items					14.7	-36.1	-9.8	2.5
Regions								
North America	5.5%	-1.8%	1.2%	3.4%	3.7	-9.6	-2.7	1.9
including exceptional items					5.5	-24.4	-2.7	1.9
Europe	4.0%	0.1%	-2.2%	-1.1%	6.4	0.0	-4.3	-2.8
including exceptional items					6.4	-1.0	-4.3	-2.8
Asia-Pacific	2.9%	-4.7%	0.0%	4.7%	3.0	-4.7	-2.7	2.2
including exceptional items					3.0	-8.7	-2.6	2.2
Middle East	0.0%	1.0%	-1.5%	1.6%	-0.1	-0.3	-0.6	0.1
Latin America	2.0%	2.3%	2.7%	4.5%	0.1	-1.4	0.5	0.9
including exceptional items					0.1	-1.7	0.5	0.9
Africa	1.0%	-0.9%	-0.9%	0.9%	-0.2	-0.1	-0.1	0.1

Source: ICAO data to 2007-8. IATA estimates for 2009 and forecasts for 2010.

Exceptional items include revaluations of goodwill associated with restructuring and of 'mark to market' fuel hedging.

The sensitivity of the airline industry to economic wealth has made it very focused on vital issues for survival. This explains why airlines, including Company C, show different 'pride' approaches in the manner they officially envisage or are forced to envisage performance measurement and its subsequent management. Earthy considerations such as the company's obvious cost structure sensitivity to external concerns, including shareholder and financial markets pressure, immediately impact its PMS content and promote quantitative and financial performance measures over NFPMs.

6.4.3.2.1.1 Airline Industry Costs Structure Sensitivity Characteristics

Because of rising exploration and extraction costs, crude oil prices started 2008 at \$97 a barrel (Brent). The combination of low profit margins in 2007 (3.9%) and the speculation in oil in early 2008 drove oil prices up a further 50% to \$147 a barrel by early July 2008¹⁴⁵. The rise in oil prices caused jet fuel prices to increase almost 60%, from \$114 a barrel at the beginning of 2008 to more than \$180 a barrel towards the end. The magnitude of jet fuel price increase limited the part of costs which could be passed on to passenger tickets and shippers. By the end of 2008, the oil price fell to \$40 a barrel, however, this was still double the average 1990–2002 price level and came in addition to refineries' strategy to boost their margins¹⁴⁶. This led to jet fuel prices remaining the same and offered very limited cost relief both for airlines and their passengers. The other factor that limited airlines' benefits from lower crude oil prices in 2008 was the impact of fuel hedging contracts taken

¹⁴⁴ (IATA Economics, 2010, p. 1).

¹⁴⁵ This really damaged the airline industry profitability: "The first half of 2008 was characterised by double-digit increases in premium fares as airlines sought to recover part of the surge in fuel costs from this market segment, which is less price sensitive than other fare segments. There were also increases in economy fares, but at about half the rate for premium fares. Fuel surcharges were not included in these fare increases." (IATA, June 2009, p. 13). Fuel costs increased from an average of 28% of an airline's operating costs in 2007 to over 40% by mid-2008, and to more than 50% for some airlines (IATA, June 2009, p. 10).

¹⁴⁶ The refinery margin or "crack spread" of 50% over crude oil prices compared to the normal 25%.

out by airlines earlier in the year, when they feared oil price increases¹⁴⁷. This further squeezed airline operating cash flows and had them focused on financial indicators.

6.4.3.2.1.2 Cost Reduction, Capacity Adjustments and Load Factors

Besides oil price, the other factor that led to large losses in the industry was the rapid fall in traffic. This resulted in a significant decline in revenues. Airfreight volumes, which are a timely indicator of international trade and economic activity, started to decline during the second quarter of 2008. Airfreight volumes (measured in FTK's) collapsed more than 22% below the level they were a year earlier and kept on declining in the first quarter of 2009. As for passenger travel, it is dominated by the impact of the recession on incomes and confidence (IATA Economics, October 2009). By December 2008, premium travel was down more than 13% from a year earlier and in early 2009, the rate of decline in premium traffic exceeded 20%. In fact, many business travellers shifted to "the back of the aircraft if they didn't cut travel altogether" (IATA Economics, August 2009, p. 1). The larger fall in fares for seats at the front of aircraft is a sign of how intense the competition in fares has become during the economic crisis. As far as economy travel is concerned, by December 2008, it fell more than 5% from year-earlier levels. This reduction hit most geographic markets. Airlines soon realised that lowering the cost of travel would not be sufficient to compensate for the effect of the recession on travel numbers (IATA, June 2009, p. 11). Therefore, instead of motivating passenger demand by traditionally reducing fares like they used to do before, they only moderately cut fares and tried to better match supply¹⁴⁸ by resizing their capacity in the face of the declining demand. The lag between capacity cuts and falling demand reduced load factors (i.e. asset utilisation) for both passenger and freight traffics. Subsequently, airlines have tried to adapt their flight programmes by reducing the utilisation of aircraft. "The number of older aircraft taken out of service during September to November 2008 was exceeded by the number of new aircraft delivered at the end of the year. Fleets were expanding, forcing airlines to reduce capacity by cutting flight frequencies and some uneconomic routes" (IATA, June 2009, p. 12). The revenue environment remains extremely challenging and the industry overall is in a fragile financial position. These conditions impact the focus of Company C's PMS on core industry metrics such as LF, FTKs and RPKs (i.e. fast 'actionable' variables).

¹⁴⁷ When these latter went back down, fuel hedging contracts meant many airlines paid much higher prices for their fuel than actual (spot) prices. "This combined with the application of newly adopted accounting rules led [them] to report large, noncash losses (\$5 billion for Asian airlines for example) as unrealised fuel hedges were marked to market" (IATA, June 2009, p. 10).

¹⁴⁸ i.e. number of seats offered and demand (e.g. number of passengers/ quantity of freight).

6.4.3.2.1.3 A Changing Competitive Context

The air transport market in which Company C operates has become severely competitive, due to the different factors listed before: the U.S. deregulation (Airline Deregulation Act in 1978), EU liberalisation (1993), globalisation with the creation and the development of alliances and new technologies. Because of these factors, in order to attain financial stability in a situation where economic market conditions have changed, the air transport industry is forced to restructure and continually strive to generate productivity gains and adapt capacity (upwards as well as downwards) as the world's economic growth impacts demand shifts. The airline transportation market is becoming more and more fragmented and Company C is trying to meet the requirement of this dual evolution: a small budget segment where travel is mostly leisure and a tailor made product for wealthy business travellers. Company C competition has traditionally consisted of equivalent carriers; however, it now has to face competition from other modes of transport: low-cost companies (LCC) on both short and medium-haul networks and high speed trains on the short-haul routes. In addition to this, the company now faces competition from Gulf and Asian airlines on the long-haul networks. To deal with this new form of competition, Company C has structured its strategy on a large network built around two hubs, service quality to meet customers' needs and innovation. This has been done within the strict framework of cost-saving plans and respect for the environment which find expression in the quantitative and financial nature of the industry metrics monitored.

6.4.3.2.1.3.1 Competition

In a recession context, the pressure for sustained profitability exercised by competition is very strong and comes from local and global companies and even from other players such as high speed trains. This competitive pressure explains the importance of financial and quantitative metrics in the Company PMS. In Europe, two major European airline groups compete with company C: Lufthansa-Swiss and British Airways. They both have become sector leaders over the past five years. Yet, if both companies have strived to raise unit revenue and use fuel hedging policies, each of them has adopted a specific growth strategy. Lufthansa's (LH) recent focus has left behind its past diversification strategy to refocus on its core business: passenger transport (72.81% of its overall revenue, 76.5 million passengers in 2009), aircraft maintenance (MRO) (10.31%), cargo (8.65%), catering (7.13%) and I.T. services (1.1%)¹⁴⁹. After the takeover of Swiss, Lufthansa developed a multi-hub strategy in Germany (Frankfurt and Munich) and in Switzerland (Zurich). The Lufthansa-Swiss

¹⁴⁹ Lufthansa Annual Report 2009.

Group strategy is constrained by its tight local markets, therefore it consists in attracting long haul (high yield) flight customers from its neighbouring markets. The group operates 722 planes¹⁵⁰ as of December 2009. Its 2009 revenue was €22.3 billion for an operating profit of €130 million and net losses of - €112 million. Lufthansa is a member of Star Alliance along with 25 other companies. It employs 112,320 people. British Airway (BA) has its activities based at London Heathrow and Gatwick. Its strategy has been different from its competitors and has focused on “long haul point-to-point” traffic and a rise in product range. Its strategy has been constrained by a specific British context characterised by high competition with LCCs. The company has adopted a defensive strategy: leaving the medium haul segment to LCCs, slightly improving marginal U.S. routes (closing de Detroit route for example) and moving to the new Heathrow terminal with no investment on passenger transfer. BA has given priority to Business Class and capacity reduction on the European and domestic networks with a view to short term profitability. As of March 2009, BA manages 245 planes and over 300 destinations in 94 countries. Group revenue for 2008/09 was £8,992 million. Group operating loss for 2008/09 was £220 million, compared with a profit of £878 million (restated) in the previous year¹⁵¹.

U.S. network carriers have restructured with an emphasis on productivity under the protection of the U.S. bankruptcy law (Chapter 11) and have developed internationally. The capacity reduction they had to implement made U.S. carriers redeploy in Europe the fleet (Boeing 757) they would normally use on their domestic network. Most leading American carriers have engaged into strong partnerships with European partners.

Gulf carriers, because of the small size of their home market, are targeting European, Asian and American markets for their development. They benefit from financial support from their local state (airports, civil aviation authorities, airport and navigation charges, complementary infrastructure, corporate and social security tax free environment). From a competitive point of view, Company C considers these companies as unavoidable in the area where their offer is attractive enough for passenger attraction on Europe-South East Asia and Europe-Australia routes. With an issue that is flying through Dubai is not the shortest way for some destinations such as Paris-Beijing (+35% mileage), London-Johannesburg (+31% mileage) for example. Questions arise concerning the

¹⁵⁰ Deutsche Lufthansa AG (LH), SWISS (LX), Lufthansa Cargo (LCAG), Lufthansa CityLine (CLH), Air Dolomiti (EN), Austrian Airlines (OS), British Midland (BD), Eurowings (EW) and Germanwings (4U) as of 31 December 2009. <http://investor-relations.lufthansa.com/en/fakten-zum-unternehmen/fleet.html>

¹⁵¹ http://www.britishairways.com/cms/global/microsites/ba_reports0809/overview/highlights.html

operation margin sustainability of these companies which have benefited from strong local financial support. The development of some companies will be an important competition factor for European airlines: “We could run 300 aircrafts by 2020. Emirates would then become the biggest international network company.” (Tim Clark, CEO of Emirates)¹⁵². New companies have recently emerged which have adopted “Business Only” niche strategies which presume reduced costs. The model they have adopted is they want to provide price sensitive customers with an affordable product which is close to business class on routes that have very high density traffic. Three companies have adopted different positioning inside this market. This positioning supposes that they adopt costs structures which they will have to struggle to reach.

The Low Cost Carrier (LCC) model started 35 years ago with Southwest Airlines in the U.S. This business model came to Europe in the 90’s. Today¹⁵³ two main LCCs are in the foreground: Ryanair and EasyJet. Even if the battle for prices and costs have left some dead bodies behind, growth perspectives for their fleet is quite ambitious. Their model is based on the following three key points: ‘low costs – low fares – and no frills’¹⁵⁴. This U.S. inherited business model is however not fully transposable in Europe where traditional carriers are well established and have reworked their medium-haul product to compete with low cost carriers. In some cases, traditional airlines even have developed their own LCC which is the case for Company C.

In addition, competition with rail is very tough on short distances (encouraged by E.U. and national sustainable development policies), and competition among low cost carriers is important which constitutes a risk of traffic congestion. High speed trains are important competitors on short-haul routes where the average time, cost and comfort is not in favour of air transportation anymore.

On long-haul routes however, there is no alternative to air transportation; therefore the question of the carbon footprint is quite relegated to ‘people will have to deal with it’. On medium and especially domestic traffic the question is rather different. On these distances, a competitor such as the rail emphasises its low carbon footprint and the time it can save for customers as key success factors over air transportation. This however does not take into account the very high pollution that rail generates, for example when it builds a high speed route from Paris to Strasbourg, the high-speed

¹⁵² Company C Internal Presentation document.

¹⁵³ more than 20 low cost carriers have disappeared, leaving Ryanair and EasyJet alive.

¹⁵⁴ Low costs are obtained by their close cost scrutiny and maximum reduction¹⁵⁴. The low fares side of the equation is based on the fact that low costs enable LCCs to offer low fares with a simplified pricing structure over direct internet sale. Finally, no frills relate to a virtually non-existent in-flight service, a limited customer relationship (no frequent flyer programme for example) and the billing of each service.

train construction and its disposal at the end of its life cycle¹⁵⁵. While air transport produces CO₂ on a constant basis, rail pollutes a lot at the beginning and the end of its life cycle, which is a fact that has not been taken into account so far in its life cycle costing.

6.4.3.2.1.4 Consolidation and Alliances

The business of aviation has shown some resiliency throughout its first hundred years. According to the FAA Aerospace Forecast 2009-2025 report, the next 15 years will be one more example of how the airline industry will meet the challenges of the economic situation, and how it will adapt to circumstances and survive. The downturn which the aviation industry faced over the past two years mirrors the economic situation around the world. As the economy has fallen, so has demand. Among the challenges the industry has faced and still faces in 2009 are a continuing recession for 2010, protectionist temptations, restructuring restrictions mixed with new government taxes¹⁵⁶, and rising infrastructure costs. Much of the private sector keeps on reducing the debt they previously incurred which is taking income away from spending and travel. This means any recovery in 2010 will be weak, with most analysts forecasting no significant economic recovery until 2011. Meanwhile, the emergence of protectionism could cause more damage in world trade and investment as some government bailout and stimulus packages contain measures that could aggravate the fall in demand for imports thereby negatively impacting the airline industry. The number of air carriers being very high, it is likely that some will not survive the downturn. In this sense, cross border consolidation, mainly by means of mergers – even though E.U. and U.S. regulatory bodies are very cautious about them - is seen by some analysts as one resizing solution. Alliances are another option analysts suggest to produce network efficiencies, even though they generate few of the resource savings of mergers.

Prior to April 2007, the airline industry was governed by a restrictive bilateral agreement system between countries going back to the Chicago convention of 1944. This was a system where any international route relied on traffic rights obtained by a negotiation process between states. These

¹⁵⁵ <http://www.bilan-carbone-igvrr.fr/>

¹⁵⁶ “The policies of some governments in light of the industry’s trauma are disappointing. The UK is a case in point of a government detached from reality. The global economic crisis makes cost reduction a matter of survival. And the upcoming Copenhagen meeting on climate change demands attention on measures to reduce emissions. What is the UK government doing? From 1 November it is increasing its Air Passenger Duty (APD) to collect GBP 2.5 billion annually from air travellers in the name of the environment. They have it all wrong. Taxes won’t reduce emissions. And making travel more expensive will not stimulate the economy,” said Giovanni Bisignani, Director General & CEO of the IATA since June 2002. The GBP 2.5 billion APD is completely disproportionate to the GBP572 million that it would cost to offset the entire carbon footprint of UK aviation. “Charging travellers over four times for their emissions makes absolutely no sense. Instead of raising taxes, the UK government should get behind the aviation industry’s ambitious targets to fight climate change, namely (1) improving fuel efficiency by an average of 1.5% annually to 2020, (2) stabilizing emissions from 2020 with carbon neutral growth and (3) cutting net emissions in half by 2050 compared to 2005 levels,” said Bisignani” (IATA Press Release n°48, 2009).

agreements restrictively defined market access (the number of airports served, the frequency and the capacity of flights, the number of companies authorised to operate flights, code sharing rules, tariff rules...) based on the nationality of the company (ownership and active control of the company). These agreements were replaced by the 2007 "open skies" agreement signed by the EU and US. The open skies agreements laid out the conditions for deregulating international air transport for both passengers and cargo, creating an open marketplace. The principles which govern these agreements are free access to capacity and routes; prices which are mostly determined by the market, and all airlines based in the countries party to the agreement operate in equal and fair conditions. This means that airlines can continue operating their global network from their own continent but can also adopt strategies to help them secure their global players' position by signing joint venture agreements. However, with this liberalisation of air transport regulation, competition laws for the air transport sector are used more frequently, which means the reshaping and resizing of the airline industry are constrained. The increase in mergers and the expansion of alliances (e.g. Star Alliance, OneWorld and SkyTeam) is attracting much attention from regulatory and competition authorities (International Civil Aviation Organisation, 2009, p. 6) and some regulators are already questioning the antitrust immunities some airlines have benefited from so far. Company C is strongly relying on alliances and its two hubs, recognising that the travel needs of its customers are higher than what it can offer for the moment, that some desirable markets are not attainable using its own means (China, India, Brazil, Australia...), and that better efficiency can be obtained by sharing activities and information.

6.4.3.2.1.5 Cost Efficiency

Trends suggest an industry continuing to change over the next several years, with international markets growing faster than domestic markets. The size of aircraft in domestic markets is scheduled to fall slightly as airlines continue to adjust their operations to better match demand. In the long run, according to airline industry experts, the ability of airlines to resize and reshape in an environment constrained by the above-mentioned restrictive regulations as well as safety¹⁵⁷, security¹⁵⁸ and environmental responsibility¹⁵⁹ issues are definitely seen as a key to survive the current and future

¹⁵⁷ "Safety is the industry's number one priority. Success in safety is driven by global standards, a coordinated approach, industry-wide programs, and firm targets. Preeminent among our safety targets is the achievement of the IATA Operational Safety Audit (IOSA) for all IATA member airlines." (IATA, June 2009, p. 22).

¹⁵⁸ "Security, alongside safety and environmental responsibility, is a core promise of the aviation industry. Too often, however, authorities regulate based on fear rather than risk and squander scarce security resources on improbable threats." (IATA, June 2009, p. 26).

¹⁵⁹ "Environmental responsibility, alongside safety and security, remains a core promise for the aviation industry, even in the face of the economic downturn. IATA's vision is for carbon-neutral growth on the way to a zero-emissions future. This is being implemented through

economic situation. A better control in matching aircraft capacity to demand has become a necessity when airlines continue to face severe downward pressure on passenger yields: reducing premium and economy fares alike to fill seats and preserve cash flow is not sufficient and price competition becomes untenable (IATA Economics Briefing n°4, 2005, p. 2). Cost efficiency is therefore critical for airlines to compete and survive in an environment where the nature of competition and airline cost performance has been altered by the recent development of Low Cost Companies (LCCs), especially on short haul routes. The cost efficiency improvement strategy in which some Network Airlines (as opposed to LCCs) have engaged is a cost reduction plan affecting traditional elements such as labour, operations, infrastructure and overheads.

As far as labour cost is concerned, it tends to be reduced with a slight delay as airlines need to restructure after recessions to reduce losses: “recruitment freezes remain in place in many airlines leading to headcount reduction from normal staff turnover. However some carriers are explicitly executing strategies to become smaller and leaner to meet changing market conditions now and into the future.” (IATA Economics, October 2009, p. 4). But rising costs due to other elements are still a concern. As airlines adjust capacity to fit demand, aircraft are still flying fewer hours which has raised non-fuel unit costs at the same time as oil prices have increased (IATA Press Release n°48, 2009).

A cost efficiency strategy in the airline industry is however not only about cost reduction, but also relies on “efficient differentiation” (IATA Economics Briefing N°5, 2005, p. 1) whereby network airlines try to improve cost efficiency without reducing the quality of service. This is especially important as econometric studies found that at the route level, the sensitivity of demand to price is very high. This means that air travel price elasticity on certain routes (short haul) is higher than on others (long haul). In other words, as prices shift, travellers can switch to car or rail or plane, which means airline costing/ differentiation strategies have to take this phenomenon into account (IATA Economics Briefing n°9, 2008, p. 1).

6.4.3.2.1.6 External Financial Pressures which shape the PMS

Under these circumstances, the pressure of the environment to adopt a PMS able to provide information relevant to the environment exists, however it is not perceived as a result from weight from the shareholders but rather from the financial analysts who impact the share value through their perception and the communication of this opinion of the performance of the company: “*The*

IATA’s four-pillar strategy: investing in technology, flying planes effectively, building efficient infrastructure, and using positive economic measures.” (IATA, June 2009, p. 32)

pressure, it is not the shareholders, because shareholders don't exist at C. Shareholders are the state with 18%, who is a bad shareholder, a mediocre shareholder as you know, incompetent, then the very diluted owned shares by the personnel spread between PNT [Technical Navigation Personnel: e.g. pilots], who already are a separate category of personnel within the company and ground personnel and crew who are not very organised as pressure/ lobby groups, and are very diluted shareholders. There is no big shareholder (...) What is a vital parameter for us: it is the share value, when the share value increases; this is a sign of good health and prosperity, of performance for the company. This is how performance is judged; today it is an essential barometer. People who have an impact are financial analysts. This is the fact that we have investors who buy C shares and make the share value rise. This is a vital parameter in the evaluation of the performance of the company (...) the elements that are integrated into performance evaluation by analysts are: profits, traffic, income, the high contribution, low contribution mix, the load factor, how you play with load factor and income, your capacity to manage price increase and a good load factor. Beyond these objective elements, you have the quality of the hub, the power of the network, the quality of the fleet, the quality of the flight programme, the safety image, the global image of the quality and service. Analysts are also users, they have stories to tell on British Airways and Lufthansa, they can compare, they can appreciate the quality, they can draw comparisons" (C4).

These industry specific metrics are complemented by more traditional metrics which are also monitored and communicated to the financial community: *"Long term financing, social savings, cash. At the time of the results: the big ratios on which we communicate with financial analysts, in analysts' presentations (...) An important indicator; very important in the communication we do towards financial analysts: the group has chosen for an objective of ROCE (which is easily understandable because we are a capital intensive industry), the objective is to reach 7% by 2009-2010" (C1).*

The EBIT, the ROCE, adjusted gearing and coverage ratios, operating cash flow and other ratios which are used by credit agencies have also been adopted. The more conventional operations revenue is a financial indicator which is closely monitored: *"it happens that we communicate a lot on the revenue from operations, we are assessed a lot by financial analysts on this indicator (...) Our objective is to have cost performance that improve the result rather than income performance, because the latter is limited, and we have been very close to the limit (...) in 2006 we have highly used the jet fuel effect in the rise of our income (fuel surcharge)" (C2).*

One respondent dates this external pressure as starting in 1999 with the Company IPO: *“99, IPO: change of nature and dimension of the company, because all of a sudden, the eye of the market is on the company, then the necessity to have regularly published accounts and reinforcing management”* (C1).

As already documented, the industry in which Company C operates contributes to explaining the importance of ‘natural’ quantitative and qualitative metrics such as ASKs, RPKs and LFs because they are a source of benchmarking against competition which is a means of performance measurement in this very regulated industry. However, the past history of the company and its shift towards the private sector also explains why the company has developed financial and quantitative indicators as there is additional pressure on the contribution margin and the progress rate of results: *“we are in an activity where we traditionally have a lot of quantitative and qualitative metrics and we have rather developed financial indicators (...) it is linked to the history of C, the privatisation; the financial result and the capacity to get a financial result bears a great importance, because of the shareholders”* (C2). In addition, as already stressed in section 6.4.3.2.1, world economic difficulties have brought back (if they ever vanished) quantitative and financial metrics to the foreground because they are perceived by the environment as monitoring airlines bare necessities: *“the environment is becoming more and more normalised: we will go more and more towards an objective and rigorous (performance) evaluation”* (C4).

6.4.3.2.1.7 Environmental, Political, Commercial and Media pressure

In most geographic areas the environmental pressure (i.e. normalisation) on the airline industry is very high. At the French level, the governmental initiative “Grenelle de l’environnement”¹⁶⁰ defined the key points of government policy on ecological and sustainable development issues for the coming five years. This will impact the airline industry by deciding in its mobility and transportation conclusion a “huge reduction of air transport emissions and 50% reduction of noise related to air transport by 2020” (Ecologie, Développement et Aménagement Durable, November 2007). Besides this political initiative, the French anti-growth lobby also attracts much attention; at the European level, the EU ETS (Emission Trading system)¹⁶¹ will include the airline industry as of 2012. Curfews and eco-taxes are now part of the landscape. Finally, at the international level, the Kyoto protocol, the

¹⁶⁰ <http://www.legrenelle-environnement.fr/spip.php?rubrique112>

¹⁶¹ http://ec.europa.eu/environment/climat/emission/ets_post2012_en.htm

Intergovernmental Panel on Climate Change (IPCC)¹⁶² and OACI recommendations are also important intervening conditions which impact the sustainable development policy of Company C and the subsequent indicators they impose.

Pressure from other stakeholders is also high, whether this is a commercial or media pressure: big corporate account players have contracting companies including Company C sign their sustainable development charter (Shell, Société Générale, Axa, Renault... among others). Distributors and other airlines when they sell tickets of Company C inform customers what is the carbon footprint of their trip. Finally the media buzz 'positive' coverage of sustainable development issues has risen dramatically over the past decade, as shown in Figure 26 below.

Figure 26: Sustainable Development Media Coverage 2000-2006¹⁶³



This being said, the way airlines take sustainable development (SD) pressure into consideration is diverse and depends on how they can manage it. SD management has evolved quite rapidly so that airlines now can't simply mention they are virtuous but actually have to occupy the SD field. Companies can't ignore SD because not being part of this trend can easily be used against them. SD has been sold so well from a sociological point of view that airlines have learned to use it as a social cohesion instrument. Company C can protect its internal social contract by maintaining social advantages to its employees and justifying not doing more by showing its personnel they can take

¹⁶² <http://www.ipcc.ch/>
¹⁶³ Company C internal document

pride in serving a company whose SD policy is an example to the whole industry, as shown in Figure 27 below:

Figure 27: "be exemplary in terms of Sustainable Development"¹⁶⁴



The pressure exercised by the environment does not only lie with the power of financial analysts but also the politicians, commerce and the media. This however does not mean that the imposed metrics are used in actual performance measurement and management: *“the media and political phenomenon implies sustainable development metrics (compensation and zero carbon footprint), this is however not part of the performance at C”* (C8). Furthermore, another respondent actually argues that the company simply abides by current trends relating sustainable development policies and economic plans: *“we also have economy plans, because you have to announce savings plans more and more; a little blood and tears always fits good in the landscape. We do not do this too much because it is not our style, but we do the minimum (...) Tomorrow this [communication] will be done more and more on the environmental policy aspect; to show that on top of what we do, we are respectful of the environment and we care about a sustainable development policy”* (C4). Some respondents declare that the company surfed on the sustainable development movement which became trendy at the perfect time for the company to communicate: *“the company surfed (on sustainable development): the renewal policy of the company occurred just before the sustainable development trend: it was perfect, new planes use less jet fuel and produce lower CO₂ emissions”* (C8). To a certain extent, the same means of social congruence have been the subject of a 1979 field study which aimed at understanding the relationships between economy, politics, ideology and psychology tools involved at TLTX, a multinational company. TLTX developed methods of government policies; ideology diffusion, and ‘religion’ of business, which it engraved into its personnel policies. More profoundly, researchers showed how the company ensured the support of its members by

¹⁶⁴ Company C internal Presentation Document

influencing the unconscious structures of their personality. They showed that it is possible to change the organisation by understanding the nature of the unconscious relationships by which a person is attached to a company, along with policies that strengthen these relationships (Pagès, de Gaulejac, Bonetti, & Descendre, 1979).

6.4.3.3 Substantive hypotheses emerging from the External Conditions for adopting a PMS at Company C

The researcher has identified the main relationships between the categories and the phenomenon under investigation. Hypotheses are therefore generated from evident relationships between the categories. The results of the analysis suggest the following four substantive hypotheses:

Table 36: Emerging External Labels and Hypotheses

Environmental Labels	Competition	Environment	Industry Nature	Trends: Political regulations, commercial and media
Hypotheses	<ul style="list-style-type: none"> The modification of the competitive environment from competitors, customers and regulators generates a stress on financials and explains the prominence of FPMS 	<ul style="list-style-type: none"> Under stakeholder (incl. financial analysts) pressure for proof of profitability in tightened (uncertain) economic conditions organisations focus on core business operations and cash & revenue (i.e. 'rationality of performance evaluation') and tend to develop more rigorous isomorphic centralised formal financial and non-financial metrics and informal financial and operations metrics. This process is slowed down b/c of company culture and social contract preservation 	<ul style="list-style-type: none"> The industry short term constraint (cash and revenue) makes organisations focus on fast action operations metrics and FPMS 	<ul style="list-style-type: none"> Stakeholder, state and media pressure explains the isomorphic development of formal NFPMS

6.5 Action/ Interaction Strategies which management adopted at Company C in response to Causal, Organisational and External Contexts

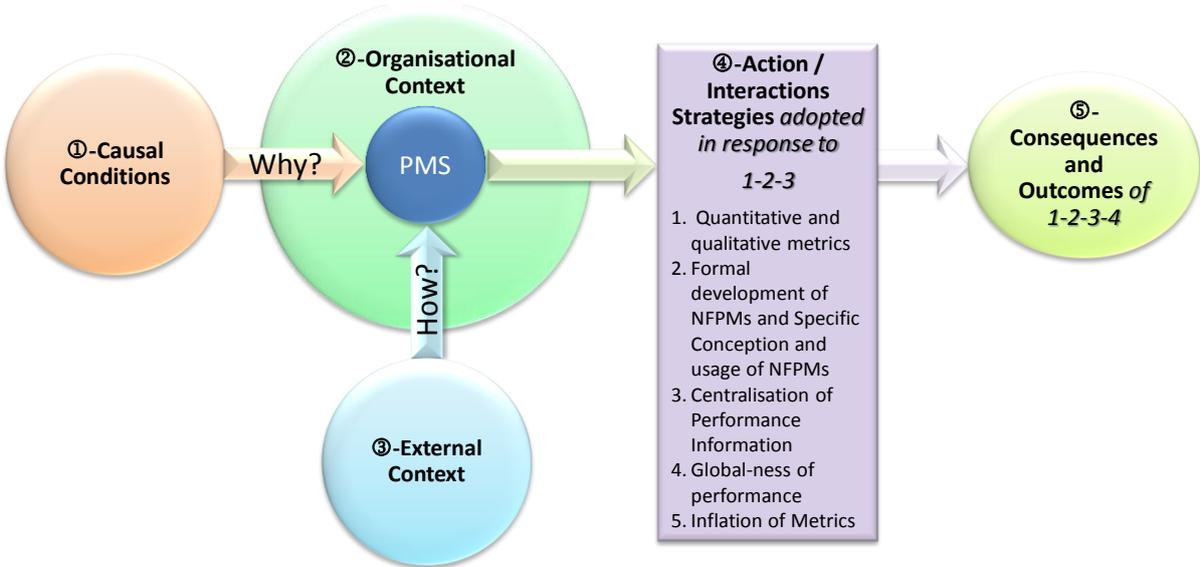
In handling the phenomenon under investigation, management strategies are developed. Company C management has therefore implemented a certain number of practices. Labels have emerged from interviews which represent the main action and interactions strategies that have been implemented as a result of the implementation of its PMS. They are further discussed in the following sections.

6.5.1 Summary of Action/ Interaction Strategies adopted at Company C

The PMS adopted at Company C is organised in TDBs nested into each other and traditionally differentiated by hierarchical levels and functions. As already stressed, depending on the hierarchical level of the respondent, the label which is used to characterise the nature of the tool managers use

to measure and manage performance appears to be different: from TDB to BSC¹⁶⁵. Higher level respondents refer more to TDB than BSC, as will be illustrated in this section. The company history and the need to preserve the social consensus have led management to adopt a strategy which keeps the PMS blurry enough to blend performance and restrict it to industry metrics, income and costing issues. These quantitative metrics are operational and are ultimately transformed into financials monitored at top level. At the same the subsequent dilution of performance and responsibility explains the easy multiplication of metrics which are not actually used to measure and manage performance. This results in an imbalance between the tools which are developed and those actually used. Figure 28 below summarises the content of section 6.5.1, which covered the action and interaction strategies that management has adopted in response to the causal, external and organisational conditions emerging from interviews performed at company C within the Strauss and Corbin Grounded Theory methodology (1998).

Figure 28: Summary of Actions and Interaction Strategies adopted by management at Company C



6.5.2 Performance Measures

Company C performance has recorded deterioration in the operating environment, and a decline in turnover linked to a fall in traffic and unit revenues. Subsequently, this called for further measures to

¹⁶⁵ See Table 30: Merged visions of “Profitable Growth” through KPIs at Company C and Table 31: Four dimensions of a Country specific BSC at Company C (Hungary) for example

adapt/reduce capacity, protect cash, adapt the workforce and reinforce cost control¹⁶⁶ while the company still has a very good level of financial resources¹⁶⁷. Among the main measures adopted by Company C to counter the crisis is the extension of its €2.5 billion economy plan which, as of March 2009, has saved almost €700 million and enabled a 1% fall in unit cost per Equivalent Available Seat-Kilometre (EASK). As of March 2009 this cost savings plan was based on the renewal of the fleet (17% of total savings), the reduction in travel agent commissions (11% of total savings), procurement (42% of total savings) and finally productivity and process improvement (30% of total savings). In addition, emphasis was given to reduction in capacity in both passenger and cargo (-4.5% long and medium-haul and domestic routes as of summer 2009 and -11% for cargo through the buyout of a large industry player), the adaptation of Company C fleet plan with the adjustment of its aircraft delivery schedule (-10 on average), investment plan (over -€3 billion) and jet fuel bill reduction through a change in its fuel hedging strategy (-\$1.9 billion). Company C also further adjusted its workforce to lower activity levels over the past two years (5% headcount reduction) leading to employee cost reduction¹⁶⁸. This policy has a clear impact on direct counter sales and operations, especially for local managers who have an objective of 'revenue reduction' for counter face to face sales activity. This strategy is paired with an emphasis on pushing passengers to use the internet not only for booking and payment, but also check-in, seat assignment and boarding pass printing.

The PMS that Company C has officially implemented at local level is expressed in terms of local TDBs or home grown/ adapted 'BSCs' (as shown in Table 30 and Table 31).

The monitoring of operations and projects is ensured by monthly performance reviews which are structured around three traditional areas monitored in the airline industry: safety, operations and financial. Yet, according to respondents, the importance of these dimensions varies as a function of the company business areas. For both passenger and cargo activities, for example, industry-wide metrics monitored – and disclosed – at Company C are listed in Table 37 and Table 38 below:

¹⁶⁶ A 3% reduction in unit cost.

¹⁶⁷ Around €4.5 billion available cash, €1.2 billion available credit line, limited debt repayment.

¹⁶⁸ A further 3000 persons have left the company between 2009 and 2010.

Table 37: Key figures Monitored for Passenger Activity

<u>Number of passengers (In thousands)</u>
<u>Total passenger revenues (In €m)</u>
<u>Scheduled passenger revenues (In €m)</u>
<u>Unit revenue per ASK (In € cents)</u>
<u>Unit revenue per RPK (In € cents)</u>
<u>Unit cost per ASK (In € cents)</u>
<u>Income/(loss) from current operations (In €m)</u>

Table 38: Key Figures Monitored for Cargo Activity

<u>Tonnage transported (In thousands)</u>
<u>Total cargo revenues (In €m)</u>
<u>Freight transport revenues (In €m)</u>
<u>Unit revenue per ATK (In € cents)</u>
<u>Unit revenue per RTK (In € cents)</u>
<u>Unit cost per ATK (In € cents)</u>
<u>Income/(loss) from current operations (In €m)</u> ¹⁶⁹

Maintenance and other company activities mainly monitor revenues (in total and to third parties). Actually, to be more precise, the performance dimensions documented by respondents are the following: ‘customer’, ‘assets capitalisation’, ‘management of action’ and ‘profitability’. The customer axis encompasses customer satisfaction, deplaning and on-time arrival ratios. The assets axis comprehends RPK traffic for medium and long-haul routes in comparison to competitors as well as load factor per flight, the weight of the sales medium (desk/ internet). The action axis gathers data on ground and crew personnel (pilots and flight attendants) relating to their morale, their respect of internal procedures and overall industrial relations. Finally, the profitability axis encompasses unit revenue per ASK for both medium and long-haul traffic per geographic region like for like, labour cost, cost per seat kilometre, operating costs. According to respondents, data are collected ‘frequently’ and mostly electronically.

Disclosed reasons for using industry metrics, besides their easy availability and means of benchmarking with competitors, is that they fit the company’s strategy. ASK is *“the first key performance indicator (showing) what is our level of growth. It is a simple indicator (which provides) a close monthly monitoring and even more, the evolution of ASK’s which is 85% of our activity”* (C2). The ASK measures the capacity on a route. This is considered a leading indicator because it estimates the capacity which depends on investments (e.g. the number of aircraft available), the definition of the network and the use of aircraft. It is a leading indicator in the sense that it measures the capacity to generate revenue. What generates revenue is passenger traffic; therefore this growth indicator is associated with RPK. Then the ratio between RPK and ASK (i.e. RPK expressed as a percentage of ASK) produces the Load Factor (LF) which is considered an important profitability metric because of the costs associated with ASKs and passenger traffic: *“Costing is not directly linked to passengers but to ASKs, aircraft costs for example; therefore load factor is a very important criterion of profitability”*

¹⁶⁹ Company C internal document.

(C2). Company C knows that an indicator alone is not meaningful, this is the reason why combining these indicators is a means for the company to improve their fine tuning of performance measurement by monitoring the variables which impact the 'quality of the revenue' per ASK, which is a compromise between RPK and LF: *"we can improve the load factor by playing on the retail price of our seats. In the airline industry, we have sophisticated revenue management tools (...) guys from the revenue management open and close classes which are associated with a price, and all this impacts load factors on the one hand and unit revenue (RASK) which is the price level we sell our seats to our clients on the other; therefore we can improve the load factor at the expense of the RASK and vice-versa, reduce the load factor looking for a better unit revenue (...) globally the more we close low priced classes, the more we are at risk not filling the aircraft with people that have paid their seat at a high fare (...) the mission of revenue managers is to manage individual flights and maximise the revenue of each flight; they are not asked to maximise the number of passengers on board, but the revenue"* (C2). Another respondent emphasises the use of revenue and unit revenue as a main performance metric at Company C and shows that the agreement around this indicator is not shared across the company: *"the main criterion (of performance management) is the increase of revenue (...) even if we follow the global economy ratio of our corporate clients (price agreement/revenue) (...) I don't agree with this way (of performance management) because we can increase it like we want by sinking prices or increasing the economy ratio"* (C8). Moreover, *"the notion of unit profitability of a client is not in conformity with the strategy which is to play global, always global (...) when, at the very start your strategy is global, growth in a profitable way on a global standpoint, it is not possible to get into a unit cost, client per client allocation sense because we get into a logic (social for example) which is not the one of the company: wages are global, pay increases are global, everything is global in this company"* (C8).

These quantitative and financial metrics are used because they also confirm/ contradict growth assumptions where it is expected with limited room for discussion: *"the unit revenue cannot be discussed: it is global and directly significant"* (C2). They are analysed globally and by network, particularly distinguishing long and short haul traffic as growth objectives are different for these two: *"we systematically distinguish long haul and short haul traffic because the concern is not the same and the objectives of growth are not the same either, because what supports growth is long haul traffic, it is not short haul traffic, especially at C because our domestic network is rather important and we know we will not develop there anymore, especially because of the minor competition of low cost airlines and the major competition of rail"* (C2). Within the airline industry and competitive

context, the importance of a duo 'revenue and cost' is emphasised by managers as a general and collective profitability indicator, a *"synthetic route profitability operator"*; *"what comes fore and foremost is profitability (...) what we measure is the profitability of each route and all this is aggregated by geographical zone, it is the main metric for all businesses (...) the principal operational decision unit is to allocate an aircraft to a route, measure the profitability of routes allows for fleet adjustment to this profitability (...) it allows for immediate allocation decisions (...) it's been 10 years we follow this and it is stable"* (C5).

On the costing side of the equation, the company acknowledges the definition of costs is very delicate because they are very complicated to engineer since they are made of very diverse elements with a variability which depends on different drivers; they require in-depth analysis to be able to be used. They are seen as *"a little less significant and more complicated to compute than unit global costs (...) it is a metric which is more a global vision of something that has happened than a direct source for decision making"* (C2). Nevertheless, they are used because the company has set cost compression objectives in which managers have been involved and also because it *"gives visibility to the result of the company"* (C2) (e.g. it shows if an improvement in profit comes from a cost or revenue performance) and is an important part of the unit 'cost awareness' campaign in the company. The company uses unit costs per ASK (i.e. ESKO in French). However the respondents acknowledge this is not a satisfactory metric as this cost is proportionally as low as the flown distance is long: *"if we have a better growth on long haul rather than short haul traffic, the mix effect will show a lowered unit cost without any better performance; this is the same thing for the unit revenue"* (C2).

Aside from industry metrics documented earlier, Company C has officially chosen to monitor other key performance indicators which are of different natures and are customised by business area depending on their main driver: the one of the maintenance business being the flight hour, this business area monitors the unit cost of the flight hour for example; for ground operations the unit cost is the touchdown cost, for flight operations it is the unit cost of the flight hour, for the crew it is the unit cost per ASK. The common point between them all being that they each relate to the main ASK indicator which is used for performance evaluation at the corporate level.

Personnel productivity is a global productivity ratio produced by the number of equivalent ASK produced by person, hours of flight per person. It is criticised because it does not provide enough operational significance, however, within a cost reduction policy, personnel productivity is seen as a

very important lever. Capital productivity complements that of personnel and is measured using the number of aircraft and their flight hours. This provides information on both the quality of the flight programme and the maintenance of aircraft.

Punctuality is the last metric quoted by respondents. It is a qualitative indicator which has an important economic impact (i.e. the cost of one minute of delay is approximately €100) and because it is a measure of customer satisfaction, especially on the short haul business. This is perceived as a measure of customer retention which is considered a leading indicator. Overall *“15 indicators are followed to the maximum of which a good half are financial”* (C2).

The finance B.U. of the company sets out the strict financial metrics which are monitored: the EBIT, the Return On Capital Employed (ROCE) and an adjusted¹⁷⁰ operating margin. Company C justifies its interest in monitoring ROCE by its level of investment and declares that the comparison of this ratio with the cost of capital shows whether the company is creating value or not for its shareholders. The company considers that ROCE is a metric which has been adopted by the industry and therefore justifies its adoption: *“ROCE is something which has been externalised and towards which we converge, more positive than what we have thought in the first place”* (C1).

The other financial metric Company C is focusing on is the EBIT. The reason for this is to show that the company can improve its operational profit margin and that, in the future, it will cover better and better the generation of internal funds for investments¹⁷¹. The company wants to show that free cash flow will get bigger and bigger over future years: *“at C, there is a key metric which is the EBIT which is understandable because of our heart of business. We like to have the visibility of fleet choice that we make. C has always had an objective of fleet flexibility: to be able to have a fleet structure which is not mono-culture from the point of view of its financing, that is to say we do not take planes in full ownership at 90%, we have a steering which is situated between 30 and 37% of operation rents”* (C1). The EBIT *“is the first arbitrator before the ROCE”* (C1), because it answers the question: *“what operations margin do we get, the philosopher’s stone, knowing that follows specific airline*

¹⁷⁰ The adjusted operating margin does not incorporate the impact of fleet financing and is considered by respondents as a mean of profitability comparison with other airlines.

¹⁷¹ Which is not displayed in quantitative terms, however emphasised in private corporate presentations.

characteristics such as Working Capital Requirement (WCR¹⁷²), which explains why cash generation is something we carefully follow, almost with a millimetre precision” (C1).

The other metrics quoted as financial and particularly relevant at Company C are the gearing¹⁷³ because it is perceived as providing a clear vision of market reality, coverage ratios such as ROE, ROCE, EBITDA/sales, etc..., operating cash flow and Free Cash Flow generation; these are issues along with other metrics used by rating companies even though C is not rated: *“we have engaged into the credit agencies methods, this is paradoxical because we are not rated; these are specific ratios of the finance BU to be pedagogic with the headquarters (...) metrics which are at the heart of agencies preoccupations and which we quote more and more naturally (...) we are not living under the tyranny of ratings, we have a freedom margin, however it remains a preoccupation who is hidden behind the curtain” (C1).*

Following the 1999 IPO, the company embarked on the ‘renovation’ of its management control by means of tool renovation and creation. This was done through a conception of performance which crosses different business units at the same time. This contributed to considering performance as global, transversal and rather diffused: more an outcome of a process rather than the process itself. The renovation of management control of the formerly state owned company, now a private company called for *“a cartography of processes, because in the airline industry, processes are very transversal. If you want to draw performance, you call at least for 3 different business units which all bear their share of responsibility in the process: identify relevant indicators by process and a process ranking” (C1).*

The renovation of management control has been an opportunity to revise the management of performance at Company C. It is managed on the long run (5 years) and on a midterm basis (3 years). On the long term, it is conceived and managed under the aspect of a process, to *“give back a collegial/shared vision of the strategy: long process, ideas from the executive committee, big strategic directions on a 5 year basis” (C1).* Then performance is managed under a tool aspect as a goal which is defined on a midterm basis (between 5 years and the budget horizon). The renovation process has involved 3 steps and has consisted first in the improvement of management accounting which has been considered a big progress in terms of performance management and cost analysis as it had

¹⁷² WCR is the balance between the portion of current assets and the portion of current liabilities which are directly and exclusively associated with the operating cycle. WCR represents the funds necessary to run the daily operations. http://www.vernimmen.com/html/glossary/definition_working_capital.html

¹⁷³ The ratio of net debt to equity.

formerly been far from satisfactory. The implementation of an ERP such as SAP enabled Company C to produce entity accounts, a result per business (passenger, maintenance and freight) which is communicated to analysts. The second step consisted in the replacement of the line P&L which was considered to be too simplistic. It was transformed into a network analysis tool which is considered the core of the management control 'engine'. The information which it produces is not widely communicated. Some respondents have indicated that the reason for this is to protect industrial relations which could suffer from disclosing such sensitive profitability information within the company. It provides the route profitability with the following detail capabilities: the flight, the day, the week, the own or code share flight, high yield and economy cabin. It takes the form of a P&L where costs are ranked by variability. The third step, which has not been completed, involved the creation of a *tableau de bord* organised in the shape of a Balanced Scorecard based on the cartography of processes. This is *"the only thing which has not been produced in spite of two years of work. The only thing I do not receive. It was very heavy, very BSC formatted and it never got out. It started to be issued but has never been completely implemented"* (C1).

This is further explained by another respondent: *"we do BSC without knowing it, we have the experience of the tableau de bord, then a few years ago we decided it was necessary to develop a BSC, a TDB for the board with metrics of different nature: financial, non-financial, and we tried to develop a very automated TDB software (...) we had to turn back on the automation because we noticed that we permanently change, not the global definition of the indicator, but the detailed manner it is calculated (because of reorganisations, priorities change, the metric is incomplete, etc...), then the manual procedure is more intelligent than the automated. The adjustment frequency of indicators is very high at C"* (C2).

The BSC (including NFPMs) at Company C is seen more as a means of communication for strategy than an actual performance management tool. This latter role would be the one of the TDB, even if it is acknowledged that it is not used by everyone with the same zeal and more as a confirmation of a past fact: *"the one (BSC) of management control doesn't emerge, I know that in the strategy BU they have an analysis in the form of a BSC which has been carried by a company project called Major and organised under the form of a BSC. There were four items and had gotten paradoxically very far from a managerial point of view (...) it is the project where we explain corporate strategy to executives. The BSC has been used as a framework, a managerial tool to give a cross-sectional vision of the different tasks undertaken in the company"* (C1). The same respondent, to clarify the nature of

metrics used in terms of financial or non-financial metrics, adds that *“when we speak about this structure rather BSC versus rather financial, what I see from my window today is that it is still the dominance of financial”* (C1). Another respondent adds: *“the vision of the TDB is more a collection of indicators we monitor, in the BSC we have a reflexion on drivers which match the strategic objectives of the company and how they can be implemented (...) the use of TDB is very uneven by the same person (...) it is not used regularly and systematically. If an indicator gets bad, then the problem will have been identified before: the TDB confirms information rather than delivering it beforehand (except if this is an insidious or diffuse evolution¹⁷⁴) on the income for example”* (C2). This would lead one to stress the ‘strategic test’ capacity of the BSC, not its utility in terms of performance measurement and management. This would also question the leading versus lagging capability of the TDB as a simple collection of lagging indicators. To reinforce this vision of the BSC and the fact that some indicators are constant and centralised and others are more decentralised because there is not always a corporate centralisation, the Company has created a “Tendency Club” 10 years ago whose mission is to communicate these different indicators at the corporate level on a monthly basis and give recommendations as to the general direction of the company; *“it is not very operational though, it is the direction of development who deals with this to develop a mid-term vision and the tendency, to develop plans (...) indicators that are rather financial, 1/3 of the metrics, the others are of a quantitative tendency”* (C5).

The analysis of performance indicators is traditionally done on a yearly basis against a budget. This is considered a heavy exercise and Company C has tried to reduce the importance of the budget. This practice would confirm, after the Zero Base Budgeting episode (Pyhrr, 1970) and Beyond Budgeting literature (Hope & Fraser, 2003) showing it is not the budget as such, but the behaviour it stimulates that creates a managerial problem: it is the central control mind-set and what Hope and Fraser call the “fixed performance contract” that are the root of the problem. As a matter of fact, the reason provided for this by some respondents relates to the sensitivity of the airline industry to many hazards and the fact that the targets which are set hardly relate to reality in a fast moving environment: *“we have tried to globally reduce the importance of the budget. Firstly because freezing a level of performance for a 12 month length on stable assumptions doesn’t really match reality because we are in an environment and an industry where a lot of hazards can happen, therefore the budget is very rapidly obsolete (...) Since I’ve been here, I consider the budget is not ‘closed’, it*

¹⁷⁴ An evolution which has escaped managers’ vigilance for example.

becomes 'obsolete', I won't go as far as to say it is unnecessary to do a budget, but I think a budget should not be used as an absolute value metric. The budget is more interesting on a certain number of productivity ratios; therefore we look at our performance ratios more in evolution, in comparison with the previous year rather than against the budget. The budget is considered as secondary" (C2).

From an operational usefulness and precision standpoint, the PMS is considered blurry enough not to easily provide information which could be linked to individual performance: *"we are missing productivity data. Apart from the usual criteria of the industry and the company that is income and costs" (C4).* As a matter of fact, the conception of performance at Company C is considered 'global', that is performance is seen as the outcome of good management, but not a process by which the different tasks at stake will be closely monitored and measured: *"if you are used to a very detailed system, a very precise and rigorous performance assessment system, it is unfortunately not here that you will find it" (C4).* This is perceived as linked to the culture and history of the Company which only became private a few years ago. The PMS is not designed to drill down to individual productivity information: *"the more operational the sector, the more precise the evaluation of performance. For salespeople, it is evaluated in a global way (increase in the income, ASK, RPK), the global positioning of the company rather than its actors: performance is global, not individual" (C4).*

Performance evaluation at Company C is traditionally quantitative but may possibly become qualitative when reaching the operational level: *"the evaluation of performance is more qualitative at the operational level and more in relation to an average" (C7).* This last statement tends to reinforce the global respondents' perception of performance, which consists of a blending of local performance into a global one with the main evaluation on the latter. Moreover, the association of financial incentive with qualitative measures is very imbalanced across the company. Some respondents argue that qualitative measures of performance are not associated with financial incentives because these measures are not constant, and therefore cannot be attached to the global incentive being used in the company because of its inherited state owned company social contract: *"there is no association of financial incentive on qualitative measures because they are not constant (...) this is a wish in the future that it is associated, but there is no will about this from the company" (C7).*

At the country management level Company C has introduced a BSC¹⁷⁵ which is rather recent. This was the first example of a country level common document issued by the company after it merged, where company C actually brought in the dimensions of loyalty and quality of service. This has replaced an unformatted document, but has not shifted the attention which was placed on traditional performance indicators such as profitability and the ratio of issued versus reserved tickets. This BSC is structured around the 4 traditional areas of a BSC and comprehends 25 metrics. It is therefore not only focused on financial metrics but also service metrics. This BSC is considered as a translation of Company C performance, both commercial and financial. This shift towards quality is explained by the impossibility to lower costs and increase revenues. The BSC is considered a means of pressure which is increasing year by year on qualitative performance, client loyalty, and service quality in an industry which is fragile and sensitive to its environment and must monitor its revenues and costs: *“the sector is fragile and a turn of situation is very quick in the airline industry, costs and revenues have to be closely monitored; it costs less to keep your clients than to find new ones”* (C3). This is reflected in internal company studies which, along with innovation, are the two levers used at Company C to reinforce customer loyalty to the brand and keep higher revenues.

6.5.3 Centralisation of Performance Measures

Company C manages different performance data collection systems which provide managers with information. There is a data warehouse and SAP, the ERP which collects information from business unit specific tools. The fact that SAP is used to collect activity information besides financial information allows a direct and quick reading of indicators. SAP is seen as enabling certain homogeneity even though managers also use their own *tableau de bord*: *“we are not in a company with independent and different profit centres, we really are in a single activity, even if there are entities, transversal effects are very high and the risk that tableaux de bord go overboard is very limited”* (C2).

Some respondents argue that there is a discrepancy between the tools developed, used and the usefulness of the performance information provided, especially when it is focused on revenue which is seen as *“non-objective”* and provides *“poor visibility (...) There is an imbalance between the performance management tools used in practice and metrics used which do not allow for knowing the profitability of a client, but only its weight in revenue”* (C8). As a matter of fact, respondents

¹⁷⁵ Table 31: Four dimensions of a Country specific BSC at Company C (Hungary).

argue that the composition of unit revenue for example is such that its growth is not a good indicator of performance.

Respondents also underline that if data collection tools such as the data warehouse (80% of available information within the company (C3) and SAP are sophisticated and integrated, they are fed manually which of course make their relevance open to discussion: *“we have a performing tool which is the data warehouse; the revenue of corporate accounts is measured on the basis of an identification which depends on a manual input: processes gets automated and systematised, but we have to catch up with errors every month (...) what is the purpose of focusing on revenue growth details when we rely on someone’s goodwill to inform or not the good reference which will in turn ensure that figures get in the right TDB?”* (C8). This is very disturbing because of the global performance culture of the company, especially when managers do not question results coming from the system used as they have to find justifications for everything: *“data collection is very integrated, data warehouse provides an information which is the same for everyone (...) but feeding the system needs to be perfected, for example: if the revenue drops by 5%, everyone finds explanations, but no one asks if this is a true or false figure (they comment on). If the data is changed (because of an error), you find the same persons providing the opposite comments 15 days later”* (C8).

6.5.4 Communication of Performance Measures

Performance information is communicated through TDBs which are not very formalised and comprehend a lot of information. This inflation of metrics paired with responsibility blending is evidenced by respondents’ statements showing that the PMS at Company C provides a great deal of metrics: *“at C it is the culture of the metric which is at the origin of their multiplication”* (C4).

The diffusion of information is not done through a unique means *“and everyone constitutes its own set of indicators and its own means of data harvest, we still have some TDBs which are a little bit kaleidoscopic sometimes (...) apart from the centralisation of tendency indicators which are communicated to top management under the 4 dimensions of the BSC and the budget part of the evaluation, business units have the choice of their TDBs and indicators. It is communicated to top management but relatively discrete; it is not a real BSC since it is not spread across the company”* (C5).

6.5.5 Substantive hypotheses emerging from the Action/ Interaction Strategies adopted at Company C

In handling the phenomenon under investigation management strategies have established, such as the development of a decoupled PMS. Hypotheses are generated from evident relationships between labels and the phenomenon. The results of the analysis suggest the following substantive hypotheses:

Table 39: Emerging Action/Interaction Strategies and Hypotheses

Action/ Interaction Strategies Labels	Quantitative and qualitative metrics	Formal development of NFPMs and Specific Conception and usage of NFPMs	Centralisation of Performance Information	Global-ness of performance	Inflation of Metrics
Hypotheses	<ul style="list-style-type: none"> Operational qualitative and quantitative metrics of operations level are transformed into financials to be reported to top management Quantitative operations and financial PMs are a pedagogic means to foster manager's attention of public company profitability concerns 	<ul style="list-style-type: none"> Isomorphic NFPMs development are a means to triangulate FPM information for demanding stakeholders (financial analysts, shareholders and the regulators) and limit cost saving competition in large industrial groups When traditional cost savings are limited, NFPMs are developed 	<ul style="list-style-type: none"> In organisations where Information Systems are not integrated the PMS is decoupled and blends responsibilities (corporate formal vs. operations customised metrics) 	<ul style="list-style-type: none"> Performance is conceived as 'global' because it is perceived as an outcome rather than a process Global-ness of performance is another way to achieve performance 	<ul style="list-style-type: none"> Responsibility blending explains the lack of sanction and subsequent metric inflation and subsequent dissatisfaction with the PMS (lack of individual objectives) BSC is used as a test of strategy and not a performance management tool which is TDB

6.6 Outcomes of using its PMS

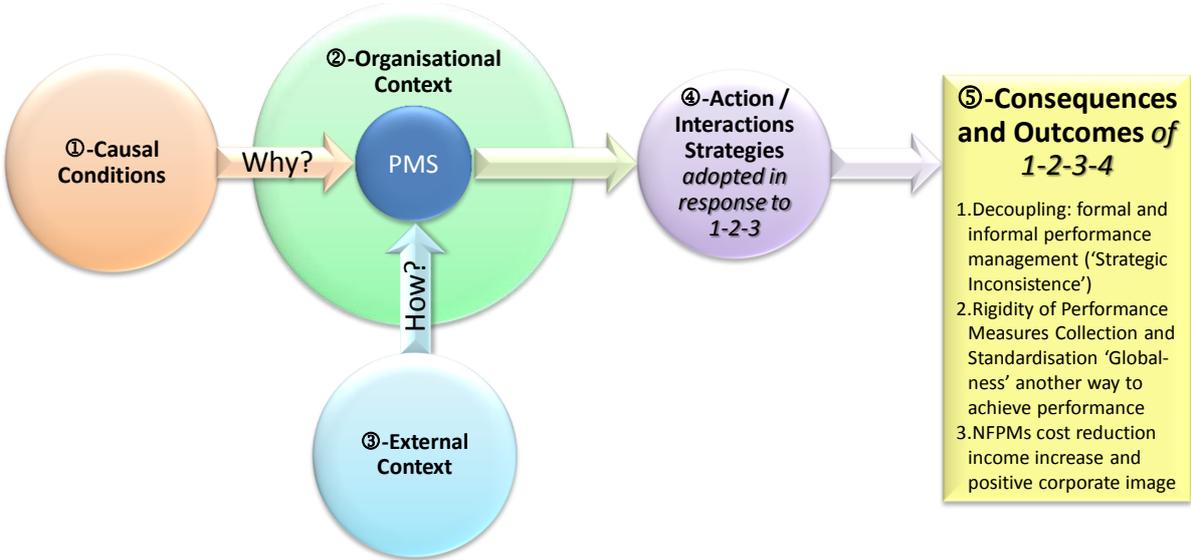
Outcomes or consequences are the results of action/ interaction strategies that have been taken to manage the phenomenon. Company C's adoption of a PMS and management strategies have resulted in a number of management and accounting consequences.

6.6.1 Summary of the outcomes of using a PMS at Company C

The usage of the PMS at Company C has created management dissatisfaction because of the global nature of the assessment leading to a lack of productivity information and ultimately a quest for objectives. The outcome of this 'other way to achieve performance', where it is considered as a result rather than a process, constrained by the difficulty of reducing costs and increasing the income is a lack of sanctions and the inflation of self-made performance metrics and excuses not to reach objectives which all had a negative impact on the role of management control and the budget which both became unimportant. It also produced a performance management system which some

respondents perceive as inconsistent with the strategy of the company. In a more and more constrained environment, call for survival goes through a PMS with more rigorous structure and process whose evolution is slow to preserve social peace. In this context NFPMs are perceived as a way to control costs and improve corporate image. Figure 29 below summarises the content of section 6.6, which covered the consequences and outcomes of actions and interaction strategies that management has adopted in response to the causal, external and organisational conditions emerging from interviews performed at company C within the Strauss and Corbin Grounded Theory methodology (1998).

Figure 29: Summary of Consequences and Outcomes of Using the PMS at Company C



6.6.2 Performance measurement system at Company C

It is acknowledged that a shift towards more objective, more rigorous evaluation of performance will be necessary (because of the environment and the organisational change due to privatisation and the 2004 merger). This will however be done gradually: *“it will get harder and harder; we do this smoothly because this adaptation we do it progressively (...) This will be hard, because we are in a soft management, we are very affective, you make your career at C”* (C4).

This long lasting state owned company culture also explains the weak place of management control within the company: *“at C, management control is a budget consolidation entity which no one is afraid of; this is not the culture of C (...) they [management control] are here to show synthetic reports rather than anything else. It is the corporate culture which is such. As long as global*

performance is ok, then the president doesn't pay attention to it. It is not the type of management of the President nor is it the one of the General Director" (C4).

Likewise, regular management control tools such as the budget within the company are also not considered as important: *"we do not have any sensitivity to budget at C; really not. What is important is not the budget, what is important it is the result of the company (...) the respect of the budget is not a criterion, in general no one respects its budget" (C4);* moreover, respondents argue that even if objectives are not met *"there are always a set of justifications which allow you to argue indefinitely" (C4).*

This of course puts into perspective the actual power of the budget at Company C. The reason why the company follows this policy is several. Its conception of performance as a result, where the attention is focused on the outcome rather than the process, comes first. The ability to stay in line with the main recent fourfold - BSC like - objectives of the company (customer preference; leveraging the assets; working together and profitable growth) in a cyclical environment, in a business which is very sensitive to externalities, is considered performance in itself: *"The indicators I follow: work and flight safety, on-time arrivals and departures, customer satisfaction, I follow the budget, but for most of my workforce, the budget, it is the cost of a touchdown and the shift in costs. I cannot say that in overall I take great care of it [the budget]. I have never had a problem in a budget conference. In an environment where you are struggling, in spite of an awful airport environment, the company is appreciative that ground operations sustain growth and not be a blocking element" (C4).* This justification is the same for other areas than ground operations, where problems faced are slightly different: *"the company is appreciative that its sales force increases the income to cover more than its [the company] deviations in costs, which some are due to this consensus which consist in paying pilots more..., but who do not go on strike anymore" (C4).*

As no positive, nor negative sanction appears upon budget goal achievement, this reinforces the 'global-ness' of performance evaluation: *"there is no criterion in terms of objective for the bonus, it is up to the manager: there is 30% linked to the overall result of the company, 50% linked to the objectives of the entity and 20% linked to personal objectives fixed by managers. I attend all bonus meetings with the HR VP and I determine the bonus as I want, he agrees with me, he doesn't care about any precise quantified objective because he considers that we make a nice move towards an individual, towards a specific situation" (C4).*

In this highly monitored industry, the standardised PMS at Company C provides a great deal of metrics as already documented: *“at C it is the culture of the metric which is at the origin of their multiplication”* (C4). However, also as already documented, they are not part of a close performance evaluation as the company sees performance as a result rather than a process where individual task performance would be tracked by indicators: *“at C it is the culture of the metric which is at the origin of their multiplication (...) this is paired with this not taking metrics into account in performance evaluation: the less you take metrics into account, the more you develop metrics, it doesn't cost much to issue metrics, because there is not much at stake, you don't fear them, therefore everyone wants its own set of indicators”* (C4).

This latter trend is reinforced by the fact that metrics remain the same: *“these are the same metrics since X years, the fundamentals of ground operations remain the same, we introduce performance of e-services, and there are some evolutions”* (C4) but these evolutions are small.

The reason used to justify not changing this way of managing performance is tied to the fact that management does not want to unbalance the fragile and very sensitive social climate of this transforming company: *“the problem is simple: costs are rising more than they should, we should do better... more pressure on managers, on personnel, discussing the social consensus... what is the need to beat ourselves as we are leaders, what is the need to go beyond? Why harden, accentuate pressure risking the explosion of the whole system putting at risk this global equilibrium?”* (C4).

The management style of the company is not focused on details: *“the management culture [of the president] is to lead his ‘ship’ and preserve large economic and social equilibriums, comfort (the company) position as a leader and as long as he gets these results, he doesn't see why he should seek things on unit costs, etc...”* (C4). However, this social agreement is not chosen by the top management team, it is rather a management style that they have to cope with: *“the social consensus at C is not the one of the director general”* (C4). This means that things may change in the future however much time it may take. This management style is seen by respondents as fitting the strategy of the firm: *“a leader strategy, of consolidation in Europe and reinforcing its network of alliances through Skyteam and aim at excellence”* (C4). This strategy fits into the Miles and Snow typology under the ‘analysers’ label¹⁷⁶, a mix of defender and prospector strategies (Miles & Snow,

¹⁷⁶ Such a pattern actually derives from the assumption that strategies are the result of managers' beliefs about their ability to shape their environment and about the nature of patterns they consider relevant to answer the major problems they have to deal with. In this sense, the Miles and Snow typology has captured the attention of researchers in management control because if such beliefs exist, and if managers are consistent, they should build a limited number of typical models of control and management.

1978, p. 29). This management style leaves a lot of freedom of action to managers, explaining why they have the ability to develop their own set of metrics and also why performance is seen as a whole: *“each entity has a great autonomy to fix its action plan. For all entities (it is the same). Trust is there and it works, this is the management style”* (C4). The rigidity of – formal – performance measure collection is there to ensure that this relative freedom is constrained enough by integration (Lawrence & Lorsch, 1967). This type of management does not mean that the company does not perform, for respondents this means that there is no one way to achieve performance and this is why Company C evaluates ‘global’ performance: *“the fact that we do not have a rigorous system of performance doesn’t imply we can’t aim at excellence”* (C4). This type of management is described as possible because it relies on *“professional sectors staffed with people who are serious, professional and competent and everyone participates in a fundamental work. At C it is fundamental work; we build on stone on long term”* (C4). The actions which are launched are seen as fundamental and preparing solid foundations for a long term strategy: *“fundamental actions, the vision of a hub, improve the robustness of your fundamentals and we improve and refine”* (C4). This management style seems to bear a resemblance to clan control (Ouchi, 1977), which relies on values, beliefs, corporate culture, shared norms, informal relationships, as well as a common vision to regulate work-related behaviour thereby facilitating the reaching of organisational goals¹⁷⁷.

Some respondents argue that this long term vision is possible because the executive committee is very stable in its composition and they know their job very well. This is also given as an explanation as to why performance is assessed globally, almost from a distance, as if it was coming out of a black box and not in precision which is considered short term: *“the sustainability of the executive committee enables evaluation of deep rooted work. Judgement is made on something different than the short term”* (C4).

Performance indicators at Company C are very differentiated by business units. It seems paradoxical that income, revenue and costs (as a whole, in absolute value and year to year) be mostly quoted but assumed as not relevant by some respondents because they do not fit the specific operational needs of their business. They claim that these are metrics monitored by the company as a whole, however, for their business they actually monitor more qualitative metrics (which are ultimately linked and transformed into revenue), be this for ground operations, marketing, or sales for example, where

¹⁷⁷ This type of control is opposed to bureaucratic control characterised by a wide use of rules and regulations, policies, procedures and formal authority.

quality of service (including safety) and customer satisfaction are more closely monitored: *“the important metric is not the income, it is not my primary job, because I have to manage a lot of hazards on the field (lack of time, work in emergency, personnel issues) (...) the volume of income is not a job indicator”* (C7) for back office jobs and personnel career management for example.

Managers justify this choice by arguing that the indicators they monitor on a personal basis are leading indicators: *“customer satisfaction at every stage is a forecast: re-buying is predictive”* (D1); *“loyalty indicators are leading metrics, these are evidence of future revenue”* (C3). This is reinforced by another respondent: *“we link potential gains and losses of satisfaction and revenue, if we invest in such or such an element, then the revenue evolves in such way”* (C5). Engagement (i.e. bookings) is another qualitative metric which is closely monitored as it is linked to the revenue. This emphasises the importance of qualitative metrics as leading indicators of performance over company quantitative and financial metrics: *“qualitative data have an importance; these are the only ones which allow us to anticipate, the non-quantitative metrics, on budget orientations, people reallocation, laws, etc... it is not performance it is future performance”* (C8). The increase of qualitative performance metrics, even though it is seen by local managers as better feeding global decisions which match the corporate strategy, is however not reported to top management because of an impoverishing reporting procedure which means that the integration of qualitative operational metrics is not done by middle management but by their assistants. This means that reported information lose their significance going upwards to top management: *“qualitative information which would be added value is cut out (...) it is not in the mapping of what is reported (to top management); some persons do not add value but deduct value (when reporting)”* (C8). This leads one to assume that middle managers would tend to use their own customised indicators over formal imposed ones (i.e. decoupling). The reason for this would be they place more value in the ones they design on purpose (i.e. to fit their information needs for operations), thereby perceiving them as leading indicators. This would also lead one to assume that the ones they report to top management through the formal system would either be modified to fit into the reporting format or just be left aside in this process because of their assumed irrelevance. The outcome of this would be top management using a mix of reporting ‘process surviving’ leading indicators and lagging (i.e. stakeholder focused) indicators focused on cost control and income increase. Corporate image also benefits from the official stress put on NFPMs such as SD or CSR metrics. This emphasises a divergence between top and middle management on what is considered a leading and lagging indicator on the one hand, and on the relevance of types of indicators for management on the other.

Some respondents express their dissatisfaction with a lack of information concerning their costs and their budget: *"I don't know my costs, my budget (agency and airport) in line with opening or closing decisions. Everyone does not communicate the same way within the company. People keep information. I do not know the performance of my employees. No one communicates this. There is a will to keep it blurry, this is frustrating"* (C7). The BSC, when it exists at the country level, for example, *"doesn't allow managers to link their performance to the one of the company"* (C3).

These 'holes' in performance communication are also noted at other management levels (between market and operational BUs for example) and linked back to the social culture/contract that operates in the company: *"The only person who has a vision is the general director because he has got all the added components: activity linked to personnel, quality of revenue, and operations; the total provides the notion of profitability per route, but not per client (...) if we start to make profitability indicators for routes available to everyone in the company, there would be social riots: this route is bound to disappear, what about our jobs?"* (C8). As managers are dissatisfied with the performance metrics used (e.g. revenue and costs), they develop their informal performance management tools: *"I monitor revenue because it is part of my bonus, however on a day to day basis I try to see where activity and revenue degradations are, so I can provide management with information and global decisions can be taken (...) in order to remedy the deficiencies of a system which does not report information as it should to translate strategy, you are brought to create your own tools to make sense"* (C8). This latter element suggests the existence of both a formal and an informal PMS as the one used in the approach exposed in the extension of Contingency Theory which is the Institutional Theory framework (Carruthers, 1995; Meyer & Rowan, 1977). This particularly relates to themes such as the "isomorphism" (DiMaggio & Powell, 1983), the "loose coupling" and the "decoupling" (Meyer & Rowan, 1977) concepts (Hussain & Gunasekaran, 2002).

Some respondents see this global management which they perceive as not relevant for monitoring and managing performance at their level, as the result of a schizophrenic strategy of the company: *"in the airline industry, our product is perishable: when a plane takes off with empty seats, they are definitely empty (it is lost revenue). This is an opportunistic short term strategy (e.g. yield management), we are not in a long term strategy in operations (like at the headquarters) (...) this strategy is dissonant; it is not compatible with negative effects if the situation makes a turnaround (...) what is the logic of long term customer loyalty when it has to work with the yield management logic which by definition is very short term and opportunistic?"* (C8). Some respondents even go

further in saying that the quantitative and objective metrics which are monitored at their level, not only are not the ideal performance measures for decision making but they are also counterproductive: *“even if corporate accounts managers monitor the two indicators we have (revenue and global economy ratio), learning means that during their first year of activity they monitor both, the second year they realise they earn their bonus on revenue and that they can reduce the global economy ratio, and the third year they begin to lie and use the system to justify everything because they have all the arguments to increase the revenue, because it is their only objective. Then it is time to replace them!”* (C8). The decoupling of performance measures and motivation through the global management of performance is such that when an objective is reached, no one goes beyond, even worse: *“when results are not good, a solution has to be found so managers get their bonus: targets are useless: they are a mix of social and goal which is not logical”* (C8).

6.6.3 Substantive hypotheses emerging from the Outcomes of using a PMS at Company C

The researcher has identified the main relationships between the categories and the phenomenon under investigation. Hypotheses are therefore generated from evident relationships between the categories. The results of the analysis suggest the following three substantive hypotheses:

Table 40: Outcomes Labels and Hypotheses

Consequences Labels	Decoupling: formal and informal performance management	Rigidity of Performance Measures Collection and Standardisation	NFPMs cost reduction, income increase and positive public image
Hypotheses	<ul style="list-style-type: none"> Decoupled PMS generates strategic inconsistency between a long term strategy and a short term practice 	<ul style="list-style-type: none"> The rigidity of performance measures collection and standardisation is aimed at stakeholders’ reassurance and creates decoupling of the PMS and responsibility dilution and counter performance 	<ul style="list-style-type: none"> The emergence of NFPMs is positively associated with the improvement of corporate image, cost reduction and income increase

6.7 Substantive hypotheses emerging from the application of the Strauss and Corbin Grounded Theory methodology (1998) to the case of Company C

In this section we will recall the hypotheses that have been identified during this analysis. The researcher has identified the main relationships between the categories and the phenomenon under investigation. Hypotheses are therefore generated from evident relationships between the categories. The results of the analysis suggest the following substantive hypotheses:

Table 41: Summary of Emerging Labels (or Conditions) and Substantive Hypotheses for Case C

Labels/Hypotheses	Labels	Label 1/Hypothese 1	Label 2/Hypothese 2	Label 3/Hypothese 3	Label 4/Hypothese 4	Label 5/Hypothese 5
Causal Labels	<ol style="list-style-type: none"> 1. Industry Nature 2. Economic Environment Sensitivity 3. Company Culture and Performance Management Reporting Structure and Process 4. Growth Model, company tradition of operations and financial Metrics 5. Management of Business Units 	<ul style="list-style-type: none"> • The industry immaturity, short term constrained, highly regulated, capital intensive and engineer friendly nature makes operations metrics and FPMs prominent in the PMS of organisations 	<ul style="list-style-type: none"> • In unstable environment the PMS is structured around quantitative and financial metrics which are fast and flexible strategic industry metrics (capacity adjustment) and preserve industrial relations 	<ul style="list-style-type: none"> • FPMs are prominent in the organisation because they are global, embody profitability and are understood by everyone internally and externally and blend responsibility 	<ul style="list-style-type: none"> • Operations and FPMs are prominent in the PMS of organisations whose growth defined as performance 	<ul style="list-style-type: none"> • In organisations where performance information requirement differs from business units the PMS is differentiated
Organisational Labels	<ol style="list-style-type: none"> 1. Corporate History & Culture 2. Corporate Structure Stability 3. Employee Management (education and management competences): social contract 4. Strategy (Profitable Growth) 5. Change Management 	<ul style="list-style-type: none"> • Company History & Culture (highly unionised) and management practice associates performance with industry operational and financial metrics (which blends responsibility). NFPMs are primarily developed for isomorphism purposes (not for performance evaluation) and are associated with the leverage capacity of the organisation 	<ul style="list-style-type: none"> • The FPMs/ NFPMs balanced structure of the PMS depends on the stability over time of the organisation's dominant coalition 	<ul style="list-style-type: none"> • performance and NFPMs benefits are not clear and FPMs are perceived more objective/fair (and preserve the social contract of the company) than NFPMs by managers who shape the PMS to be structured around more FPMs than NFPMs • Lack of competence and accuracy of managers generates inappropriate metric selection the performance reporting process 	<ul style="list-style-type: none"> • Analyzer strategy implies a rigid and standardized PMS structured around FPMs 	<ul style="list-style-type: none"> • Revolutionary change initiates PMS redesign starting with FPMs and expanding to the isomorphic emergence of NFPMs
Environmental Labels	<ol style="list-style-type: none"> 1. Competition 2. Environment normalisation (Stakeholder and Shareholder pressure, incl. financial analysts) 3. Industry Nature (cyclical and sensitive) 4. Trends: Political regulations, commercial and media 	<ul style="list-style-type: none"> • The modification of the competitive environment from competitors, customers and regulators generates a stress on financials and explains the prominence of FPMs 	<ul style="list-style-type: none"> • Under stakeholder (incl. financial analysts) pressure for proof of profitability in tightened (uncertain) economic conditions organisations focus on core business operations and cash & revenue (i.e. 'rationality of performance evaluation') and tend to develop more rigorous isomorphic centralized formal financial and non-financial metrics and informal financial and operations metrics. This process is slowed down b/c of company culture and social contract preservation 	<ul style="list-style-type: none"> • The industry short term constraint (cash and revenue) makes organisations focus on fast action operations metrics and FPMs 	<ul style="list-style-type: none"> • Stakeholder, state and media pressure explains the isomorphic development of formal NFPMs 	
Action/ Interaction Labels	<ol style="list-style-type: none"> 1. Quantitative and qualitative metrics 2. Formal development of NFPMs and Specific Conception and usage of NFPMs 3. Centralisation of Performance Information 4. Global-ness of performance 5. Inflation of Metrics 	<ul style="list-style-type: none"> • Operational qualitative and quantitative metrics of operations level are transformed into financials to be reported to top management • Quantitative operations and financial PMs are a pedagogic means to foster manager's attention of public company profitability concerns 	<ul style="list-style-type: none"> • Isomorphic NFPMs development are a means to triangulate FPM information for demanding stakeholders (financial analysts, shareholders and the regulators) and limit cost saving competition in large industrial groups • When traditional cost savings are limited, NFPMs are developed 	<ul style="list-style-type: none"> • In organisations where Information Systems are not integrated the PMS is decoupled and blends responsibilities (corporate formal vs. operations customized metrics) 	<ul style="list-style-type: none"> • Performance is conceived as 'global' because it is perceived as an outcome rather than a process • Global-ness of performance is another way to achieve performance 	<ul style="list-style-type: none"> • Responsibility blending explains the lack of sanction and subsequent metric inflation and subsequent dissatisfaction with the PMS (lack of individual objectives) • BSC is used as a test of strategy and not a performance management tool which is TDB
Outcomes Labels	<ol style="list-style-type: none"> 1. Decoupling: formal and informal performance management 2. Rigidity of Performance Measures Collection and Standardization 3. Redefining Core Activities 	<ul style="list-style-type: none"> • Decoupled PMS generates strategic inconsistency between a long term strategy and a short term practice 	<ul style="list-style-type: none"> • The rigidity of performance measures collection and standardisation is aimed at stakeholders' reassurance and creates decoupling of the PMS 	<ul style="list-style-type: none"> • The formal emergence of NFPMs complements traditional FPMs and is associated with the redefinition of the industrial activity 		

7 Case D

The case study of Company D, a major airline based in the United States is divided into seven sections. This third case study presentation will intentionally be less detailed than Company C's case which has provided a comprehensive picture of the global airline industry and summarised the emerging short and mid-term trends outlined by the major professional associations of this industry. The structure of this fourth case study is the following: section 7.1 provides a very brief summary of Company D. Section 7.2 presents the interviews and the data analysis procedure followed by a summary of the key elements arising from this case in section 7.3. Then, in accordance with the Strauss and Corbin Grounded Theory methodology (1998), section 7.4 presents the causal conditions for adopting a performance measurement system (PMS) at Company D, as well as organisational and intervening conditions which affected its design and operation. Section 7.5 exposes the action/interaction strategies which Company D's management adopted as a result of the implementation of a PMS. Section 7.6 discusses the consequences of using a PMS, that is to what extent it has been adopted and how successful it has been. Then section 7.7 summarises the substantive hypotheses which emerge from this fourth case study.

7.1 Company D Overview

Company D is one of the biggest international U.S. airlines. It currently has three activities: mainline (domestic and international), regional affiliate passenger operations (together representing 73% + 19% of its operating revenue), cargo (3% of its operating revenue) and Services (5%). The company makes around \$16 billion of net sales as of December 2009 and a net loss of over \$(650) million. Company D was founded in the mid 20's. In 2009 the company represents over 56 million passengers carried, around 3300 daily flights to 230 domestic and worldwide destinations over 160 countries. Approximately 40% of Company D's mainline capacity is deployed in international markets and the remainder in domestic markets. The Company has strong operations in the Asia-pacific region, Latin America and Europe.

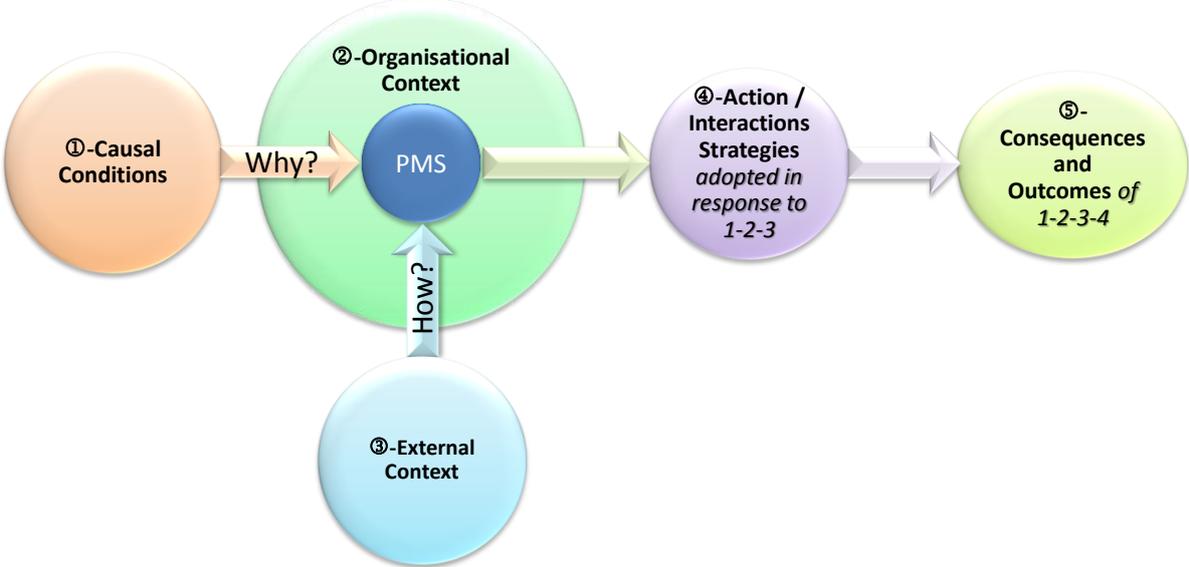
7.2 Data Collection and Data Analysis

7.2.1 Data Collection

As previously acknowledged, this research uses the Strauss and Corbin Grounded Theory methodology (1998). The four dimensions of the semi-structured interview schedule used for this case study were prepared to inform the previously described components of this methodology. This

process was triangulated by company external and internal documentation. The Strauss and Corbin Grounded Theory methodology (1998) applied to this case study is summarised as shown in the figure below:

Figure 30: Company D Data Analysis within the Strauss and Corbin Grounded Theory methodology (1998)



The interview schedule at Company D took over one year for completion. Interview data was dealt with confidentiality for both interviewees and the company. Interviews at Company D were made possible through personal contact with the north east U.S. sales-area manager of the company. This manager facilitated two further interviews besides his, which initiated the fieldwork there. Then, the selection of five out of the eight total respondents was suggested by the worldwide sales senior vice president of Company D after presenting him with the purpose of the study. The subsequent selection of interviewees has been based on the seniority and the range of providers and users of performance management tools. Interviews at Company D were done on the company premises in two locations in the U.S. and also by phone for better adaptability to respondents’ busy schedules. Interviews lasted one hour or so and were recorded when agreed by the respondent. Initials of these eight interviewees and their respective functions are detailed in the table below:

Table 42 : Details of Company D 8 Respondents

Respondents	Functions
D1	Managing Director, Financial Analysis
D2	Senior V.P. Marketing
D3	Northeast U.S. Sales Director (French National)
D4	Senior Vice President Worldwide Sales
D5	Senior Associate Finance (French National)
D6	Senior V.P. Operations
D7	Northeast U.S. District Sales Manager
D8	Managing Director Customer Experience Division

7.2.2 Data Analysis

The researcher collected a fair quantity of data which used the same analytical procedures informed by the Strauss and Corbin Grounded Theory methodology (1998) as cases A, B and C. In the following sections, the researcher tries to identify relationships between case emerging category labels and the central category which is the PMS. This, again, constitutes a basis for organising the ideas which emerge from the analysis. The researcher will then develop hypotheses which come out of the main category's relationship with the other related categories' components. This relationship is represented through the Strauss and Corbin Grounded Theory methodology (1998) to provide a clear understanding of these associations.

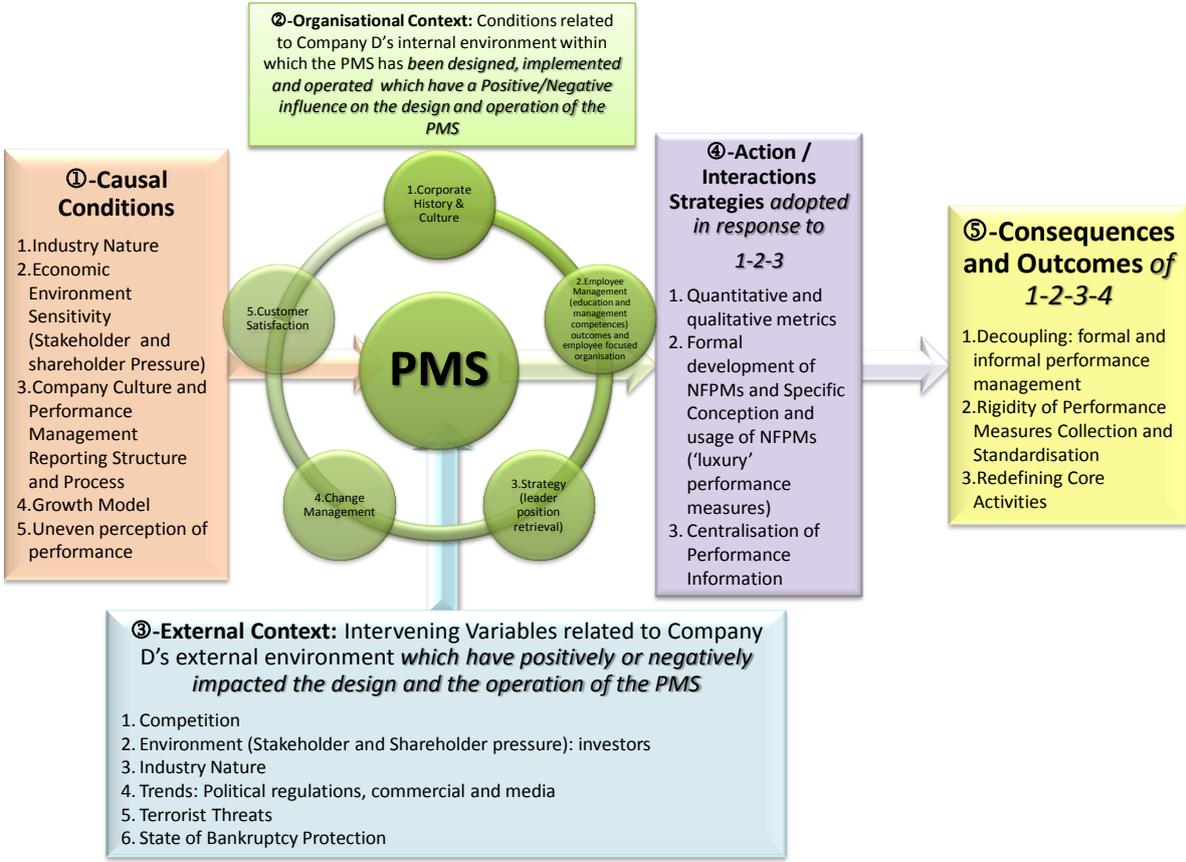
7.3 Summary of the Key Elements arising from the case study

Performance measurement and management at Company D reflects the sensitiveness of the airline industry to the evolution of the economic environment. As such, industry regulated quantitative and financial metrics have been an important driver which shaped the company PMS along with the regulation and subsequent deregulation (1978) of the U.S. airline industry. The development of the company has extensively used quantitative and financial metrics. Several internal conditions have also had an impact on the design and the operation of the company PMS. The revolutionary change which constituted the Chapter 11 near death experience of Company D (2002) constitutes an important internal element which contributed to shaping its PMS. However, as a reaction against Chapter 11's short term financial survival focus, two other dimensions of performance have recently emerged: employee and customer satisfaction. However, performance measurement and

management show a 'decoupled' practice whereby the importance of financial and operational metrics remains very strong. The North American airline industry has historically been regulated by the U.S. Civil Aeronautics Board (CAB). This regulatory body has set rules to ensure air operations between many routes. This situation has favoured the development and the survival of a large number of airlines competing more on costs than service. This regulatory pressure has also been complemented by several environmental conditions, including the development of domestic, international and especially political environmental regulations added to terrorists' threats, stakeholder pressures for profitability and a North American culture focused on fast reactivity/adaptation. This trend has emphasised cost competitiveness which subsequently explains why Company D's PMS has been more oriented towards financial and fast reactive operational quantitative metrics than NFPMs. The PMS at Company D takes the form of a home-grown industry and internal business area specific BSC, where evidence of lack of causal relations linking performance dimensions confirms prior literature (Ittner & Larcker, 2003). Respondents' answers show that the emphasis which the Chapter 11-existing company has put on quantitative and financial metrics needs to evolve towards more development of some of their post-bankruptcy home-grown BSC dimensions. This home-grown BSC is relatively young at Company D, which contributes to explaining both its dimensional development needs and its relatively uneven dissemination, usage and perception throughout the company. This leads one to assume that the revolutionary change (Greenwood & Hinings, 1996) which respondents perceive as having brought the development of a BSC at Company D does not actually change the decoupling¹⁷⁸ which exists between a 'growing formal-multidimensional' on the one hand and an 'informal-financial-operational-surviving' performance management on the other. The lack of integration of performance measurement and management at Company D coupled with the amount of data that has to be processed in this type of industry also contributes to explaining the decoupling which exists at Company D between an improving performance measurement and management system praised by some managers and a rather traditional one subsequent to Chapter 11. The following figure summarises the application of the Strauss and Corbin Grounded Theory methodology (1998) to the case study of Company D:

¹⁷⁸ Decoupling or loose coupling are concepts according to which organisations would formally adopt innovations without actually implementing them. These terms refer to the creation and maintenance of gaps between formal policies and actual organisational practices (Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Saupic, Bourguignon, & Zarlowski, 2007; Carruthers, 1995).

Figure 31: Summary of the Strauss and Corbin Grounded Theory methodology (1998) applied to the case study of Company D



7.4 The Reasons Why Company D decided to have a Performance Measurement System (PMS) and how it has evolved

Following the Strauss and Corbin Grounded Theory methodology (1998), three main different elements aim at explaining why a company has decided to adopt a specific PMS. These are Causal Conditions, Organisational Conditions and Intervening (External) Conditions. Each of these dimensions are detailed and applied to the present case in the following sections.

7.4.1 Causal Conditions for adopting a PMS at Company D

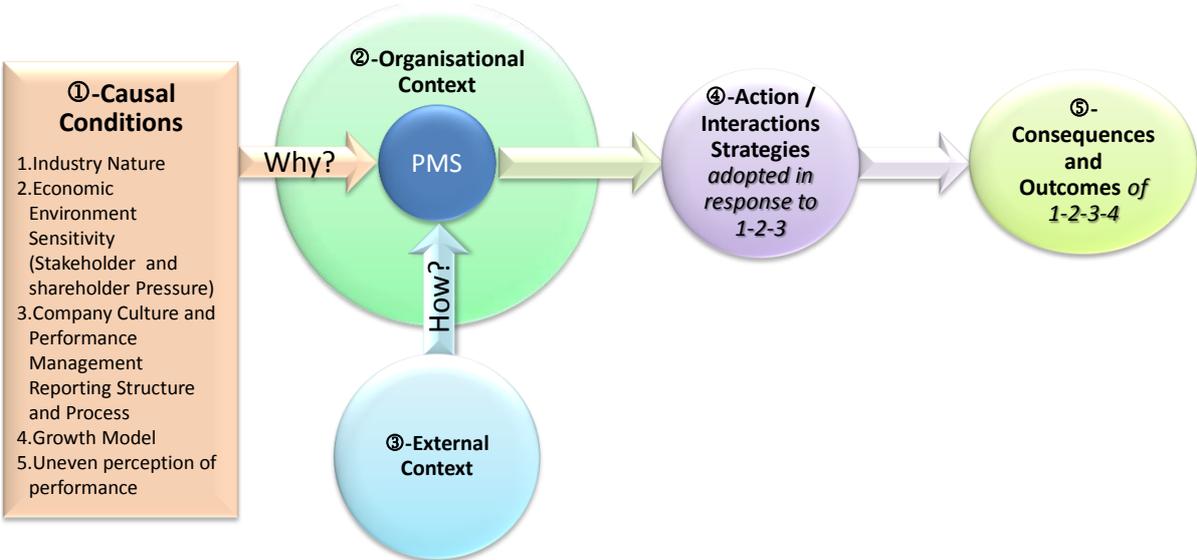
Causal conditions within the Strauss and Corbin Grounded Theory methodology (1998) refer to the events which make the phenomenon happen in the setting of the case study. In this second airline case, we consider that different events have generated the phenomenon under investigation. Each company has its own industry and environment, which gives it its own special characteristics and

various different attitudes as to the adoption or not, as well as the evolution over time and use of a PMS. These causal conditions may come from within the organisation and/or without.

7.4.1.1 Summary of the Causal Conditions for adopting a PMS at Company D

Performance measurement and management at Company D reflects the sensitiveness of the airline industry to the evolution of the economic environment in general and the investor community in particular. As such, the adoption of industry regulated quantitative operational and financial metrics has been an important driver which shaped the company PMS. It has also been influenced by other factors emerging from several causal external and internal dimensions of performance measurement and management such as the regulation and subsequent deregulation of the U.S. airline industry, fostering country-wide air service and profitability issues at the same time; a company whose development has been based on the monitoring of quantitative and financial metrics and a managerial perception of performance which is uneven across the company. The following figure summarises the Causal Conditions relating to the adoption by Company D of its current PMS.

Figure 32: Summary of Causal Conditions relating to the adoption by Company D of its current PMS



7.4.1.2 Causal Conditions for adopting a PMS at Company D

7.4.1.2.1 Historic Economic and Regulatory Environments related Causal Conditions

The airline industry is very sensitive to the evolution of the economic environment. Subsequently, Company D’s PMS - which only recently (2006) adopted the shape of a BSC - is sensitive to air freight metrics which are historical indicators of global economic trends.

More precisely, the recent history of this company has been subject to different factors or events which have impacted its measurement and management of performance. The group of factors which have influenced Company D in shaping its performance measurement and consequent management lies in the combination of the economic turmoil of the early 1970's, labour conflict which impacted pressures of regulation and the subsequent 1978 Airline Deregulation Act. These conditions have affected the company as they caused losses and generated an increased turnover in the company senior management through the 1970's and early 1980's.

Historically speaking, since 1937, the federal Civil Aeronautics Board (CAB) has regulated all U.S. domestic interstate air transport routes as a public utility. It set fares, routes, and schedules. One mission of CAB was to promote air travel by attempting to keep fares down in the short-haul market, which was supposed to be subsidised by higher fares in the long-haul market. The mission of CAB was also to ensure that the airlines had a reasonable rate of return. This latter element shows the early attachment of the sector to measuring financial performance. However, the regulation imposed by this quite rigid system led to growing inefficiencies and higher costs which explain why it was subject to high pressures in the 1970s. As a matter of fact, especially under unfavourable economic conditions, while most major airlines preferred this system because their profits were practically guaranteed, passengers, on the other hand, who were forced to pay rising fares, obviously did not embrace the same view, nor did communities which were required to subsidise air services on uneconomic routes at rising tariffs. The 1973 oil crisis combined with stagflation and technological advances such as the appearance of new types of aircraft changed this economic environment. On February 6, 1978, Senator Howard Cannon of Nevada introduced a proposal¹⁷⁹ which eventually passed and was signed by President Jimmy Carter, becoming a United States federal law (known as the Airline Deregulation Act) on October 24, 1978¹⁸⁰. The main purpose of this act was to remove government control over fares, routes and new airlines' market entry into commercial aviation. To achieve this, the act planned a four year removal process of restrictions on airline operations, culminating in the complete elimination of constraints on domestic routes and new services by December 31st 1981, as well as the end of all domestic fare regulation by January 1st 1983.

The regulation power of the CAB removed, it was assumed that passengers would be exposed to new market forces in the airline industry¹⁸¹. As a result, passenger load factors rose, partly because airlines could transfer larger aircraft to longer, busier routes and replace them with smaller ones on shorter, lower-traffic routes. However, this 1978 act did not remove or reduce the Federal Aviation

¹⁷⁹ 'S. 2493'.

¹⁸⁰ (Pub. L. 95-504).

¹⁸¹ As a matter of fact, in 1996, a Government Accountability Office report found that the average fare per passenger mile was about 9% lower in 1994 than in 1979. Moreover, between 1976 and 1990 the fare paid had declined approximately 30% in inflation-adjusted terms.

Administration (FAA)'s regulatory powers over all remaining aspects of airline operations, especially safety. In addition, the benefits of deregulation have not been distributed evenly throughout the national air transportation network: Costs have fallen more dramatically on more economically efficient, heavily trafficked, longer-distance routes than on shorter, lighter less realistically efficient ones. This highly regulated setting has historically shaped the North American airline industry operation which has actually adopted a set of specific metrics imposed by regulators to evaluate performance. They are described in the following section.

7.4.1.2.2 North American Airline Industry related Causal Conditions

Company D has adopted a PMS that embeds the information standards of the airline industry and the U.S. airline business in particular. As explained above, in the North American context, this industry is particularly subject to historical government regulation exercised both by the U.S. Department of Transportation (U.S. DOT) and the FAA. The U.S. setting shows a specificity which is that the whole airline industry monitors certain metrics designed and set forth by at least one federal regulatory body, that is the Research and Innovative Technology Administration (RITA), which is a division of the Bureau of Transportation Statistics (BTS) (August 2009, pp. 4-7). This explains that Company D’s PMS embeds traditional industry metrics but also a set of 11 externally developed ‘regulated’ indicators. The first set of metrics which is common across the industry¹⁸² gathers customary Revenue Passenger Kilometre - or Mile - (RPK/RPM), Revenue per Available Seat Kilometre - or Mile - (RASK/RASM), FTKs or FTMs, Load Factors (LF), Yield, Passenger revenue, Operating revenue and Operating expense per ASM as shown in Table 43 below:

Table 43: Company D Mainline Operating Indicators¹⁸³

Revenue passengers
Revenue passenger miles (“RPMs”) (d)
Available seat miles (“ASMs”) (e)
Passenger load factor (f)
Yield (g)
Passenger revenue per ASM (“PRASM”) (h)
Operating revenue per ASM (“RASM”) (i)
Operating expense per ASM (“CASM”) (j)
Fuel gallons consumed
Average price per gallon of jet fuel, including tax and hedge impact

¹⁸² See Case C and appendix for the definition of these metrics.

¹⁸³ Mainline operations exclude the operations of independent regional carriers (Form 10-K Company D Annual Report, February 2010, p. 12).

Meaning of Operating indicators used in Table 43 above

- (d) RPMs are the number of scheduled miles flown by revenue passengers.
- (e) ASMs are the number of seats available for passengers multiplied by the number of miles those seats are flown.
- (f) Passenger load factor is derived by dividing RPMs by ASMs.
- (g) Yield is a measure of average price paid per passenger mile, which is calculated by dividing passenger revenues by RPMs.
- (h) PRASM is Mainline passenger revenue per ASM.
- (i) RASM is operating revenues excluding Regional Affiliates passenger revenue per ASM.
- (j) CASM is operating expenses excluding Regional Affiliates operating expenses per ASM.

Then, in addition to this classic metrics, the extent of the specific data which is collected, analysed and made publicly available is presented on the RITA's website, as shown in Screenshot 1 below.

Screenshot 1: Airline Data and Statistic published by the RITA (2007) ¹⁸⁴

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 - Air Carrier Financial Reports (Form 41 Financial Data)
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 - Flight Delays at-a-Glance
 - Frequently Asked Questions
 - Frequently Delayed Flights
 - Holiday Flight Delays
 - Searchable Database
 - Detailed Statistics (January 1995 - present)
 - Summary Statistics (January 1995 - present)
 - New Special Feature: February 2010 Cancellations
 - New Tarmac Times
- Airport-to-Airport Statute Miles
- Available Seat-Miles
- New Baggage Fees
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 - Performance Measures in the Airline Industry
 - A Primer on Multifactor Productivity: Description, Benefits, and Uses
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 - Issue Brief, Number 13 - Airline Travel Since 9/11
 - Passenger Civil Aviation Security Service Fees
- Schedule B-43 Aircraft Inventory
- Sources of Air Carrier Aviation Data

Publications

- Airport Activity Statistics of Certificated Air Carriers: Summary Tables 2000
- Airport Activity Statistics of Certificated Air Carriers: Summary Tables 1999

Related Links

- Federal Aviation Administration - Aviation Safety Information Analysis and Sharing (ASIAS)
- U.S. Department of Transportation - Air Travel Consumer Report
- U.S. Department of Transportation - Office of the Assistant Secretary for Aviation and International Affairs

Frequently Asked Questions

- Airline On-Time Performance and Causes of Flight Delays
- Air Fares
- Tarmac Time Data

Research and Innovative Technology Administration (RITA) • U.S. Department of Transportation (US DOT)
1200 New Jersey Avenue, SE • Washington, DC 20590 • 800.853.1351 • E-mail RITA

¹⁸⁴ http://www.bts.gov/programs/airline_information/

The RITA gathers data which are taken from airline filings with the BTS¹⁸⁵. BTS makes traffic and financial numbers available on the TranStats database¹⁸⁶. This means this data is publicly disclosed for the traditional benchmarking practice of the sector. The RITA has issued a set of 11 'Airline Industry Performance Measures' that are used by carriers to evaluate their performance internally and externally, along with their set of home-grown metrics which are, as explained above, very classical across the industry and for the most part also deriving from this set of 11 metrics.

According to the BTS, these 11 metrics are officially "provided to offer insight into the operational performance of the network and low-cost carrier segments of the airline industry. These eleven measures (...) examine three different performance categories. The Financial one which includes: System Operating Profit/(Loss) per Originating Passenger; System Operating Expenses, excluding Regional Jet Contract per Originating Passenger; System Operating Expenses, excluding Regional Jet Contract per Aircraft; Passenger Revenue per Originating Passenger, excluding Regional Jet Contract. The second metric category concerns Employment and Traffic: Full-Time Equivalent Employees per Aircraft; Average Monthly Available Seat-Miles (ASMs) per Full-Time Equivalent Employee; Average Monthly Revenue Aircraft Minutes per Full-Time Equivalent Employee; Average Monthly Originating Passengers per Full-Time Equivalent Employee. Finally the third set of metrics concerns Operating Expenses: Fuel Cost per Originating Passenger; Average Full-Time Equivalent Employee Compensation per Originating Passenger; Average Annual Full-Time Equivalent Employee Compensation"¹⁸⁷. These metrics are illustrated in Screenshot 2 below:

¹⁸⁵ Form 41 Financial Data, Schedule P-1.2, Schedule P-5.2, filed quarterly; Form 41 Traffic Data, T-100 Market, and T-100 Segment data, filed monthly, and Airline employment numbers filed monthly.

¹⁸⁶ <http://www.transtats.bts.gov/>

¹⁸⁷ http://www.bts.gov/programs/airline_information/performance_measures_in_the_airline_industry/

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Eleven Measures of Airline Performance, First Quarter 2002-2007

This series of Airline Industry Performance Measures is provided to offer insight into the operational performance of the network and low-cost carrier segments of the airline industry. These eleven measures, developed by the Bureau of Transportation Statistics (BTS), examine three different performance categories.

Financial

1. System Operating Profit(Loss) per Originating Passenger
2. System Operating Expenses (excluding Regional Jet Contract) per Originating Passenger
3. System Operating Expenses (excluding Regional Jet Contract) per Aircraft
4. Passenger Revenue per Originating Passenger (excluding Regional Jet Contract)

Employment and Traffic

5. Full-Time Equivalent Employees per Aircraft
6. Average Monthly Available Seat-Miles (ASMs) per Full-Time Equivalent Employee
7. Average Monthly Revenue Aircraft Minutes per Full-Time Equivalent Employee
8. Average Monthly Originating Passengers per Full-Time Equivalent Employee

Operating Expense

9. Fuel Cost per Originating Passenger
10. Average Full-Time Equivalent Employee Compensation per Originating Passenger
11. Average Annual Full-Time Equivalent Employee Compensation

Research and Innovative Technology Administration (RITA) • U.S. Department of Transportation (US DOT)
1200 New Jersey Avenue, SE • Washington, DC 20590 • 800.853.1351 • E-mail RITA

¹⁸⁸ http://www.bts.gov/programs/airline_information/performance_measures_in_the_airline_industry/2007_q1/index.html

The publication of these metrics by the IATA, the ICAO, the ATA and the FAA, allows carriers to benchmark each other and is also the basis of companies' ranking which is monitored by stakeholders such as the investors and the customer base to a wider extent. The sensitivity of the business to fast changing economic conditions, such as the recent 2008 financial crisis, fosters the use of relative versus absolute performance measurement and explains the importance of benchmarking in performance evaluation in the airline industry worldwide. The reasons being that when a company is not doing as bad as the others in an environment where all companies are having difficulties, then the industry and the analysts consider this 'a performance'.

Company D, through its PMS, monitors, assesses performance and communicates on these industry metrics. The reasons why they do so are several. The first one, as mentioned earlier, is that this set of metrics is the same or very close to the ones classically used across the whole airline industry, so both the effort and cost to use them is very low. The second is that these metrics are used by the economic community to rank the performance of airline carriers. This constitutes an external coercive pressure (DiMaggio & Powell, 1983) to adopt these metrics.

This latter issue is actually expressed in corporate documents. As an example, Chapter 11 exiting Company D stated it "aims to regain its position in key metrics reported by the U.S. DOT as well as higher revenue driven by services, schedules and routes that are valued by the Company's customers" (Form 10-K Company D Annual Report, February 2010). The three areas covered by these externally imposed metrics (financial, employment and traffic and operating expense) are actually tied to financials (see screenshot 3 page 221) through the cost elements they comprehend.

The PMS also embeds a customer dimension which is very classical among U.S. corporations, according to Consumer Culture Theory (CCT)¹⁸⁹ (Arnould & Thompson, 2005) and classic cross-cultural consumer behaviour literature (Usunier & Lee, 2005, p. 97; Liu & McClure, 2001; Richins & Verhage, 1985; Deshpandé, Farley, & Webs, 1993; Laroche, Ueltschy, Abe, Cleveland, & Yannopoulos, 2004). This literature states that service value and satisfaction drive consumers' behavioural intentions in North America as American consumers tend to place more emphasis than other customers on the trade-off between what they receive in the service encounter and what they have to give up to receive the benefit (Brady, Robertson, & Cronin, 2001).

Then, just as for Company C, from this classical and simple industry-specific set of metrics derive most of the main quantitative and qualitative indicators monitored at Company D. Subsequently, still

¹⁸⁹ This approach considers consumption and the behavioural choices and practices involved as social and cultural phenomena - as opposed to psychological or purely economic phenomena.

as for Company C, respondents state the PMS they use has to provide simple, straightforward, industry-specific metrics so that these have a clear meaning for employees.

These basic metrics are stated to be used both to evaluate performance within the company, but also as an agreed basis of benchmarking among airlines as shown in Screenshot 3 below:

Screenshot 3: Performance Measures: United Airlines Compared to All Network Carriers, 2007 (RITA)¹⁹⁰


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Performance Measures: Northwest Airlines Compared to All Network Carriers

First Quarter 2007

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Measure	Northwest	Network** Carrier Average	Northwest's 2007 Rank Among 7 Network Carriers	Comment
Measure 1: System Operating Profit/(Loss) per Originating Passenger in Dollars	\$27.42	\$13.52	1	Network carriers Northwest, Delta, US Airways and American all had operating profits per originating passenger higher than America West, the leading low cost carrier.
Measure 2: System Operating Expenses (excluding Regional Jet Contract) per Originating Passenger in Dollars	\$312	\$331	3	The network carriers' aggressive downsizing in operations reduced other costs, partially offsetting the rise in fuel expense.
Measure 3: System Operating Expenses (excluding Regional Jet Contract) per Aircraft in Millions of Dollars	\$6.283	\$6.838	3	Network operating expenses per aircraft increased 24 percent from 2002 as that group moved towards more international flying which requires larger and more expensive aircraft.
Measure 4: Passenger Revenue per Originating Passenger (excluding Regional Jet Contract Revenue) in dollars	\$293	\$302	5	Network and low-cost carriers benefited from fare increases that began in mid-2005. Network carrier revenue per passenger rose 2 percent from 2002 to 2005 and 18 percent from 2005 to 2007.
Measure 5: Full-Time Equivalent Employees* per Aircraft	102	99	5	The industry showed a wide-range of performance, with AirTran's 59 FTEs per aircraft, the fewest of any carrier, about half the 113 FTEs reported by United.
Measure 6: Average Monthly Available Seat-Miles (ASMs) per Full-Time Equivalent Employee* in millions of ASMs	243	212	1	Both the network carriers and low-cost airlines substantially improved productivity with more ASMs generated per FTE from 2002 to 2007.
Measure 7: Average Monthly Revenue Aircraft Minutes per Full-Time Equivalent Employee* in Minutes	180	159	2	The network carriers improved by 31 percent but the low-cost carrier group has a wide advantage over the network airlines in average monthly revenue air minutes per FTE.
Measure 8: Average Monthly Originating Passengers per Full-Time Equivalent Employee*	86	89	3	In 2007, the low-cost carriers generated 168 originating passengers per FTE employee compared to 89 passengers per FTE for the network airlines.
Measure 9: Fuel Cost in Dollars per Originating Passenger	\$92	\$93	4	The low-cost group paid \$55 less in fuel costs per originating passenger than the network carriers in 2007.
Measure 10: Average Full-Time Equivalent Employee* Compensation (Salaries + Benefits) per Originating Passenger in dollars	\$86	\$100	3	The financially stronger low-cost carrier group's compensation expenses increased a modest \$3 per originating passenger, reflecting wage increases for the group's increasingly senior work force partially offset by sustained operational efficiencies.
Measure 11: Average Annual Full-Time Equivalent Employee* Compensation (Salaries + Benefits) in dollars	\$88,646	\$83,374	1	From 2002 to 2007, low-cost carrier annual compensation costs rose 43 percent while network airline costs declined 0.8 percent.

Source: Bureau of Transportation Statistics

* Full-time Equivalent Employee (FTE) calculations count two part-time employees as one full-time employee.

** Network carriers operate a significant portion of their flights using at least one hub where connections are made for flights on a spoke system.

*** Low-cost carriers are those that the industry recognizes as operating under a low-cost business model, with fewer infrastructure costs and greater expectations of productivity.

¹⁹⁰ http://www.bts.gov/programs/airline_information/performance_measures_in_the_airline_industry/html/individual_air_carrier/network/northwest_2007_q1.html

Depending on the nature of the activity exercised within the different divisions of the Company, these metrics are also complemented by other quantitative non-financial as well as qualitative data. On this latter issue, further evidence from interviews leads one to assume that tools developed and used at corporate level (e.g. top management) are not the same as the ones used on the ground field, even though performance instruments may, to a degree, share the same indicators. This specific concern has been evidenced by previous management accounting literature (Euske, Lebas, & McNair, 1993) and the Institutional Sociology (NIS) perspective (Carruthers, 1995). These issues will be further discussed in the next sections.

The PMS at Company D encompasses a traditional heavy mix of financial and non-financial information linked to the nature of the industry in which it operates: *“this is very dense; this is a very measure heavy industry”* (D4). The reason for this, quoted by respondents, is, as explained above in section 7.4.1.2.2 on page 214, that the U.S. airline industry has been highly regulated by the federal government, at least until 1978, which implied that metrics used to monitor performance (i.e. those monitored by the U.S. DOT documented in section 7.4.1.2.2 on page 214) were published across the industry to rank carriers for external communication but also used by companies to benchmark themselves: *“it is because the majority of the companies measure [performance] this way, which is common across the industry [for example]: on-time arrival “+14” is very standard across the industry, this comes from when carriers were regulated by the government, this is an heritage of that”* (D5). Besides this benchmarking issue, the publication of the ranking implies that these performance metrics are actually used internally to manage performance - along with other related or derived internal metrics - and subsequently have a great impact on the disclosure of the condition of the company, especially for stakeholders such as the investor community. This is a situation where an industry internally measures its performance with – somewhat quite traditional – metrics historically imposed by a federal regulator for original regulation reasons which may no longer exist.

Other reasons for the adoption of traditional industry metrics also quoted by respondents lie in the clarity and the simplicity of these metrics - which is a point which has also already been identified as such for Company C - *“clarity is a key factor of success for any organisation (...) if it is achievable it has to be simple”* (D3). This is especially relevant as some respondents also highlight the ‘structure’ which the practice of these – ‘ready to use’ – traditional metrics have brought to a business which they perceive as immature and which they hold in relatively low esteem: *“airline industry is not mature, it doesn’t make sense sometimes, on capacity, etc... which makes that tickets [prices] are not rational, this is changing (...) this is an industry which has never been known for its excellence”* (D3). The issue of external pressure explaining change towards a more rational management of activities is also a common element that some respondents share with Company C’s. However, the external

pressure in this case, is more relevant to an intervening condition in the Strauss and Corbin Grounded Theory methodology (1998) sense as it has recently modified the shape of the company PMS and its usage. This is why this external pressure is merely associated with the 2002 – 2006 bankruptcy episode which the company went through. It stands as a catalyser of a – revolutionary (Greenwood & Hinings, 1996) – change of the PMS towards a necessary evolution towards multidimensional performance assessment, yet keeping a strong eye on the bare – financial – necessities of a company under Chapter 11 conditions.

Also, the intelligibility of some of this set of metrics is perceived by respondents as particularly appropriate in an economic situation (e.g. external pressure, including competition) where the ability of managers to develop performance measurement and management tools capable of ensuring company survival is vital. This is because these metrics tie individual performance assessment (i.e. bonuses) to outcomes within the context of a company which is perceived at the time of the interviews – 2007 – as an “outcomes focused organisation” (D3).

We will see later in this case that industry metrics, besides traditional revenue and budget indicators, have only recently been complemented by other dimensions of performance assessment leading to Company D’s development of its own version of its current BSC. This home-grown instrument emphasises the link between corporate and individual performance in the different business areas of the company, for example: *“the sales division has been remodelled for two years. Before that, we did not have the tools, the data nor the aggregation of the data (...) before we only had figures relating to target revenues and few criteria which were the budget, etc... However not the assessment criteria which were directly linked to a function”* (D3). This, however does not mean that the BSC is new there: *“the concept of BSC is not new at Company D, what is new is that it is uniform within the whole company, which was not the case before”* (D5). This calls attention to the unevenness of BSC perception within the organisation. This also suggests, as noted by David Otley (2008), a now traditional issue that is the acronym of recently developed performance management tools such as the BSC, covers a multiplicity of actual practices - scorecards - whether they are balanced or not. As Friedberg (1993) concludes: *“it all depends”* (on what is understood under the BSC acronym). A set of traditional metrics has also been quite ‘useful’ for the company to bring order into a diverging vision of performance. As a matter of fact, respondents at Company D, depending on their functional areas and divisions, have a different understanding of what performance is, mostly relating it to their immediate business concern. At the sales division level, one respondent states: *“that depends on the geography of the world you’re working in, because we have different ways that we can measure success and therefore the way we define our performance measure against that is somewhat different”* (D4). This intra-company diverging vision of performance suggests decoupling (Meyer &

Rowan, 1977) between the conceptions of top and middle management of performance and their instruments.

7.4.1.2.3 Company Specific related Causal Conditions

The economic and regulatory environment related causal conditions which explain the adoption of industry metrics in Company D PMS, (i.e. regulation and the subsequent deregulation of the U.S. airline industry) are complemented by other dimensions of Company D's own history, culture and management. At the time of the interviews the Company still focused its business management decisions within specific geographic regions and services¹⁹¹ and its PMS relied on traditional output oriented (i.e. revenue) financial metrics. Even though some Company D respondents declare the company uses the Balanced Scorecard (BSC), triangulation evidence shows several emerging issues concerning the design (e.g. uneven perception/ understanding of 'performance'), the implementation and the actual usage of this tool. These will be documented in the coming sections.

In addition to this practice, one consequence of favourable U.S. regulatory conditions historically consisted, for Company D, of acquisitions of weakening companies and cautious company – government negotiations on air-route purchases (i.e. rigid/ constrained growth model). As a matter of fact, in the early 1990's the decline of Pan American World Airways (i.e. Pan Am) offered spectacular expansion opportunities for Company D which purchased Pan Am's routes to London Heathrow Airport. However, the aftermath of the first Gulf War mixed with an increased competition from low-cost carriers (LCCs) led to losses of over \$330 million in 1991 and over \$960 million in 1992. The exposure to competition led to heavy losses and conflicts with labour unions across the industry including Company D. Between 1978 and mid-2001, nine major carriers (including Eastern, Midway, Braniff, Pan Am, Continental, America West Airlines, and TWA) and more than 100 smaller airlines went bankrupt or were simply liquidated. This includes most of the dozens of new airlines founded after the 1978 deregulation. This initial favourable growth environment explains the prominence of FPMs in the Company's PMS.

Company D corporate history and culture also complements the conditions in which the PMS developed. In 1994, the company was on the brink of a financial crisis as it realised that it could no longer compete in the deregulated U.S. airline industry without substantial wage reductions. With a view to save the airline, the company's executives and its employees embarked on an experiment in corporate governance that was supposed to depart from years of tension between labour and management. Company D's pilots, machinists, bag handlers and non-contract employees agreed to five-year pay cuts ranging from 8% to 15% in order to keep down the airline's operational costs so

¹⁹¹ Infinancials Company D Business Summary, March 2010.

that company could compete with low-cost airlines. “In return, the airline would hand over half of the company to the workers, who would have a say in the direction of the airline and would supposedly directly benefit from its future success” (Manjoo, 2002). These wage reductions were enough to secure a \$5 billion loan package that enabled the employees to acquire 55% ownership of the company. This materialised the Company’s Employee Stock Ownership Plan¹⁹² (ESOP) which made Company D the largest employee-owned corporation in the world (Lamberg, Savage, & Pajunen, 2003). “For the first several years after the buyout, profits soared and shareholder value went up by \$4 billion. Then the company got caught up in the perfect storm. The wage-reduction agreement expired in 2000 just as the economy was weakening. And then the company was pushed into bankruptcy as a consequence of the events that happened on September 11, 2001” (Menke & Buxton, 2010).

The way the BSC has been structured and implemented at Company D does not encompass all the four traditional dimensions of this instrument at different hierarchical levels for example. In fact, the composition and the usage of the BSC seem to be uneven along the hierarchical line, which would tend to confirm existing literature (Euske, Lebas, & McNair, 1993), but also across the different divisions of the company: “*We use BSC at the company level, we got traffic and that as well but those are more corporate measures that we have and these things all roll up into it, as a sales division those [financial indicators] are really the measures that we tend to use*” (D4). This latter element suggests, like for Company C, the existence of a specific performance reporting structure and subsequent processes. That is to say a formal and an informal PMS in the approach exposed in the extension of Contingency Theory by the Institutional Theory framework (Carruthers, 1995; Meyer & Rowan, 1977), and more specifically through notions and processes such as ‘isomorphism’¹⁹³ (DiMaggio & Powell, 1983), ‘loose coupling’ and ‘decoupling’ (Meyer & Rowan, 1977) concepts (Hussain & Gunasekaran, 2002). The suggested normative and Chapter 11-subsequent coercive isomorphism that shapes the PMS at Company D also suggests decoupling which would confirm David Otley’s assumption that the BSC is an “embodiment of Simon’s (1995) interactive control systems; that is, it reports measures which senior managers have decided should be emphasised for a period of time” (Otley D. , 1999, p. 376).

¹⁹² ESOP (employee stock ownership plan) “came into being in 1956. During the 50-plus years since then, ESOPs have become a popular alternative to a sale or merger as a tool of business succession (...) Starting in 1979, a new application for ESOPs came along that no one had imagined—using ESOPs to save failing companies. In these cases, the stock that the ESOP acquired was paid for through negotiated salary reductions rather than company contributions from current or accumulated profits. In effect, the employees were given stock in exchange for negotiated salary-reduction agreements” (Menke & Buxton, 2010).

¹⁹³ Isomorphism covers the processes by which organisations cope with the expectations of their external environment. Three types of isomorphism are considered: “Coercive isomorphism results from pressures exerted on an organisation by external parties upon which the organisation is dependent. Mimetic isomorphism occurs when an organisation attempts to imitate a more successful organisation operating in the same environment. Normative isomorphism derives from the efforts of members of an organisation to define the conditions and methods of organisational life” (Baker, et al., 2011).

The BSC has only recently been called such, designed and implemented at Company D. This is because it is perceived as a post Chapter 11 outcome. Further interview evidence shows that some of the four traditional dimensions of their BSC are less represented and balanced (e.g. the learning and growth dimension), judged more relevant for the industry in which the company operates (see section 7.4.2.2.3.1 page 234 for examples and relevant quotes). This not only questions the structure of this home-grown BSC - including the traditional lack of evidence of Kaplan and Norton’s assumed four ‘dimensional’ causal conditions of the performance model, as demonstrated by Ittner & Larcker (1998) and Otley (2008) -, but also its resulting differentiated corporate usage.

Furthermore, interviews show that a specific emphasis has developed on the personnel performance dimension of the PMS linked to overall company performance. The extent to which this trend is related to the external assessment of performance by the employment and traffic U.S. DOT metrics (i.e. coercive isomorphism) is however not clear. Nevertheless, this last trend of Company D performance management seems to appeal to McGregor’s motivation theories (Osterloh & Frey, 2007). These latter issues will be complementarily discussed in section 7.6 starting page 261 onwards. This BSC specificity is noticeably not the case for other major airlines such as British Airways, for example who publicly disclose the BSC Key Performance Indicators they are measuring and monitoring on the Financial, Customers, Operations and Colleagues dimensions¹⁹⁴.

7.4.1.3 Substantive hypotheses emerging from the Causal Conditions for adopting a PMS at Company D

This section demonstrated the main Causal Conditions which make the phenomenon under investigation happen. Hypotheses are generated from relationships between Causal Conditions and the phenomenon. The result of the analysis suggests the five substantive hypotheses presented in the table below:

Table 44: Emerging Causal Labels and Hypotheses

Causal Labels	Industry Nature	Economic Environment Sensitivity	Company Culture and Performance Management Reporting Structure and Process	Growth Model	Uneven perception of performance
Hypotheses	<ul style="list-style-type: none"> The industry short term constraint highly regulated and engineer friendly nature makes operations metrics and FPMs prominent in the PMS of organisations 	<ul style="list-style-type: none"> In unstable (fast moving) environment the PMS is structured around quantitative and financial metrics which enable fast and efficient industry benchmark 	<ul style="list-style-type: none"> FPMs are prominent in the organisation because they are global, embody profitability and are understood by everyone internally (used for compensation) and externally 	<ul style="list-style-type: none"> Operations and FPMs are prominent in the PMS of organisations whose growth model is rigid 	<ul style="list-style-type: none"> Performance measurement and management tools used at corporate level are ‘decoupled’ from the ones used at operations level because of uneven perception of performance

¹⁹⁴ http://www.britishairways.com/cms/global/microsites/ba_reports0809/our_business/kpi.html

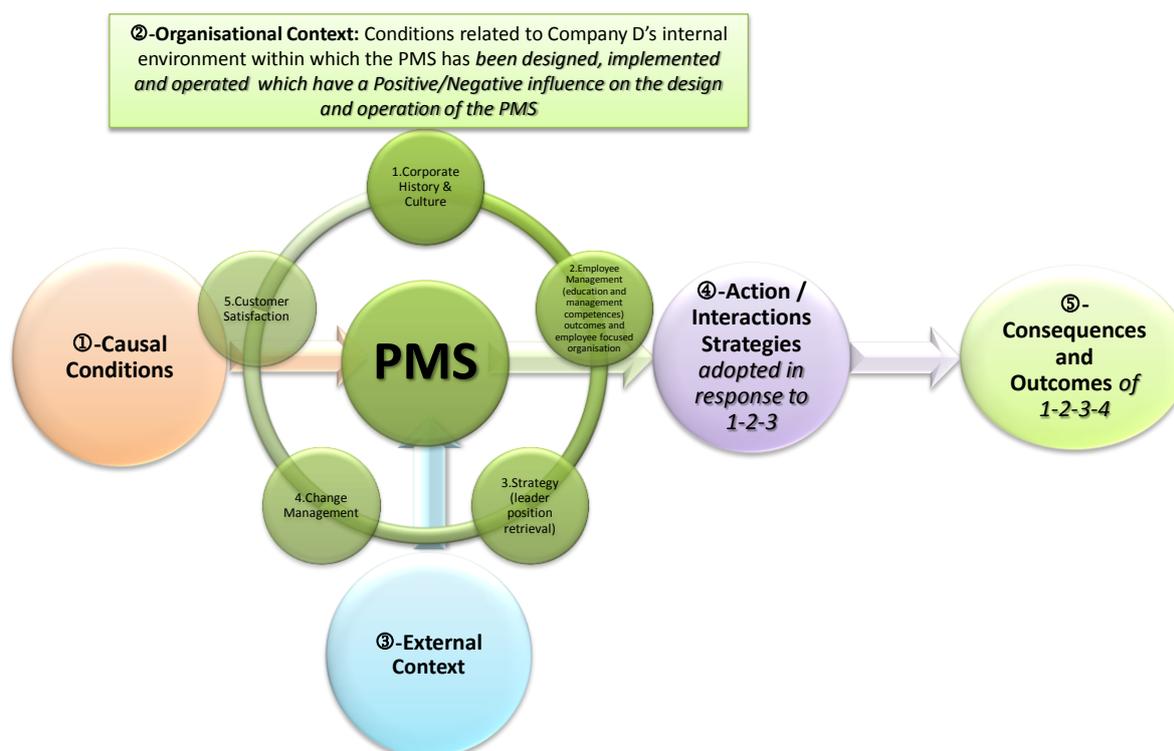
7.4.2 Internal Organisational Context in which the PMS was designed and operates at Company D

The organisational context refers to a particular set of characteristics/ circumstances in which the phenomenon has occurred. The phenomenon exists within a company context and some organisational conditions - which are the characteristics that occur within the company's borders -, are therefore related to a specific phenomenon. The context finds its source in causal conditions, which facilitates management's awareness of understanding PMS causal relationships. Contextual conditions also create a set of circumstances to which Company D management responds through actions and interaction strategies. Contextual conditions may have a positive or a negative impact on the phenomenon under investigation.

7.4.2.1 Summary of Organisational Conditions' Impact on the design and the operation of the Company's PMS

Several internal conditions have had an impact on the design and operation of the company's PMS. The revolutionary change which constituted the Chapter 11 near death experience of Company D and the subsequent termination of its Employee Stock Ownership Plan (ESOP) constitutes an important internal element which contributed to shaping the operational and financial metrics content of the PMS. While this state of bankruptcy offered a protection which allowed the company to restructure, turning the page of its past management history, including personnel management, it contributed to the adoption of a home-grown BSC which impacted the shaping of a corporate strategy of 'leadership retrieval' among other airlines. This is done through emphasising the customer satisfaction and personal engagement dimensions as one PMS structure reaction against Chapter 11-imposed metrics focusing on financial short term survival. However, respondents declare that performance measurement and management exercise show an actual 'decoupled' practice whereby the importance of financial and operational metrics remains very strong even after the termination of Chapter 11 protection, especially through focusing employees on delivering outcomes. The following figure describes the Organisational Conditions' Impact on Company D PMS.

Figure 33: Summary of Organisational Conditions' Impact on Company D PMS



7.4.2.2 Organisational Conditions' Impact on the design and the operation of the Company's PMS

Company D's PMS exists within the context of Company D which directly affects the use of such a performance measurement and management system.

7.4.2.2.1 Company background

As mentioned at Section 7.1, Company D is one large international U.S. airlines. As of July 31, 2006, Company D was the world's third largest airline by revenue-passenger-miles and total operating revenues, and the fourth-largest by total passengers transported. Early 2010, Company D fleet consisted of over 360 aircraft in operation to which are added around 300 regional jets and turboprops belonging to its regional subsidiary. Company D currently employs over 47,000 persons. The company developed a global alliance in the late 90's. This alliance allows its 25 airline members the transportation of passengers and cargo to around 1 100 destinations over 170 countries through 20 000 daily possible flights. This alliance represented around 30% of worldwide traffic at the time when the interviews were performed (2007¹⁹⁵) and claims over 56 million global members in 2009.

From the company's recent history - including the post 1978 deregulation era growth -, several organisational episodes have impacted the shape and operation of its PMS. Company D benefited from the dot-com boom of the early 2000's, partly because of its presence on the West coast. This

¹⁹⁵ (Direction Générale de l'Aviation Civile (DGAC), 2008, p. 52)

boosted traffic with a special emphasis on premium passengers. During its growth period, while competitors were not able to compete or were simply disappearing, revenues were not considered an issue. This explains why the company did not see the need to 'walk the extra-mile' for PMS sophistication, other than embedding traditional operational, safety and financial metrics. Besides, evidence shows that these indicators have not been of help because when the dot-com bubble burst, the company was in a worse position than before because it had failed to keep costs under control¹⁹⁶. Moreover, as Company D's network had not been the primary focus in its growth strategy, both the September 11 attacks and rising oil prices have seen the company lose over \$2 billion in 2001 on revenues of over \$16 billion. It was in the same year that the company applied for a \$1.5 billion loan guarantee from the federal Air Transportation Stabilisation Board¹⁹⁷. This application was rejected in late 2002 and the company was forced to seek debtor-in-possession financing from commercial sources to cover the expected future losses. The company finally filed for Chapter 11 bankruptcy protection in December 2002 as it was unable to secure additional capital. This subsequently terminated the ESOP with a company that had virtually worthless shares.

The company took the opportunity of its bankruptcy protection operations to engage in a cost cutting strategy which led to massive worker layoffs. Some of the specific actions which were taken by the company targeted different business areas: personnel, structure and operating costs. They included cost cutting negotiations with employees, such as the controversial 2005 cancellation of the Company pension plan; the renegotiation of contracts with the pilots' and mechanics' unions and the Association of Flight Attendants for lower pay, the closing of all city ticket offices in the U.S. and the elimination of gateways and flight crew at some airports. In 2003, the company regrouped its maintenance activities in a single place and reduced the mainline fleet from 557 (before 9/11) to 460 aircraft. The airline also cancelled several existing and planned routes. Negotiations also concerned suppliers and contractors, including the cancellation of feeder contracts with regional carriers.

Besides this primary action on costs and the reshaping of its activities - like cutting domestic capacity by 14%, while focusing on more profitable international flights and rising fares - the company invested in new projects such as the launch of a low-cost carrier in 2003 and a coast-to-coast premium service aimed at business customers and high-end leisure customers in 2004. However, the situation did not improve. The profits which remained after the SARS epidemic in 2003 - that depressed traffic on the company's large Pacific network - were nullified by rising jet-fuel costs.

¹⁹⁶ Company D pilots were given a pay raise of up to 28% in the summer of 2000.

¹⁹⁷ Established after the September 11 attacks.

Late 2005, the company announced it had raised \$3 billion in exit financing and filed its Plan of Reorganisation. The bankruptcy court approved the restructuring plan early 2006 and cleared the way for Company D to exit bankruptcy. This has been the largest and the longest airline bankruptcy case in the history of the industry. Also at this date, in light of the company's bankruptcy-related restructuring and organisational changes, management re-evaluated the company's traditional segment reporting. The company now manages its business as an 'integrated network' with assets deployed across integrated mainline and regional carrier networks, whereas in the past it focused its business management decisions within specific geographic regions and services. This new focus on managing the business seeks to "maximise the profitability of the overall airline network"¹⁹⁸. In mid-2008, facing economic crisis, the company announced the closing of its five year old low cost carrier for 2009, the reconfiguration of its fleet with a focus on mainline to compensate the retirement of aircraft (further reducing the mainline fleet from 460 to 360 aircrafts) and a – industry traditional – 15% capacity cut strategy. Over the same short period of time, since the exiting of Chapter 11, as the industry consolidated, the company has seen two tentative mergers aborted and compensated these failures with increasing codeshare¹⁹⁹ agreements.

7.4.2.2.2 Company Ownership, Management and Organisational Structure

At the beginning of 2010, the percentage of shares held by institutional and mutual fund owners was over 70%, the remainder consist of outstanding shares. The Board of Directors is elected annually and consists of 10 directors elected by the holders of the outstanding common stock and two directors elected by the unions. Board members represent a diverse range of expertise in a variety of fields. The Board has six committees that oversee different functions for the company. The Audit Committee is in charge of the integrity of financial statements and internal controls; the Executive Committee manage the business affairs of the company; the Human Resources Committee and Subcommittee deal with labour relations and compensation issues; the Finance Committee is in charge of financial management planning; the Nominating/Governance Committee deals with corporate governance and board membership; and finally the Public Responsibility Committee is in charge of social responsibility and public policy. In corporate documents, Company D's Corporate Governance principles confirm institutional theory's normative isomorphism literature (Meyer & Rowan, 1977) because they are presented as "the foundation of investor confidence and trust, and our role as a respected employer and corporate citizen". These principles "are critical to the corporate reputation as a company focused on operational excellence, financial performance and

¹⁹⁸ http://www.infinancials.com/Eurofin/control/company?view=companyinfo&type=0&company_id=31233NU

¹⁹⁹ Code sharing or codeshare is an airline industry term for the practice of different airlines selling space on the same flights, where a seat is purchased on one airline which is actually operated by a cooperating airline under a different flight number or code. The term "code" refers to the identifier used in flight schedule, generally the 2-character IATA airline designator code and flight number.

integrity”²⁰⁰. As for most U.S. companies, these are influenced, by compliance with the Sarbanes-Oxley Act of 2002 (SOX) and its enforcement by the Public Company Accounting Oversight Board (PCAOB). The PCAOB is a private sector, non-profit corporation, created by the Sarbanes-Oxley Act to “oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair and independent audit reports”²⁰¹. It is particularly influenced by compliance with section 404 of SOX which “is to provide meaningful disclosure to investors about the effectiveness of a company’s internal controls systems, without creating unnecessary compliance burdens or wasting shareholder resources”²⁰².

7.4.2.2.3 Company Management Strategy

The environment in which Company D operates has, like Company C’s, seen the deepening of the economic crisis since the fall of 2008 coupled with an increase in fuel prices. Like Company C, it has recorded a drop in business and premium traffic which put pressure on the revenues of this bankruptcy-exiting firm. As explained in section 7.4.2.2.1, the company has gone through different recent eras of management which could be summarised as pre and post chapter 11. The pre-chapter 11 corresponds to a period where the company ownership was employee based. This period corresponded with the decentralised, geographic and service based management of its activities, whereas the 2006, post-bankruptcy period matches with managing an integrated network where assets are deployed across an integrated mainline and regional carriers.

The management strategy of Company D after its chapter 11 exit in 2006 and especially the 2008 onward economic crisis publicly emphasises ‘safety first’ across its business management. By this, the company highlights the safety of employees and customers which it attributes to a culture of ‘responsibility and communication’. This being said, from a field perspective and with safety in mind, the company has engaged in 2009 in a five point policy focusing on “core performance imperatives”²⁰³ which rely on a set of key performance targets which embed PMS pre-existing indicators. They are ordered as such by the company: industry leading revenues, competitive costs, compliance with U.S. D.O.T. service basics; cleanliness and workability of the product received by the customer²⁰⁴; and courtesy and respectfulness to customers measured by the Employee Courtesy Index (ECI). The prominence of D.O.T. metrics stresses the company monitoring of industry metrics as well as the power of regulatory bodies over the U.S. airlines in general and Company D’s activities in particular.

²⁰⁰ (Company D Corporate Responsibility Report, 2008-2009, p. 28).

²⁰¹ <http://pcaobus.org/Pages/default.aspx>

²⁰² SEC Chairman Christopher Cox, <http://www.sec.gov/news/press/2007/2007-101.htm>

²⁰³ (Bank of America and Merrill Lynch, June 11, 2009).

²⁰⁴ (Bank of America and Merrill Lynch, June 11, 2009, p. 22).

In public corporate documents, the above listed dimensions of performance are attached to several objectives and means such as maintaining quality where standardisation of practice is presented as a key instrument. They are also attached to the customer experience focus through its Customer Relationship Management (CRM) which the company uses to design and adapt its product offer. Commitment to service is quoted as a means to regain industry leadership in service and reliability. It is part of “clear operating priorities tied to superior customer experience and cost control”²⁰⁵. Finally, personnel investment is described as “the heart of the company and the key to success”²⁰⁶, provided with “tools, skills and rewards that help the company achieve its performance goals”²⁰⁷. Workforce diversity and labour relations holding the first place in Company D’s Corporate Responsibility Metrics stresses the importance of workforce management. Company D has implemented a compensation structure “aligned to deliver results” which reaches front-line employees (via a cash incentive program by which eligible employees receive a monthly cash pay-out if the company achieves a first or second place on D.O.T. metric A: 14²⁰⁸) as well as managers whose own incentive program “is aligned across the five core performance imperatives”²⁰⁹ of the company policy.

Notably only a few lines are officially published on the actual performance metrics used by the company: “each day, we track our performance against safety, operational and corporate metrics, allowing us to understand how we are performing now, as well as the factors that will drive future performance”²¹⁰. However, in supplementary official publications and presentations, the Company attaches great importance to showing that its post Chapter 11 five point strategy, which includes its management of the 2008 onward economic crisis, is supposed to get the company “well positioned to take full advantage of the economic recovery”. This positioning is expressed in financial terms of: liquidity with over \$3 billion unrestricted cash at the end of 2009, reduction of fixed obligations (over \$700 million in two years) and improvement of operating cash flow through “cash and risk management ensuring financial stability”²¹¹.

In accordance with a goal which is “margin leadership”²¹², Company D’s strategic actions, - some of which are close to the ones Company C has adopted - have consisted in industry classic capacity reduction, using unencumbered²¹³ operational aircraft and labour contract flexibility to adapt to the demand (-7,5% in 2009) while maintaining its network to preserve cost efficiency. This has been done through aggressive inventory management, removing mainline aircraft and replacing them with

²⁰⁵ (Bank of America and Merrill Lynch, June 11, 2009, p. 20).

²⁰⁶ (Bank of America and Merrill Lynch, June 11, 2009, p. 20).

²⁰⁷ (Bank of America and Merrill Lynch, June 11, 2009, p. 20).

²⁰⁸ This metric deals with the timeliness of flight arrival: arrival to the gate within 14 minutes of schedule.

²⁰⁹ (Bank of America and Merrill Lynch, June 11, 2009, p. 20).

²¹⁰ Company D website.

²¹¹ (J.P. MORGAN, March 10, 2009, pp. 14-17).

²¹² (J.P. MORGAN, March 10, 2009, pp. 14-17).

²¹³ Aircraft that does not have a claim against them.

regional jets where appropriate and the elimination of products such as its five year old low cost business in 2008. Capacity reduction has been particularly achieved through different means; first by either grounding or retiring the oldest and least fuel-efficient aircraft in the fleet (B737 and B747)²¹⁴. The second: taking into account expected aircraft delivery, starting to invest in new aircraft under the condition that the company earns a return on these investments which would not be at the expense of its liquidity. The third: down-gauging flights to destinations such as the U.K. and China; redeploying or developing new direct services to specific markets such as Africa, the Middle East, Europe and Asia. Besides this set of actions, “in connection with the capacity reductions, the company streamlined its operations and corporate functions in order to match the size of its workforce to the reduced size of its operations. The company reduced its workforce by approximately 9000 positions during 2008 and 2009, through a combination of furloughs and furlough-mitigation plans such as early-out solutions” (Form 10-K Company D Annual Report, February 2010, p. 22).

In response to aborted mergers, Company D’s five point strategic initiative has also been implemented through attracting new airlines into the alliance and applying for U.S. D.O.T. anti-trust immunity to allow for expansion of joint venture structures in the Atlantic and the Pacific regions. The company also made an effort on revenue enhancement through the redeployment of its assets (resizing premium cabins to better match customer demand for example), improving its loyalty program and initiating other revenue streams such as adding travel options: fee paying access to premier line for checking, door to door baggage service, buying air miles to accelerate the awarding of superior frequent flyer status, upward class fee, buy on board food, fee unbundling, etc... These initiatives altogether have generated over \$1 billion extra revenue in 2009 which represents over \$13 per passenger.

Company D has also taken strict cost control initiatives to make the company reach its goal as “top-tier level” in this area (-\$150 millions in 2009). This has been done by continuing to concentrate on programmes which focus on operational plans aiming at improving services to customers, the reduction of costs and an increase in revenues: “the Company’s efforts are focused on cost savings in areas such as telecommunications, airport services, catering, maintenance materials, aircraft ground handling and regional affiliates expenses (...) the company has significantly reduced mainline domestic and consolidated capacity and removed 100 aircraft from its mainline fleet” (Form 10-K Company D Annual Report, February 2010, p. 22).

²¹⁴(Bank of America and Merrill Lynch, June 11, 2009, pp. 18-25), (J.P. MORGAN, March 2, 2010, p. 15)

The reduction of cost has concentrated on three management areas which are asset efficiency and use - besides retirement of old aircrafts – (e.g. better real estate utilisation, improved spare parts inventory management, reduction of maintenance cycle timing); outside service costs rationalisation (e.g. crew hotels, catering, commission rates, regional carrier contracts, navigation charges, global distribution rates, airport services); and overhead efficiency and productivity (e.g. process streamlining to reduce complexity and drive productivity, 25% reduction in management overhead, front line productivity improvement²¹⁵).

Company D also engaged in the improvement of its operational performance (expressed by D.O.T. on-time arrivals metric), which not only allows for more effective utilisation of resources which are aircrafts and gates, but also reduces both crew reserve and re-accommodation costs for example.

7.4.2.2.3.1 ESOP termination and Chapter 11 exiting

One of the main organisational conditions which explains the way Company D's PMS has evolved relates to the conditions both set by the termination of its ESOP and its exiting of Chapter 11. Most respondents state that the four year reorganisation period which ended in 2006 represents a break in Company D performance management: *"we are clearly evolving to a new set of management practices [... the ESOP] had a certain dynamic in terms of how the company was managed for six or seven years, then I would say it was very inward focused and very... in that environment... the kind of interest of the shareholders was... while they were the employees inherently the interest of driving the financial performance of the company got lost in a lot of the other things that the company was focusing on..."* (D2). This revolutionary organisational cause of management change has complemented external industry pressure. This reorganisation led to the adoption of a 'Company BSC' which balances performance indicators to a limited extent, due both to the nature of its home-grown character (e.g. with a limited learning and growth dimension) and also the financial restructuring impact of the bankruptcy status of the company at the time of this study. This PMS focus on specific metrics (financial/non-financial) varies with the nature of the activities of the different divisions of the company. One found that the traditional opposition between financial and non-financial metrics exists, in the following order for example between the finance division, sales, operations, and marketing. Nevertheless, the three elements quoted by corporate literature arise in interviews (financial, customer and employee) however with a stronger importance given to financials. This leads one to assume that the passage through and subsequent exiting of Chapter 11 emphasised the importance of the financial health of the Company and the subsequent use of financial metrics: *"we obviously entered bankruptcy, Chapter 11 here in the U.S., in 2002 and went*

²¹⁵ (J.P. MORGAN, March 10, 2009, p. 12)

through three years of restructuring and so I think as we've been out of restructuring now for roughly eighteen months we are I think probably rightly focused on both, I would say, short and midterm financial performance as a key ingredient of our ability to grow and develop the business over an extended period of time. So I think the crisis of the last five years from 2001 through 2006 and our near death experience as a company has us very focused on financial performance" (D2). This not only shows the 'relative balance' of the BSC at D, in a company focused on short and mid-term financial performance, but also the impact of external conditions in the design of a financially oriented PMS. As a further example that respondents do not share the same perception of balance of the PMS's indicators, some perceive the company PMS as actually balanced and aligned with its strategy: *"The high level divisional dashboard (...) Related to the overall company strategy: what we set a company what we want to do for the customer, investor and employee, balanced for all three groups (...) The metrics ties to the overall company strategy: ensures that all work in the same direction"* (D6). The justification provided by these respondents for the adoption of their set of balanced metrics is that, besides being perceived as logical simple and clear in an industry which requires straightforwardness, they are also relevant for the 'three key stakeholders' of the company: *"I think it's very logical and make sense because as I said (you know) safety stands by itself for an airline of course and then the other three you basically you've got financial metrics which speaks to, (you know) to the investor community, the (you know), the ability to attract capital, you've got the customer represented, and you've got the employees and the workforce represented, so I think between the investors, the customers and the employees, those are really the key stakeholders of the enterprise"* (D1).

This reorganisation has also consisted in renewing the management team and the management culture towards a more integrated and balanced way of managing performance dimensions/metrics through the introduction of the employee perspective whereby a classical link is established to tie corporate performance to individual performance. As a matter of fact, the same respondent adds: *"I think frankly the amount of energy that we put into personnel performance management and development while it is not aggregated as I would like, is actually relative to my other experiences in the U.S. businesses comparable"* (D2). Another respondent adds: *"The people that are managing have to be part of the equation of what is monitored. There are components which have to be at certain boundaries at company level: in order to provide the best possible service, what is the threshold the company can afford on the financial back side of it? That has to be imposed... this is what we need to do to be the best airline"* (D6). This would lead one to assume that the employee side of the performance equation is a trade-off between financial security and being the 'best

airline'. This is a situation where classical operations safety metrics complement financial 'stakeholder targeted' metrics.

For some respondents, the BSC at Company D is not considered new. This is due to the fact that the acronym BSC actually covers a large variety of implemented 'scorecards'. For some respondents, its apparition is the result of the bankruptcy era (including external stakeholder pressure). The BSC is presented as having a role in unbalancing/ reducing the number of the PMS metrics used even if it is clearly focusing management attention on the financial and operational metrics. As a matter of fact, one respondent adds that with the former PMS *"I would say it was even more financial. That was largely during a period fighting for survival... it was largely operational so if you're a heavy operations group all of these operating metrics were tracked and continue to be tracked very closely and for the rest of us I would say they're largely financial"* (D2).

Another respondent justifies the orientation of the set of metrics used in the PMS by emphasising their clarity and their objectivity in meeting several objectives besides on-time short term (i.e. financial) survival requirements. Some respondents have divergent perceptions of the BSC. Some identify the BSC as offering the possibility to rationalise both what is measured and being the means of measurement: *"Before, everyone had their own documents and no dialogue between divisions and sub-groups on what they wanted to measure and how. The big change is that the BSC is the reference; it is a standardisation of performance measure. While we were bankrupt, the financial was the biggest priority, what is understandable"* (D5). Another respondent adds: *"I think they [the metrics] are very robust it's something that we've put in the last couple of years as we've emerged from bankruptcy, I think it's a much better way to run the company with clear objective data, versus I think in the past we didn't really have full BSC, we had a financial BSC, but we didn't have a BSC (...) I think it is a key element for a company coming out of bankruptcy I would also say it's a key element for any company that is trying to both increase its market share and increase its profitability I would struggle to find a company that only measures itself on financial performance"* (D8). This leads one to assume that the outcome of this historical financial focus is the pre-requisite for improving the scorecard by balancing metrics as well, as it tends to triangulate an earlier assumption that a stressful event such as Chapter 11 – revolutionary change – has allowed for the emergence of a BSC which does not appear to be associated with any multidimensional assessment of performance on the field (i.e. it is decoupled). Moreover, and paradoxically, the BSC is merely perceived as a way to ensure financial performance, even though most respondents do not express how they conceive the causal link between having and using a BSC and resulting financial performance. This reinforces the ambiguity of the BSC shape, if not novelty, at Company D. Another respondent adds: *"So I think it's [the BSC] something new, you know I'm not probably a 100% certain on the history going back to*

the early nineties but I would say that, you know, the bankruptcy that D went into then exited from in 2006 was a transforming event and this balanced scorecard methodology, you know, linking up to a longer 5 year planning process has been something that has come out of ... arrived at the post exit from bankruptcy period in the past couple years” (D1).

Top management, especially at divisional level, has a tendency to state that the introduction of the BSC is new and has been pushed by both external (i.e. evolutionary) and internal (i.e. revolutionary) forces leading the company to realise that operational conditions (competition, economic situation, etc...) required management change, including more professionalism and rigour made available by improving information systems: *“In this context, what we have done is to introduce discipline into the market, it is very hard” (D3). “It is a new practice. The cause of the change: management change here, realisation that we needed to play much more science and rigour of something that was too much of an art form. We embarked into a transformation in this division to do just that, the first thing that we did is to start building dashboards, establishing what our goals should be and then starting to use measures and scorecards aligned with those goals, none of this existed three years ago (...) it is just a different philosophy how the company is managed, somewhat subject to data availability, as technology has improved data has become more available and allows us to do this” (D4).* This statement seems to confirm existing literature on change management (Greenwood & Hinings, 1996). For some other respondents however, what is considered new is simply the tentative BSC implementation along the hierarchical line and/or its average-long term focus (5 years). In any case, whatever their perception is, respondents’ statements show that this BSC is not evenly used across the company.

7.4.2.2.3.2 Multidimensional Performance Measurement

7.4.2.2.3.2.1 Personnel and Organisational Performance

Still at divisional level, respondents declare that the bankruptcy status of the company offered the opportunity to change managers and management. This personnel turnover has been complemented by an effort to link employee performance assessment to overall company assessment in what could be perceived as a return mixing McGregor’s Theories X and Y (McGregor, 1960) within the framework of a North American ‘contractual - employee focused’ culture: *“The other performance component is how we’re doing on the employee side: learning curve, training, etc... monthly” (D6).* On this latter issue, another respondent adds: *“We’ve got about 40% new people over those three years. This has been a massive transformation on many dimensions not only on the data dimension but on raising the bar on what effective selling looks like in this marketplace, so it’s not the same set of people and the people that are here very much embrace this and it’s largely: has the bar been raised? Yes, are the*

expectations of people really high now, in terms of what we expect, yes, but there's at least clarity and now I know what I'm being asked to do, now I can actually march and do that versus I'm not really clear what it is I'm being measured against so we found this remarkably powerful to enable people understand what it is that we want you to do and here is the data we are going to need to track you against that" (D4). Thus, the justification for the adoption of the BSC at Company D by some respondents consists in declaring that it embeds dimensions which have an impact on personnel involvement and thus not limited to financial data. This dimension leads one to assume that this personnel objective may be achieved when the company does not have to deal with the primary survival concern of being under Chapter 11: *"I think it's [the BSC] clearly linked to the strategy²¹⁶ and (...) and what it keeps people focused on and helps people achieve is you know the cross divisional perspective on the business so it doesn't allow people to retreat into their silos, so even in the finance organisation (you know) we'll have to think about customer experience and workforce revitalisation and issues that are not typically core financial issues, but because they're on the balanced scorecard they become more front centre for the management team"* (D1). More information on the way this dimension works is provided by another respondent, showing how qualitative objectives, supplemented by qualitative assessment of how the same objectives are actually met by individuals: *"We have MBO [Management By Objectives] as well, about 20% of the way we measure people. That deals with how you do your job (they are input based). Part of it is outcomes, we are very outcomes focused (...) So performance is... really we mostly care about the outcomes of course, but we want to measure people also on how they go about doing it because I think that actually sets the platform, the outcomes you'll start to achieve next year or the next cycle (...) We set our goals every six month and depending what our priorities are for six month period, things can change, so roughly speaking about 80% of the way we measure you would be on your outcomes based goals on quantitative things, 20% would be on these MBOs (a list that you can choose from, the ones that make sense for a type of market), the rest is more subjective. That's the U.S."* (D4). This practice paradoxically stresses the short term usage of this management tool as well as the assessment weight attached to the employee related dimension. Subjectivity is here related to a U.S. cultural dimension (Bourguignon, Malleret, & Nørreklit, 2004) which seems once again to be paradoxical for a factual-contract based culture.

7.4.2.2.3.2.2 *Customer Satisfaction and Performance*

If interviews emphasise the balancing of the scorecard at Company D as a result of incremental/ evolutionary change they also stress this necessity imposed by competition (Greenwood & Hinings, 1996; Tushman & O'Reilly III, 2006): *"There is a long list of metrics that we track and measure*

²¹⁶ (Naro & Travaille, 2010; Otley D. T., 1999).

against. And performance is the overall performance we're doing in each area (...) Time has an impact on decisions as far as how the doing is doing, I feel there is more of a balance and we recognise this more today than before, we have to work at the right level for us to be a successful company and the company we wanted to be (...) I see that in the actions of our boss and also at the company level. How to provide the customer with best service in the best cost effective way possible - giving the customer best value for their money, what we have promised them and what the corporation has set up as goals, is what the division focus day in and day out is - (...) Today it is more balanced" (D6). The justification of this dimension relies in the classical dimension of customer satisfaction's relation to future revenue: "Customer satisfaction measures every day: I truly believe this is an indicator of future revenue which we've proven now through mathematical models" (D8) and tends to confirm prior literature on the cultural drive of customer satisfaction in U.S. firms (Brady, Robertson, & Cronin, 2001).

7.4.2.2.3.3 *Survival Strategy: high yield: concentration on customer satisfaction: how to keep customers*

The strategy of the Company has consisted in ensuring company survival so it would fittingly exit Chapter 11. This strategy has a background theme which is common among corporate discourse in U.S. corporations who declare they are 'customer oriented'. In the case of Company D, this translated into adopting a mix of defender and prospector (i.e. analyser²¹⁷) strategies (Miles & Snow, 1978, p. 29) which would attract and keep high yield passengers. This strategy has embraced the economic situation, including price competition and the past and current history of the company. This policy followed the exiting of bankruptcy at which time the company stated what it expected to be: "the leader in our industry on a series of metrics for all three of the main constituents in the service business: the investors, the customers and the employees" (D2). The order in which the above stakeholders are listed is very important. This would be done by implementing a 'differentiation strategy' capturing high yield generating customers: "The strategy of D is differentiation. Try to extract more revenue (revenue per ASM), offer a superior product to the one of the competition. The goal is to become first among U.S. companies on premium products (high yield)" (D5). At the time when interviews were performed, this strategy was actually the same as that adopted by Company C. The principal outcome of their strategic analysis was that they both were in a 'struggle for life' situation and as such, should focus on market segmentation. Thus, they focused on high revenue contribution passengers that are business and full fare economy passengers who require high priced

²¹⁷ Analyser organisations share characteristics with prospector and defender organisations. They are looking for ways to maintain their shares in existing markets - maintaining the efficiency of established products or services - and how to find and exploit new markets and product opportunities - remaining flexible enough to pursue new business activities. Analyser organisations are characterised by balance between defender and prospector organisations.

flexible tickets: *“The way we are pursuing that strategy, kind of our customer strategy, is a recognition that in our industry, particularly here in the U.S., there is significant segmentation among the customers and so we need to kind of deliver a good service at a fair price to our value conscious consumers make up roughly 2/3rd of customer base, and our success as a company will actually come from attracting and retaining more customers in that top third, those that fly frequently for business. And we’ve done detailed segmentation, needs analysis of those customers and we’re developing products and services and building training around what we think are the key opportunities for us to differentiate ourselves in that space.”* (D2).

As stated earlier, the threefold stakeholder corporate theme: ‘investors, customers and employees’ is a recurring leitmotiv for several respondents. One of them actually complements this by adding a precision which brings FPMs in the forefront again: *“So that’s the strategy and I would say again based on the sector’s historical financial challenges and our company’s recent financial challenges, I think that making sure that the actions we’re taking are actually moving the dial quickly enough on the financial metrics is actually an important gage. Having said that we have literally hundreds of millions of dollars’ worth of capital investments going on, on our aircraft, to kind of update every element of our physical product and we have a significant training investment for all of our customer-facing employees. And the strategy, and deliver tools to them to actually deliver a differentiated service based on who the customer is”* (D2).

According to respondents’ statements, the employee dimension of the PMS also seems to find its justification as a way to remedy an internal industrial relations situation which has suffered from the termination of the ESOP, bankruptcy, the 2008 economic crisis and their subsequent series of layoffs. Another respondent adds: *“We think that those most reflect what our strategy is: our strategy is broken down into these key areas, operate the safest airline around, really around restoring our balance sheet through increasing revenue and reducing cost, improve customer experience well beyond what it is today and restoring our relationship with our front line employees (...) When you look at our strategy these are the metrics that really are either leading or lagging indicators of whether our strategy is working or not”* (D8).

The ‘prospector side’ (Miles & Snow, 1978, p. 29) of Company D’s analyser strategy is still reflected when one respondent ads: *“we were, I think an early adopter in terms of buy on board you know unbundling sort of a food parts of the value proposition so I think you know the overall strategy has been you’re gonna have to match the products and to what people are willing to pay for”* (D1). In this sense Company D’s strategy has been innovative, not putting all its eggs into one basket, and ahead

of what Company C has implemented as a strategic reaction to unfavourable high-yield focused economic conditions.

7.4.2.2.4 What Organisational Conditions explain why is performance accepted in such a way at Company D?

Several justifications are provided by respondents to understand why Company D's PMS is accepted as such. The first one relies in the manager's control of metrics as well as the leading nature of metrics on which employees are evaluated, especially in the sales division. Controllability in this sense also appeals to the contractual aspect of the North American culture whereby employees accept to be evaluated by fair and clearly measured indicators (Bourguignon, Malleret, & Nørreklit, 2004; Bourguignon, Nørreklit, & Malleret, March 2001): *"The reason we don't use sales volume in the U.S. is because you don't control that. So we're trying to make sure that we have measures in place that are completely controllable by them (sales representatives): it is fair to measure that way (...) The philosophy there and the reason we agree with them and the reason it has really been embraced by the field course is that they are much more in line with things that they can directly control or influence, they're outcomes that they can actually influence as opposed to outcomes that they can't influence at the end of the day. That doesn't mean that every individual likes his or her goals (...) Share premium goal, actual, fair share, sales number, you can see at the account level how you are tracking against goals, all outcomes oriented. Depending how you do relative to your goal, your portfolio this ties to a compensation program and provides you with additional incentive for really achieving outcomes goals that we set for the organisation"* (D4). In which case, fairness and clearness is associated with operational and financial performance metrics.

Another emerging justification of the acceptance of these metrics is linked to the culture of the company which is conflict avoidance: *"It is a consensual culture; they do not like conflict very much"* (D3). This may be explained by both a national culture which is contract based, - thereby offering consensus with fair and published metrics, and also a deliberate will from the company to avoid conflict in successive difficult situations where a large number of employees have been made redundant.

Finally the last justification quoted by some respondents relies in the renewing of management (i.e. revolutionary change) which has – *de facto* – redefined performance management: *"the emergence of a new senior management, the willingness to do well with new people (...) change means new: you change people, this is a major difference between Europe and the U.S., 90% of my team has been renewed over the past two years"* (D7).

7.4.2.3 Substantive hypotheses emerging from the Organisational Conditions for adopting a PMS at Company D

The researcher has identified organisational characteristics that relate to Company B using its PMS. The researcher has identified the main relationships between the categories and the phenomenon under investigation. Hypotheses are therefore generated from evident relationships between the categories. The results of the analysis suggest the following five substantive hypotheses:

Table 45: Emerging Organisational Labels and Hypotheses

Organisational Labels	Corporate History & Culture	Employee Management (education and management competences)	Strategy	Change Management	Customer Satisfaction
Hypotheses	<ul style="list-style-type: none"> Company History & Culture and management practice associates performance with industry operational and financial metrics. NFPMs are primarily developed for isomorphism purposes (not for performance evaluation) and are associated with the leverage capacity of the organisation 	<ul style="list-style-type: none"> Performance and NFPMs benefits are not clear and FPMS are perceived more objective/fair than NFPMs by managers who shape the PMS to be structured around more FPMS than NFPMs (i.e. compensation) 	<ul style="list-style-type: none"> Differentiation & analyser strategy implies a rigid and standardised PMS structured around FPMS 	<ul style="list-style-type: none"> Revolutionary change initiates PMS redesign starting with FPMS and expanding to the isomorphic emergence of NFPMS 	<ul style="list-style-type: none"> Employee related performance metrics are classical operations metrics which complement financial 'stakeholder targeted' metrics

7.4.3 Aspects of the External Environment in which the PMS was designed and operates at Company D

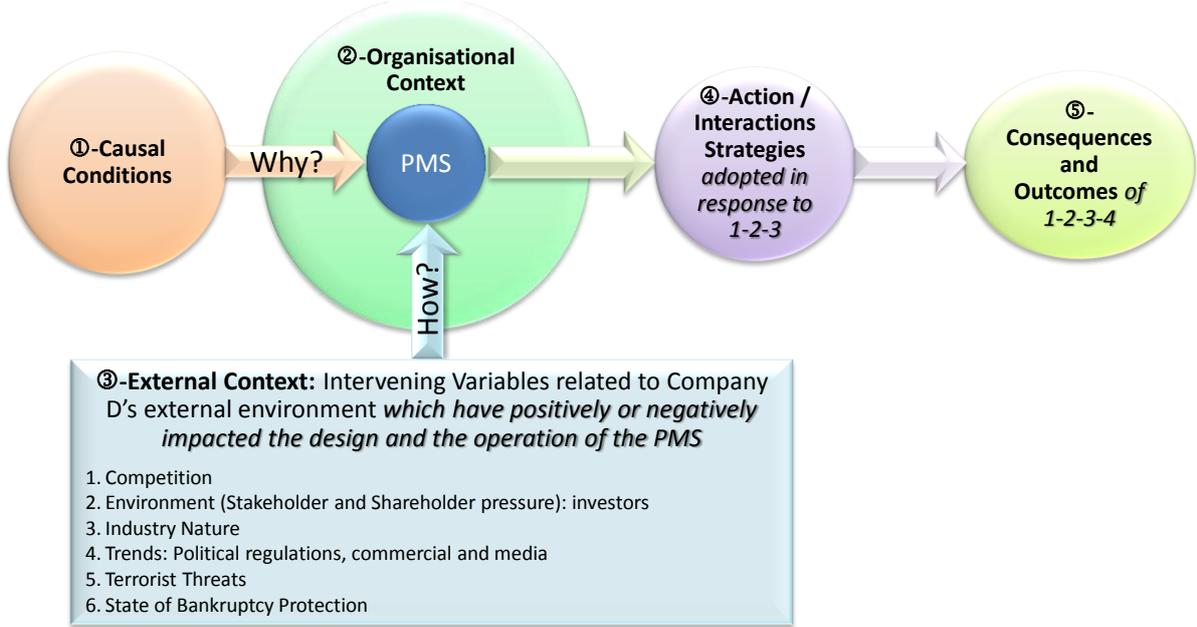
According to Strauss and Corbin (1998), intervening conditions are general conditions that influence the phenomenon and the strategies that a company can adopt. In this research intervening conditions are conceived as environmental conditions that surround Company D and have a direct impact on the phenomenon under investigation and the company strategy.

7.4.3.1 Summary of Environmental Conditions' impact on the Company D PMS

The North American airline industry has historically been regulated by the U.S. DOT. This regulatory body has set rules to ensure air operations between many routes including ones which could have been abandoned because of their relative non-profitability. This has been particularly important in a competitive environment which traditionally favours free enterprise and profitability. This situation has favoured the development and the survival of a large number of airlines competing more on costs than service. However, several environmental conditions, including the development of domestic, international and especially political environmental regulations, added to terrorists' threats, stakeholder pressure for profitability and a North American culture focused on fast reactivity/adaptation has changed this competitive environment both domestically and internationally. This trend has emphasised more cost competitiveness through the development of

initiatives mainly fostering economies of scale, such as the development of alliances at the time when some unprofitable airlines disappeared and others took the opportunity to restructure and cut costs under bankruptcy status protection (e.g. Chapter 11). These events subsequently explain that Company D’s PMS has been more oriented towards financial and fast reactive operational quantitative metrics than NFPMs. The figure below is a summary of Environmental Conditions’ impact on Company D PMS.

Figure 34: Chart 3: Summary of Environmental Conditions' Impact on Company D PMS



7.4.3.2 Aspects of the External Environment’s impact on the design and the operation of the PMS at Company D

Intervening conditions can moderate or reinforce the impact of causal conditions on the phenomenon and the company’s strategies altogether (e.g. the environmental influences have either a negative or positive impact on the use of a PMS). An organisation’s relationship with its environment is reciprocal and the environment of Company D will influence its selection of a specific set of measurements in evaluating its performance.

7.4.3.2.1 U.S. Airline Industry Conditions

7.4.3.2.1.1 *A Changing Competitive Context*

As explained in the same section for Company C, over the past ten years, several worldwide events have generated financial difficulties for a lot of airlines (September 11, the war in Iraq, the SARS²¹⁸, the south East Asia tsunami for example). This changing economic situation has slightly improved resulting in a \$4.7 billion profit for the 17 major U.S. carriers in 2007, at which time, after the bankruptcy of Independence Air, no remaining U.S. carrier was still under Chapter 11 protection. However, this return to equilibrium has been of short duration because of rising jet fuel prices and the overall economic slowdown which started in May 2008. Significantly, the first U.S. carrier to release financial results in 2007 was FEDEX, which is not a passenger carrier. Moreover, American Airlines, who rank first in terms of number of passengers transported, only yields a \$504 million profit on a \$23 billion income, which only made a 2.2% margin in 2007 ((DGAC), 2009, p. 49). These economic and competitive conditions explain convalescent Company D's sensitivity to the same airline cost structure, crude oil and jet fuel issues as Company C. They also explain its strategy focusing on cost reduction, capacity adjustments and load factors (Form 10-K Company D Annual Report, February 2010, p. 17). As of 2008, restructuring projects as well as new projects have arisen in the specific U.S. context: rumours about mergers or LBOs have flourished. Pilots from Delta and Northwest airlines have given their go ahead for the fusion of the two companies giving birth to the first U.S. and worldwide carrier in 2008²¹⁹. This participates into an accelerated reshaping of the U.S. skies where carriers are reinforcing their profitable international networks at the expense of their domestic one, which is suffering from the severe competition of LCCs ((DGAC), 2009, p. 53).

7.4.3.2.1.1.1 *Domestic Competition*

The U.S. domestic airline industry is very competitive and dynamic. Competition naturally comes from new or existing carriers operating between two points but also, to a lesser extent, from other means of transportation and even technology such as videoconferencing. In an industry where price competition is substantial, the fact that some competitors have better financial resources and/or lower cost structures is very important to ensure survival in hardened economic conditions. This is especially true in the U.S. market which has seen the disappearance of many airlines over the past ten years. As a matter of fact, a certain number of competing carriers - either domestic or international - have recently filed for bankruptcy protection which allows them a protection to restructure and reduce their costs. This is the case of Japan Airlines (JAL) for example. Evidently, this

²¹⁸ Severe Acute Respiratory Syndrome.

²¹⁹ This 75000 employee group offers its passengers 390 destinations in 67 countries thanks to a fleet of 800 aircrafts. This newly formed group has a revenue of \$35 billion.

situation can be all the more adverse to Company D when Chapter 11 protected companies exit from this situation in a better shape (Form 10-K Company D Annual Report, February 2010, p. 18).

The market share of low-cost carriers has increased, and large network carriers record a lack of pricing power in domestic markets where the competition actually takes place on fare discounts. On this specific issue, Company D's record on fare discounting "historically had a negative effect on the company financials because it often finds it necessary to match competitors' fares to maintain passenger traffic" (Form 10-K Company D Annual Report, February 2010, p. 9).

7.4.3.2.1.1.2 International Competition

International competition for Company D concerns both transatlantic and pacific traffic. Both are subject to governmental regulations. E.U. – U.S. 2008 agreement to reduce restrictions on flight operations between the two continents has increased competition for Company D. On the pacific front, operations and competition have also been subject to international agreements with China and Japan. Company D is expecting more competition in years to come both enabled by the open skies agreement - signed between the U.S. and Japan - coming into action in the fall of 2010 and a stronger, bankruptcy-exiting JAL. Thanks to regulations which prohibit non-domestic carriers to operate between points within domestic markets, Company D has been able to successfully compete with non U.S. carriers on international routes. This is made possible because of its capacity to generate traffic from and to the U.S. thanks to its domestic network. Subsequently, U.S. and foreign airline alliances have developed to compensate for these structural limitations allowing carriers to exchange traffic between each other's flights and route networks (Form 10-K Company D Annual Report, February 2010, p. 9).

7.4.3.2.1.2 Consolidation and Alliances

During 2008, in a business environment where consolidation by means of mergers and acquisitions was seen as a way to survive and improve revenue and cost performance, Delta Airlines' 2008 acquisition of Northwest is clearly a threat for the on-going operations of Company D. This is important because at the same time Company D ceased negotiation²²⁰ with another company for a potential merger (Form 10-K Company D Annual Report, February 2010, p. 18). Company D tries to counterbalance this situation by attracting more companies into its alliance and developing code share routes. However, carriers currently know that there is virtually nothing more strategic than

²²⁰ This was a temporary stop in the negotiation as Company D has merged later in 2010 with the company it approached then.

alliances but nothing more fragile and opportunistic too. Continental Airlines' shift from Skyteam to Star Alliance in October 2009²²¹ is one current illustration of this fragility.

7.4.3.2.1.3 Domestic, International and Environmental Regulations Trends

Airlines are subject to extensive regulatory and legal compliance requirements that result in significant costs and can restrict their ability to conduct business. Company D, like any other airline engaged in air transportation in the U.S., operates under a certificate of 'public convenience and necessity' issued by the DOT. This regulatory body "grants international route authorities, approves international code share agreements, regulates methods of competition and enforces certain consumer protection regulations, such as those dealing with advertising, denied boarding compensation and baggage liability" (Form 10-K Company D Annual Report, February 2010, p. 10). As a matter of fact, a company's plan to enter into - or expand antitrust immunised - joint ventures are subject to receipt of approval from federal authorities. It is the DOT who approve or reject Company D's last application of immunity from U.S. antitrust laws for alliance agreements between and among carriers, including joint venture agreements. Still on regulatory issues, within the U.S. the FAA, which is a division of the U.S. DOT, regulates flight operations, maintenance and other safety and technical matters. In particular, FAA regulates access to landing and take-off rights (i.e. 'slots') within the U.S. Outside the U.S. 'slots' are subject to local government regulation. The other federal entities which have such constraining impact on Company D operations and on the whole industry to a larger extent are the Department of Homeland Security (DHS), that has jurisdiction over all aspects of civil aviation security and whose decisions subsequently potentially increase the company's costs and decrease revenues and traffic; the U.S. department of Justice (DOJ) also impacts competition matters; the U.S. Postal Service (U.S.P.S.) who impact mail transportation and the Railway Labour Act (RLA) which governs labour relations.

The U.S. airline industry is also subject to other domestic and international more global regulation including climate change legislation on greenhouse gas emissions. These regulations impact both operations and costs directly by means of taxes and fees based on airline tickets for example, but also indirectly by impacting air traffic control operations, capacity control, airline competition issues, aircraft and airport technology requirements and safety issues. On this latter issue, the seniority of the U.S. domestic Air Traffic Control (ATC) actually generates short-term capacity constraints imposed by government agencies, with delays and disruptions of air traffic because it cannot manage current traffic levels and growth (Form 10-K Company D Annual Report, February 2010, p. 19).

²²¹ <http://www.staralliance.com/en/press/staralliance-continental-final-prp/>

Outside of the U.S., international air transportation is subject to 'U.S. government to relevant government' bilateral agreements which, besides the regulated elements above, may also include fares and schedules. These include the 90 'open skies' agreements in current effect which increase competition in related markets (the 2008 open skies agreement between the U.S. and Europe, for example). Foreign regulation also impacts airline activity. This is the case of the EU commission's ban on 'secondary slot trading' possibilities which is a situation where an airline can sale, purchase or lease slots to another airline (Form 10-K Company D Annual Report, February 2010, p. 12). Environmental regulations regarding climate change, greenhouse gas emissions, soil and groundwater remediation are increasing outside and within the U.S., including state-specific federal taxes such as in the state of California, for example. These regulations increase operating costs of the company by requiring the purchase of carbon credits²²².

7.4.3.2.1.4 Politics and terrorist threats

As already mentioned, the U.S. DOT additional security requirements increase the Company's costs and decrease its revenues and traffic. In particular, any additional terrorist attacks or the fear of such activities, even if not made directly on the airline industry, negatively affect Company D and the airline industry: "the company's financial resources might not be sufficient to absorb the adverse effects of any further terrorist attacks or other international hostilities involving the U.S. or U.S. interests" (Form 10-K Company D Annual Report, February 2010, pp. 18-19). This latter issue leads one to assume that the shape of the company PMS is tied to this external security threat, transformed into a financial one for a Company D which has now exited Chapter 11 protection and needs to show the investor community its on-going profit potential.

7.4.3.2.1.5 Industry Nature: A Cost Competitive Environment

The cost competitive environment of the airline industry imposes a survival strategy which consists in keeping 'good' (i.e. high yield) customers from going to competition and driving the differentiation strategy of the company: "*It is a differentiation strategy in a highly cost competitive environment*" (D2). The industry short term constraint (cash and revenue) makes the company focus on fast action operations metrics. This explains the relative unbalance of the scorecard of the company around quantitative metrics over qualitative ones, even though corporate discourse stresses employee involvement as an important dimension of performance management. As a matter of fact, when asked about the content of the PMS, some respondents make a clear distinction between the before and after Chapter 11 eras, which once again confirms prior literature on the role of revolutionary

²²² These regulations are attracting opposition and airline actions. The fact that non-U.S. laws apply to U.S. based carriers serving Europe has been discussed recently, and some U.S. carriers counter fight in filing lawsuits challenging these regulations (Form 10-K Company D Annual Report, February 2010, p. 12).

change (Greenwood & Hinings, 1996) in management and emphasises the role of FPMs in the PMS design and usage: *“My impression, there was a wider range of metrics whether they were specifically tracked or not, I would say a wider range of objectives that managers were asked to try and balance in terms of interaction and development of their people. I think both the sector, which in the best of times is still challenging, doesn’t lend itself to as much focus on employee development as a consulting environment or a high tech environment but I think we are probably particularly focused on the short term financial performance based on our recent history”* (D2).

7.4.3.2.1.6 *Environment, Stakeholder Pressure*

The investor pressure is obviously one important dimension which explains the adoption of a PMS structured around a BSC comprising a substantial quantitative part at Company D: *“The revenue is an important one because of the investor community - D’s family - and the investor right?!”* (D6). However, this environmental pressure goes beyond the investor community to embrace customers and employees. This, added to a constraining cost competitive environment, explains both the official extension of the home-grown BSC design towards more employee engagement metrics and its customer satisfaction emphasis (i.e. NFPMs). As a matter of fact, when referring to the purpose of Company D strategy, one respondent reports: *“To run a world-class airline for its employees, the investor community and the customers with a significant focus on the business traveller (not only). It’s by necessity: network carrier, which we are by design, are not and will never be the lowest cost model, they’re based on flowing feed from a point to a point and taking those points to longer distance location (...) That’s the model you have, you need to have, you need to focus on capturing as much high yield business as you can, because like anything else there’s a concentration curve, where the vast majority of profits and revenues are generated by a pretty small slice of the travelling public which tends to be the business travelling public (...) That notion to be the best airline in the world given the constraints in which we operate which is a very competitive market here in the U.S., therefore we’ve set up a company in terms of customer experience organisation, the operational delivery organisation, and a revenue driving organisation which we’re part”* (D4).

7.4.3.2.1.7 *North American Culture*

The other environmental factor which impacts the shape of the PMS at Company D lies in another aspect (besides its contractual facet documented in section 7.4.2.2.4) of the North American culture which one of the French native respondents addresses by stating that: *“the difference between Europe and the U.S. is that the times of reaction are not comparable. In fact, there are wide cultural differences, the execution time is incredible,... in Europe it takes for ages. What their strength is, it’s their ability to react extremely quickly when they want... this can also be very political”* (D3). This

emphasises the reduced strategy adaptation time as well as the nature of this type of adaptation strategy. This leads one to assume that the speed of execution/reaction impacts the actual design and use of the PMS at Company D by fostering the financial side of the PMS over its non-financial. This confirms ‘decoupling’ (Meyer & Rowan, 1977).

7.4.3.3 Substantive hypotheses emerging from the External Conditions for adopting a PMS at Company D

This section demonstrated the intervening conditions that relate to the PMS. The researcher has then identified the main relationships between the environmental labels and the phenomenon under investigation. Hypotheses are generated from evident relationships between these labels and the phenomenon. The results of this analysis consequently suggest the following substantive hypotheses:

Table 46: Emerging External Labels and Hypotheses

Environmental Labels	Competition	Environment	Industry Nature	Trends: Political regulations, commercial and media	Terrorist Threats	State of Bankruptcy Protection
Hypotheses	<ul style="list-style-type: none"> The modification of the competitive environment from competitors, customers and regulators generates a stress on financials and explains the prominence of FPMs 	<ul style="list-style-type: none"> Under stakeholder pressure for proof of profitability in tightened (uncertain) economic conditions organisations focus on core business operations and cash and revenue and tend to develop more rigorous isomorphic centralised formal financial and non-financial metrics and informal financial and operations metrics 	<ul style="list-style-type: none"> The industry short term constraint (cash and revenue) makes organisations focus on fast action operations metrics and FPMs 	<ul style="list-style-type: none"> Stakeholder, state and media pressure explains the isomorphic development of formal NFPMs 	<ul style="list-style-type: none"> External threats such as security impacts the shape of the PMS by emphasising FPMs 	<ul style="list-style-type: none"> Bankruptcy protection is a revolutionary change which explains the isomorphic emergence of NFPMs

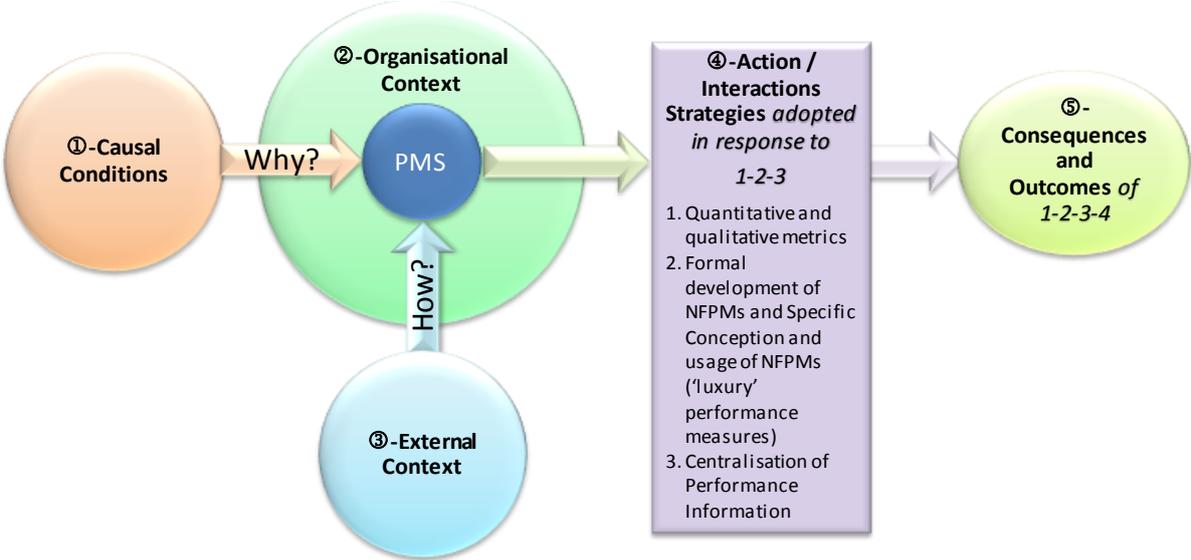
7.5 Action/ Interaction Strategies which management adopted at Company D in response to Causal, Organizational and External Contexts

In handling the phenomenon under investigation, management strategies are developed. Company D management has therefore implemented a certain number of practices. Labels have emerged from interviews which represent the main action and interactions strategies that have been adopted as a result of the implementation of its PMS. They are further discussed in the following sections.

7.5.1 Summary of Action/ Interaction Strategies adopted at Company D

The PMS at Company D takes the form of a home-grown and industry-specific BSC where evidence of lack of causal relations linking dimensions confirms prior literature. Moreover, the implementation of the BSC is customised by business areas. There is no one instrument which actually centralises quantitative and qualitative data but when such a tool tends to appear it is limited to certain business areas such as sales, for example. In spite of the development of NFPMs and other soft management tools such as Management By Objectives (MBO), respondents underline the importance of quantitative and financial versus non-financial measures because of the inconsistency of the relevance they bear in the different business areas of the company. The company PMS is traditionally used to compute bonuses. This contributes to explaining the ultimate transformation of quantitative and qualitative metrics into financials, which ultimately brings them to the forefront of performance management at Company D. This is subsequent to the 4 year passage of Company D through Chapter 11, which focused a reorganised corporate management on costing issues so as to prove the survival capacity of the company to its stakeholders (e.g. the market and financial analysts). The following figure summarises the Action/ Interaction Strategies at Company D.

Figure 35: Summary of Action/ Interaction Strategies at Company D



7.5.2 Performance Measures

In response to causal, organisational and external contexts, Company D has officially implemented a home-grown BSC which is structured around four criteria. The traditional BSC dimensions exposed in the literature seem to have been adapted to the safety and employee engagement constraints of the airline industry. The safety issue standing for 'internal business process' and the employee

engagement for the 'learning and growth' dimensions. Moreover, the theoretical causal relationships implied by a traditional construction of the BSC (e.g. after Kaplan and Norton's construction of the BSC) have not been evidenced by respondents in the BSC designed and used at Company D. The following quote would actually confirm the findings of Ittner & Larker (2003): *"We use a very robust BSC to manage performance: focused on our top four priority areas: safety, financial measures: optimising revenue and reducing cost; customer experience satisfaction measurements, improvement of the customer experience; and our employee measures: how engaged are our employees (...) Those are really the four key areas we focus on: within those we have pretty robust measures, for safety we look at the number of incidents per 10 000 departures, in terms of aircraft damage, we have set a goal based upon historical performance and on what industry kind of performance is; so set the goal across all these measures by both looking at our past history and some sort of benchmark within the industry (...) We would like to be best in class on all of our goals (...) Within our financial measures we look at our unit revenue which is a measure of basically dollars per what we call ASM [Available Seat Mile] we look at unit cost which is the same metric for cost and we look at our operating earnings (...) and in the area of customer experience we look at customer satisfaction metric which is basically a 'net promoter score'²²³ which is collected on-line after the trip from our customers, it is a very robust sampling of customer satisfaction (...) it is online because they get ten times the replies they used to get on paper surveys: we invited every customer to fill it out (...) We look at our operating performance: completion of flights and on time performance (...) Employee metrics, engagement scores based on a survey and retention rate of our highest performing employees"* (D8). This perception of a 'multi-area' PMS appears cross divisionally to be shared by other respondents whether they are U.S. nationals or not, we found other evidence supporting a common perception of the 'BSC' at Company D: *"we do use the balanced scorecard approach and basically we are measuring four areas one area would be safety, clearly that's the prior concern for any airline, and then a second area would be, call it financial, third area would be the customer experience, (...) perception of the company from the customer perspective, and the fourth would be the, (...) from the employee perspective, the workforce perspective, and then within each of those areas we have different metrics that we're tracking against and then of course within each metrics we gonna have different actual goals (...) quantified"* (D1). Should national culture be a bias in the perception of this structure, a non U.S. national also reports: *"The BSC involves four dimensions: security: to measure the number of injuries, etc...; financial, some measures can evolve from year to year, they are more or less always the same: revenues, expenses and profits, it is what counts; more specific to the airline industry: reliability, on-time arrivals, cancellations, customer satisfaction; the employee part: retention rate, a*

²²³ How many customers would recommend the airline to potential customers?

lot of people quit, and two other aspects assessed by internal surveys (ability to perform one's job properly with sufficient resources and their engagement rate, which is a measure of enthusiasm)" (D5).

If the structure of the BSC differs from theory, its implementation is also subject to adaptations: *"The four categories [of the BSC] are theoretically measured at every level within the organisation... it changes, it takes time to go down along the hierarchy, it is very scattered" (D5).* As a matter of fact in the field *"The BSC is replicated by levels for what is relevant and affects the measure" (D5).* This latter statement illustrates the freedom the company takes with the design, implementation and usage of its own version of the BSC.

When drilling down to what metrics are actually important, financial metrics take the lead even indirectly. As a matter of fact, the same respondent adds: *"The main message is the equilibrium concept, at the end, on the top, financial (...) the security side is very important, after, on other criteria, financial can take the lead (...) the idea is to be able to add scorecards at whatever level, like Russian puppets (...) at the end of the day, if we take the three non-financial categories [of the BSC] they have a strong impact on finance, a side which is linked to the industry, [it is] published, which ranks companies on these criteria" (D5).* One more issue is that there might be a shared vision on the dimensions of this home grown BSC, however its understanding and replication is uneven along the hierarchical line and across the different divisions. The diffusion of the BSC (e.g. top-down) appears to remain theoretical: *"in practice it is implementing, at the moment we are at N-1, at certain levels it is case by case, it is done via intranet, except for financial results which are quarterly because they are public (...) all the groups do not use the intranet (airports use it because it is the majority of our employees) (...) it is easy and the intranet is the only place where any employee can go everyday" (D5).* Moreover, the relative importance of quantitative versus qualitative/ financial – non-financial measures is uneven because of the obvious inconsistent relevance they bear for the different divisions of the company. For example, at the customer experience division, one respondent states: *"This group is more eager to look at the.... I'd say they spend probably less than 25% of their time on financial measures; they spend easily over 75% of their time on the other three key areas (...) These are leading indicators of future financial performance" (D8).* This reinforces respondents' uneven perception of the PMS at Company D and its subsequent metrics unbalance.

Drilling down to the nature and the number of indicators, metrics used are confirmed to be very industry typical both in their content and frequency of monitoring: *"the net profit, then after typical airline industry metrics, revenue and cost per ASM, it is the way to compare different companies by normalizing by the size (...) reliability will be customer satisfaction, promoter score (how many*

customers would recommend our company) (...) the other measures are standard: on-time departure, +14 and the percentage of flights done versus scheduled (completion) (...) safety: accident rate and for employees it is retention" (D5). Industry metrics are perceived as providing a common understanding of performance. Another respondent adds: "All the metrics reviewed daily and reviewed monthly, financial is a 'piece' in it, but the purpose of the review is operational, which may drive our financial components that's done monthly from the director level to the manager level and from the manager level to the supervisor level its more frequent, at least weekly (...) At the top senior management it is monthly. She has a daily report that goes to her office, she is aware of performance on a daily basis" (D6).

Even though metrics are reported to be operational typical industry metrics they can be and are ultimately transformed into financial information: "In the strict essence of the word, only a quarter of them are financial, which are unit revenue and unit cost measures, however you can easily translate safety and customer satisfaction into financial numbers, we know the more satisfied customers are the more they are going to give their business to D we actually know what a point of customer satisfaction is worth, and obviously we look at safety we know what lost/damage to aircraft is worth" (D8). The same respondent adds: "They are all quantitative measures, some of them might not be financial, so for example customer satisfaction is a quantitative measure, we have over 40 000 samples every month (...) They eventually get transformed into financial data, its reported in a non-financial way, we have means to tie those to finances should we want to look at that, but really look at the leading indicators (...) They're probably three key elements on that BSC that are linked to every employee's pay check (3 of the most important measurements on the senior executive scorecard that are communicated) (...) There is an operating performance, a customer satisfaction performance and a financial performance" (D8).

The Company version of the BSC is unevenly replicated and used at the different divisions of the company. Its replication is tentatively the case at the marketing division where it appears to be associated with financial performance: "we've adopted a BSC at the corporate level and we try to use a similar approach within the division, so obviously traditional financial metrics are important (...) we have a number of mechanisms to track progress against the financial measures, we have a monthly kind of close book from our finance team which does costs and revenues for each of the three groups" (D2). The monitoring of activities in this division (i.e. the Marketing Division), even if it is subject to "really detailed accounting of the financial performance" (D2), is nevertheless complemented by non-financial metrics: "we track a certain number of customer metrics in both e-commerce and loyalty programmes; some volume metrics; some satisfaction metrics and we do some qualitative, sampling of customer contacts (calls) and/or customer complaints that we receive for those areas" (D2).

However when drilled down into more detail it appears that *“100% qualitative/quantitative metrics can be translated into a financial metric. For example, we have done modelling of customer satisfaction in a number of portions of our business including the loyalty programme and e-commerce, but when we are looking at those kind in the near term, we’re looking at them as kind of leading indicators of the health of our relationship with our customers and not so much as a direct tie to financials. I mean the implication is yes, in the long run if we were disappointing our customers consistently, then they would go away and would have a financial impact, in the context of that conversation it is really about being focused on delivering to our customers”* (D2). Furthermore, *“my part of the business is such that the measurable statistics are generally available once a month (... we spend) a fairly dedicated amount of time to reviewing all those financial performance indicators in each of the groups and I guess I’m looking at the net number of what we’ve produced relative to our plan which I view as our commitment to the organisation both on the revenue and the cost side”* (D2).

The emphasis on financial data is once again stated as an outcome of the Chapter 11 protection under which the company operated for four years: *“(...) I think the crisis of the last five years from 2001 through 2006 and our near death experience as a company has us very focused on financial performance”* (D2). This last statement confirms prior management change literature on revolutionary change (Greenwood & Hinings, 1996). Another respondent summarises this matter by stating that the culture of the company at the exit of Chapter 11 had *“a number one concern [which is]: pay the bill”* (D3). Another respondent adds: *“there is a very strong emphasis on financial information but I don’t think I could put a percentage on it”* (D1). When asked about the nature of data monitored at top management level, the same respondent says: *“Top management definitely looks at the non-financial information as well as the financial information”* (D1). As far as the number of metrics embedded in the BSC is concerned, they typically correspond to what classic literature states: *“The higher you get, the more synthetic is gets, it’s not practical, if it set up right, you should have some indications at a high level there is a problem. If these pictures are right then you should get an indication here if the foundation and the other components... (...) The higher we roll up the number of metrics reported are less”* (D6). Another respondent states: *“not more than 20, it fits on a page, what is reported at the end. There are also other financial documents which can be reported, but what is systematic, is 20 parameters. The proportion, the section where you find most data is reliability and then 20% financial and the rest is non-financial. What is reported via the BSC is not financial in majority”* (D5). This latter comment reinforces the ‘decoupling’ of performance management at Company D whereby a reporting instrument offers a formal construction balancing indicators in contradiction with a practice that actually shows the persistence of one kind of indicators over others on the one hand, and a scattered usage of the whole performance

measurement/ management instrument on the other: *“We use BSC at the company level, we got traffic and that as well but those are more corporate measures that we have and these things all roll up into it, as a sales division those are really the measures that we tend to use”* (D4).

As mentioned earlier the BSC is reported as having been implemented at corporate level as a result of company reorganisation when exiting bankruptcy protection: *“It [the BSC] was emergent from the restructuring where at least near term survival was no longer in doubt and the recognition that we needed to change our focus from survival and very short term to a broader setup kind of corporate health set of metrics and trying to extend our strategic horizon out a bit further. So I think I didn’t feel we had the luxury in the period of crisis to be focused on the broader range of metrics, we needed to really focus on some fairly austere decision making and once we got through that then we stepped back and are trying to run the business for the long term as opposed literally for short term”* (D2). This would lead one to assume that revolutionary change (Greenwood & Hinings, 1996) led to internal reorganisation and isomorphism (DiMaggio & Powell, 1983). In other words, revolutionary change through isomorphism led to the adoption of a decoupled PMS structured around a formal balance of NFPMs and FPMs and an informal set of business unit targeted quantitative and FPMs. The formal set of mixed NFPMs and FPMs being considered as ‘luxury’ performance measures. Isomorphism steered the implementation of a home-grown BSC which also is a facilitator of strategy emergence. This would contradict Anthony’s classical conception of strategy implemented through management control (Anthony R. N., 1965) and confirm Simons’ interactive form of management control in strategy emergence/ construction (Simons, 1995; Naro & Travaille, 2010; Otley D. , 1999).

The fact that a part of the PMS is oriented towards individual performance and that this fraction is evaluated 50% with quantitative (‘objective’) metrics and 50% non-quantitative²²⁴ metrics such as is justified by the perception that: *“The soft belly of an organisation has to be boosted with financial incentives”* (D3). Moreover, another respondent states that *“the three areas that we are financially compensated for are directly tied to the financial strategy of the company”* (D7); *“Depending on the attainment of goals, every three months, they get a cheque. It is always quantitative”* (D3). Some managers state that: *“Non quantitative criteria are subjective and are the outcome of a good quantitative performance: if one’s a good manager then his results will be good. The rest is bullshit for me. At a certain point, you have to stop pretending”* (D3). The same respondent adds that the reason why the company does not push more performance evaluation towards more quantitative criteria is that: *“à la limite, what we would need is 90% - 10% [financial – non-financial]. But in a changing phase, this is a logic that the management was not ready to push. Here, it is pragmatic. You*

²²⁴ (Management By Objective, MBO).

have to moderate the pace of change. The VP of sales is very result oriented and he knows that if we want results, fundamentals have to be there (training and behavioural)” (D3).

The usage of performance metrics reflects both internal (e.g. strategic alignment) and external (e.g. investor community) concerns: *“I think they’re used on the front end for goal setting and aligning organisation’s to objectives and I think in the midstream they’re used to evaluate projects what’s the impact gonna be on... of project A on metric B, C, and D and then on the back end it’s a way to ensure ownership and accountability, hum... for stakeholders to make sure they deliver..., the projects deliver the benefits that they were supposed to deliver” (D1).*

7.5.3 Collection of Performance Measures

The collection of performance data is very different depending on the business area at Company D; there is no one instrument which centralises quantitative and qualitative data in a single place: *“There is no one completely centralised integrated ERP system in the traditional sense but virtually all of the data is collected in an automated way with a largely home-grown system customised for a particular business purpose” (D2).* *“For financials it is ORACLE. There will be an ERP, but for the moment it is a collection of older systems, there is no single centralised place (...) there is not a single place where you can find financial indicators, these are tailor made at different levels” (D5).* Another respondent adds: *“Data collection happens in a wide array of places. The typical financial measures come through our billing and accounting systems, customer satisfaction scores are measured in an on-line survey instrument and it’s both an aggregate satisfaction and then there is a detailed questionnaire with virtually every component of the experience with D booking and the actual travel experience or after. On the employee front we do an employee survey roughly once a year to collect information on a number of dimensions but importantly engagement and enablement. Engagement: kind of affinity with the company and the belief in the direction of the company and the belief that it is still the right place for the employee that’s the idea. Enablement is they have the tool trying and leadership available to them to be successful in their job. In addition to the financial and revenue measures we track a lot of customer information around: where they book their travel, which route they fly, what fares they buy, all kind of embedded in the loyalty programme everything about how they book travel with us, book and use their travel we track. The other significant customer tracking would be our inquiries and complaints we receive from customers in a whole variety of topics and those come through e-mails or on the phone and we have a database where all of that is registered to make sure that operationally we respond to all of those queries or complaints and secondarily for purposes of finding areas for improvement” (D2).*

At the time of the interview (2007), the Company was considering moving to an integrated ERP: “So for the financial systems, we are in the process of moving to an ERP Hyperion solution, you know, phases of it have been implemented, and other phases will be coming shortly, and then regarding the non-financial information, some of it done, you know, via surveys, so for example customer loyalty or employee engagement are done by surveys, some of it done by operating statistics that are reported to the government, such as you know on-time arrivals, things like that” (D1).

Metrics embedded into the BSC do not vary frequently and this confirms prior literature (Neely & Kennerly, 2002). “I would say, you know the metrics evolve over time, so they do change, it’s an evolutionary process, it’s not chaotic, but they, as thinking improves, they reserve the right to improve the metrics overall (...) a great example, is our employee, our customer satisfaction (...) metric, changed couple years ago, we used to have a direct rate purchase metric and then we went to this other promoter score, because the literature, the thinking, the state of the art had evolved, so it would not be the right business decision to maintain an inferior metric just for sort of a consistency argument, you wanna have the flexibility to move to a more appropriate business metric” (...) “They do not change every year, so, I would say it’s the latter, you know, some of them are not gonna probably change, probably over a frame of a decade, they are just really core type issues, other ones I think that you know as the state of the art changes will evolve” (...) “I think that finance ones are core, but even some of the safety ones such as aircraft damage events are pretty much well understood, and stable, some of the government reporting type metrics such as (you know) arrival within 14 minutes of schedule²²⁵, or departure zero those are reported via the government and I think core across the airline industry not really subject to change”(D1).

Another company division confirms the spread of proprietary ‘ERPs’. Depending on the business area and the level, some tools are developed so there is a central repository of data, but it seems to be limited to customer information and less so about overall performance at company global level: “We’re building more of them right now, it’s like anything else, there are certain systems that talk very much to each other, other systems that are less so, like most companies invest money, we do what we can do to continue to refine our ERP systems to do that, so yes we have ERP systems but it doesn’t necessarily touch every component of the organisation yet. So, some of them we have to muscle together, others is more automated at this point (...) Data is tracked on a different time line depending on the business (yield is daily basis, monthly or quarterly basis), for us monthly: the sales process doesn’t move much faster than that and negotiation can take 3, 4, 5, 6 months, so getting your data every day is not worth the cost (...) On the more operational side of the business... we track

²²⁵ U.S. DOT A: 14 metric. See section 7.4.1.2.2.

that on a daily basis, we have performance boards and issues boards at all the airports that have all the key performance indicators on a daily basis so you can see what's going on in the operations (...) Components of the revenue division where we look at yield management and pricing, they look at their measures on a daily basis to see what yield we're getting, forward looking bookings, are the booking curves looking appropriate?; Things of that nature. So what we use would definitely be on a daily basis (...) Some of the broad measures we look at the executive level such as how the business is moving truly roll up from all districts; we look at them on a quarterly basis" (D4).

This means central performance information repositories exist but are limited to certain business areas, for the sales division for example: *"There are data collection houses in most markets, Airline Reporting Company (ARC), they certify travel agencies to be able to sell tickets and they track the tickets they buy and handle the billing mechanisms. There is a central repository of data there that we can access that shows how we do with certain agencies and what traffic they put on us versus everybody except us. So certain parts of the data are masked (...) There is a similar source for corporate data and we require someone that is going to have a corporate contract with us, you have to flow your data through this organisation that then tracks where they fly, what yield, what class, etc... (...) The reason we do that is so that we can understand what types of traffics we would be displacing, or replacing with tier traffic (...) There are basically central repositories of data that has corporate data and that has the travel agencies data; these get taped into the multiple systems that we have here (...) Then we can track on a monthly basis how that's changed and then the third component of data then is our fair share of business in each market, that's an internal model that we create where we take the central repository of universal data (OAG) which shows the schedules, number of seats and airline equipment that airlines use of each of the markets that they fly, and then we have sophisticated modelling that goes into what's our fair share on each route, it's not as simple as our seats compared to theirs cause you're looking at flows and connections. It's really the consolidation of those data sources we put in the data warehouse and the data warehouse gets to the dashboard and so forth in the sales division on a monthly basis" (D4).*

7.5.4 Communication of Performance Measures

The company PMS is traditionally used to compute bonuses: *"I'd say, relative to U.S. business, a fairly good focus and linkage between performance and competition most of that (...) the portions that are visible are completely common regardless of performance across a given level within the employee group and then the components that are performance driven are private as are the performance ratings and feedback" (D2).* Performance information is widely reported as it is tied to employee performance: *"Operating performance, our customer satisfaction measures and our cost and profit*

measures kind of, at an aggregate level, are reported because we do have this common bonus structure across all employees that are tied to that so we make that as public and visible that we can” (D2). This comes in line with the emphasis on employee contribution to overall performance at Company D and also gives evidence of the decoupled usage of the performance measures. Several respondents have stressed the importance of employee involvement: “At a division level, once a quarter I bring my entire division together and part of that meeting is discussing the company performance going through the balanced scorecard and our recent quarterly earnings release and all of that and then the standard reporting mechanism we talked about. I get together with my director of ports and look through our monthly scorecard; they do the same with their groups. Each group has a summarised view between four and eight charts that get updated monthly that we post in the work areas. We call it performance boards which highlight the key metrics within that group and everyone in that group essentially knows that those measures are being shared with me and tracked by me and they are widely available within the group. I think all of that is an effort to make sure we have appropriate tension on driving the most highly leveraged activity to drive the performance of the group and that’s viewed not as a responsibility solely of the leaders but of everyone and by constantly reinforcing what things we’re tracking and why we think they’re important and how they are linked to the strategy and our performance against those objectives. Hopefully we keep everyone aligned and moving in the best possible direction” (D2).

The frequency of performance evaluation dissemination is stated as being very regular: *“it’s definitely regularly reported, and reviewed and added, you know, variances are probed, etc... and then the answer to the second question I think yes, for some of them, so some of them like I said something like a departure zero statistic that’s very well understood and the system of how airlines, U.S. carriers feed that information to the government, how the government reports the information, that’s very well understood and not subject to change. Other things, for example the financial metrics, you could always have different accounting or handle special onetime charges differently, so I think those are subject more to exploration” (D1). This dissemination is done through different means depending on several issues such as the sensitivity of the information. In which case it is made available to certain populations only: “For example, reliability is direct information, live on the intranet, we can check daily results (but the financial information which can be obtained once a month), everything which concerns reliability is available to all employees (...) the airport division use the intranet to disseminate performance information. We do not do this at their level, these information cannot be communicated outside of a perimeter because we are a publicly traded company, so any kind of information which can be used to trade stock cannot be communicated” (D5). Another respondent adds: “they [performance indicators] are very widely disseminated you know, could be on, some of*

them will be on the intranet, the company intranet, you know, some of them if they're financial information, you clearly have more constraints on the ability to disseminate given reporting and SEC guidelines, but, you know, the operational performance that's disseminated as it arrives, and some of the other metrics that are more survey driven are disseminated regularly when the results come in" (D1).

This dissemination and its means also depend on the purpose for which it is disseminated: *"I think it is important to communicate widely, because it reinforces you know the multidimensional aspect of people's day to day decisions, so you know, customer service or employee at the airport when they're making decisions, those decisions not only influence the customer they, you know, have financial implications, hum they, you know, might have employee... other employee satisfaction consideration, so it's important that people understand sort of the multidimensional aspects of their decisions and by reporting out on it, it reinforces that everybody is thinking across the four dimensions" (D1).* At the sales division level, *"the dashboard is e-mailed on a monthly basis (...) people are more focused on it because it is published regularly; it keeps people focused" (D7).* Another respondent adds: *"Within my organisation we disseminate them electronically: they get their official scorecards each month, but they have a system they can tap into anytime they want to see how they've been doing in the interim. They have access to data on a more frequent basis we just don't package it in a complete dashboard. It is disseminated by sales operations team in the sales division" (D4).* Still on this issue, another respondent adds: *"We have a scorecard that is on our company website that every employee can see, we also have posters (for lack of a better term) and a lot are in our major traffic areas so in the company lunchroom, in the employee break room that show our 3 key measures that are tied to people's pay checks so their goal for the month and how we did against that goal and then the goal for the quarter and how we've done against that goal for the quarter. People are pretty focused on it (...) Every month (...) The way these reported metrics are selected first and foremost ones that the front line folks and managers can affect and two, what is, tied to the most leveraged areas of the company, most important areas of the company (...) Communication's team deals with this" (D8).*

7.5.5 Substantive hypotheses emerging from Action/ Interaction Strategies adopted at Company D

In handling the phenomenon under investigation management strategies have established, such as the development of a decoupled PMS. Hypotheses are generated from evident relationships between labels and the phenomenon. The results of the analysis suggest the following substantive hypotheses:

Table 47: Emerging Action/Interaction Strategies and Hypotheses

Action/ Interaction Strategies Labels	Quantitative and qualitative metrics	Formal development of NFPMs and Specific Conception and usage of NFPMs	Centralisation of Performance Information
Hypotheses	<ul style="list-style-type: none"> Operational qualitative and quantitative metrics (customer, operations, employee) are adopted because they can be easily be transformed into financials to be reported to top management and are used for compensation 	<ul style="list-style-type: none"> Isomorphic NFPMs development are 'luxury' performance measures (i.e. developed when in comfortable financial situation) used to triangulate FPM information for demanding stakeholders (financial analysts, shareholders and the regulators) When traditional cost savings are limited, NFPMs are developed 	<ul style="list-style-type: none"> In organisations where Information Systems are not integrated the PMS is decoupled (corporate formal vs. operations customised metrics) Industry metrics are a means to reduce decoupling and manager's performance dissonance

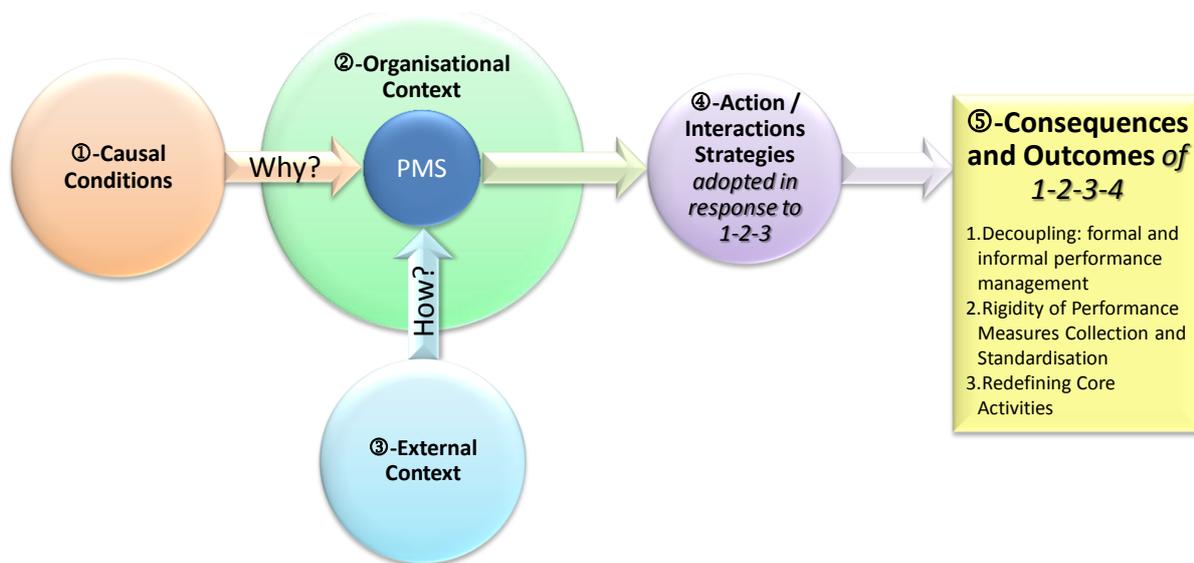
7.6 Outcomes of using its PMS

Outcomes or consequences are the results of action/ interaction strategies that have been taken to manage the phenomenon. Company D's adoption of a PMS and management strategies have resulted in a number of management and accounting consequences.

7.6.1 Summary of PMS related strategies and consequences

Respondents answers show that the emphasis which the Chapter 11-existing company has put on quantitative and financial metrics had to evolve towards more development of some of their bankruptcy-subsequent home-grown BSC dimensions. This covers 'growth and development' (e.g. human dimension), for example. This home-grown BSC is relatively young at Company D which contributes to explaining both its dimensional development needs and its relatively uneven dissemination, usage and perception throughout the company. This is especially relevant at senior management levels where incentives are tied to operating profit. This leads one to assume that the revolutionary change which respondents perceive as having focused the company on financial performance and subsequently brought the development of a BSC at Company D does not actually change the decoupling which exists between a 'growing formal-multidimensional' and an 'informal-financial-operational-surviving' performance management. The lack of integration of performance measurement and management at Company D coupled with the amount of data to process in this type of industry also contributes to explaining the decoupling which exists at Company D between an improving performance measurement and management system praised by some managers and a rather traditional one subsequent to Chapter 11. The following figure summarises the Consequences and Outcomes of Using a PMS at Company D.

Figure 36: Summary of Consequences and Outcomes of Using the PMS at Company D



7.6.2 Performance measurement system at Company D

There is a general agreement on the need to improve the ‘growth and development’ dimension of Company D’s BSC. If respondents generally agree with the metrics used to manage performance, their answers show that there is margin for improvement, both in this area but also other more specific issues such as the performance of brand advertising. *“The point where it is weakest in terms of the growth and development of our people, we do, I think, fairly detailed performance evaluations, once a year, we do, at the end of the year, we do a midyear kind of check-up discussion between managers and employees and they are balanced in that they are both objective and on some competencies, but in terms of having an aggregate plan for both development and succession within the organisation, I’d say we are relatively weak. The individual performance and development is done mostly independently, and I think some aggregate measurement of that would be... hopeful but we have yet to develop that”* (D2). On another issue, Company D’s home-grown BSC does not cover specific needs such as brand advertising issues which are an area where money is invested and poor efficiency feedback is provided by the current performance management system.

The usage of the home-grown BSC is recent at Company D. As a new formal instrument which emerged from change management, it relies on the standardisation of performance measures collection. However, as also stated before, it appears its usage and its dissemination has been quite disparate within the company. This emphasises the decoupling of Company D’s PMS: *“It is [the BSC] a good tool, but it remains a lot a work to replicate it/ implement it. It has been two years at D”* (D5). Moreover, another respondent states: *“At the corporate level this is really the first year that we’re using this kind of balanced scorecard approach and reporting on it very consistently. As we approach*

our planning cycle for next year, I'm virtually certain that we'll make some revisions to it and I think that will likely be an annual process. That has been true at my division level where we look at the objective quantitative measures, we look at the initiatives we have lined up and talk about how we're going to track both the implementation and performance of those initiatives so our kind of performance dashboard or set of reports that we look at definitely changes year to year. Sometimes actually during the year as well, but certainly on a once a year basis as we as we go through our planning cycle we refresh all of those metrics and add some, drop some as the business evolves. At the corporate level we did not have a well-integrated scorecard, so what we had was a broad series of divisional performance metrics that we were each individually tracking and driving, so this has been an exercise kind of integrating those and simplifying it down to the 8 or 10 or 12 key metrics across the entire business, so I would say it was much more divisional and then we had kind of aggregate financial goals and that kind of things but nothing really approaching a BSC" (D2)

Moreover, another respondent describes the actual usage of the PMS as such: *"Since we have more data in the U.S. we set goals on an every six month basis, we use it for performance reviews, we use it for coaching sessions, we use it with our accounts to demonstrate to them where things could change and improve. A component of people's pay is dependent upon that so it's just a component not the entire thing, it's a goal based system (...) We use it in board organisational scorecards when we look at the revenue side of the business, the operational side of the business, the customer experience side of the business. We have a performance council at my level which effectively... we're accountable for running the business and so we can look at each other's measures and really what comes into effect is when you get into budgeting decisions to say ok... Someone's not going to make their budget so we collectively need to take it from somewhere and put it someplace else and how we go about making those tradeoffs (...) The more senior you get in the organisation because you get more degrees and freedom underneath you of things to control you start dealing (...) at the most senior level frankly what we're measured against is operating profit" (D4).*

Even though a BSC has been introduced, 'decoupling' explains that for a large part there is no unanimity into its usage for performance assessment and management. Beyond this lies the fact that some non U.S. interviewed practitioners have a tendency to embrace certain dimensions - pragmatism and contractual for example (Bourguignon et al., 2001) - of North American culture in a more radical way than U.S. nationals: *"Within this work context with large companies and travel managers, what we focus on is the share premium. Every month we have results which are given and roughly with 3 kinds of quantitative criteria which I love (...) corporate share premium; deal value credit and promoter score (...) all that translates into revenue (...) The rest is very subjective... "what is your ability to communicate?" this is nice to talk about with a coffee in terms of coaching, but to*

assess a person... or it requires a focus which I personally do not have... I evaluate my team and I focus them on results (...) My principle is that if a sales person is good on this latter metric, then his results are good. I like the first part (of the assessment) because it is clear.” (D3). The same respondent adds: “In order to get a focus, I start from the fact that you should not give more than 3 or 4 deadlines. I want to have 3 or 4 well defined objectives. I go and meet my boss once at the beginning of the year and once at the end and i do not need interaction. I know my job, I know I have to deliver, if we want to promote an excellence culture, people will realise that less is more. I don’t want to be bothered with things like that (non-quantitative data), it is how I focus my guys on goals” (D3). The outcomes of using a PMS at Company D lead one to assume that at the exiting of a stressful period for the company, where financial data had been widely used to make sure the company met its primary survival requirements, it engaged into a ‘virtuous’ cycle of PMS redesign starting from financial performance but expanding to areas such as the ones involved by a traditional, yet company adapted BSC (customer satisfaction; employee learning and growth). The monitoring of such dimensions impacts the company’s core activities through the implementation of short term initiatives such as the development of new products/ services for passengers for example. Some respondents perceive these initiatives as not consistent with a long term strategy.

The company PMS appears to be ‘sticking’ to financial performance when it comes to real/informal management practice as described by ‘decoupling’ within the 1980’s Institutionalism Theory framework (Meyer and Rowan, 1977). This also leads one to assume that when embracing the employee dimension of performance management, Company D comes back to McGregor’s theory X whereby employees are driven by their personal interest, expressed by linking their personal performance with instantly accessible intranet bonus calculations: *“The subjective part of the evaluation has been objectivised (MBO) (...) MBO is a toolbox offering tools that you can select appropriately (...) 3 categories involved 100% financial and 100% tied to profit ratio” (D7).*

7.6.3 Substantive hypotheses emerging from the Outcomes of using a PMS at Company D

Outcomes - or consequences - are the results of action/interaction strategies that have been taken to manage the phenomenon. The researcher identified the main relationships between outcomes and the phenomenon under investigation. Hypotheses are therefore generated from evident relationships between the categories. The results of the analysis suggest the three substantive hypotheses presented in the table below:

Table 48: Outcomes Labels and Hypotheses

Consequences Labels	Decoupling: formal and informal performance management	Rigidity of Performance Measures Collection and Standardisation	Redefining Core Activities
Hypotheses	<ul style="list-style-type: none"> Decoupled PMS generates strategic inconsistency between a long term strategy and a short term practice 	<ul style="list-style-type: none"> The rigidity of performance measures collection and standardisation is aimed at stakeholders' reassurance and creates decoupling of the PMS 	<ul style="list-style-type: none"> The formal emergence of NFPMS complements traditional FPMS and is associated with the redefinition of the industrial activity

7.7 Substantive hypotheses emerging from the application of the Strauss and Corbin Grounded Theory methodology (1998) to the case of Company D

In this section we will introduce the hypotheses that have been identified during his analysis. The researcher has identified the main relationships between the categories and the phenomenon under investigation. Hypotheses are therefore generated from evident relationships between the categories. The results of the analysis suggest the following substantive hypotheses:

Table 49: Summary of Emerging Labels (or Conditions) and Substantive Hypotheses for Case D

Labels/Hypotheses	Labels	Label 1/Hypothese 1	Label 2/Hypothese 2	Label 3/Hypothese 3	Label 4//Hypothese 4	Label 5/Hypothese 5	Label 6/Hypothese 6	
Causal Labels	<ol style="list-style-type: none"> 1. Industry Nature 2. Economic Environment Sensitivity (Stakeholder and shareholder Pressure) 3. Company Culture and Performance Management Reporting Structure and Process 4. Growth Model 5. Uneven perception of performance 	<ul style="list-style-type: none"> • The industry short term constraint highly regulated and engineer friendly nature makes operations metrics and FPMs prominent in the PMS of organisations 	<ul style="list-style-type: none"> • In unstable (fast moving) environment the PMS is structured around quantitative and financial metrics which enable fast and efficient industry benchmark 	<ul style="list-style-type: none"> • FPMs are prominent in the organisation because they are global, embody profitability and are understood by everyone internally (used for compensation) and externally 	<ul style="list-style-type: none"> • Operations and FPMs are prominent in the PMS of organisations whose growth model is rigid 	<ul style="list-style-type: none"> • Performance measurement and management tools used at corporate level are 'decoupled' from the ones used at operations level because of uneven perception of performance 		
Organisational Labels	<ol style="list-style-type: none"> 1. Corporate History & Culture 2. Employee Management (education and management competences) outcomes and employee focused organisation 3. Strategy (leader position retrieval) 4. Change Management 5. Customer Satisfaction 	<ul style="list-style-type: none"> • Company History & Culture and management practice associates performance with industry operational and financial metrics. NFPMs are primarily developed for isomorphism purposes (not for performance evaluation) and are associated with the leverage capacity of the organisation 	<ul style="list-style-type: none"> • performance and NFPMs benefits are not clear and FPMs are perceived more objective/fair than NFPMs by managers who shape the PMS to be structured around more FPMs than NFPMs (compensation) 	<ul style="list-style-type: none"> • Differentiation & analyzer strategy implies a rigid and standardised PMS structured around FPMs 	<ul style="list-style-type: none"> • Revolutionary change initiates PMS redesign starting with FPMs and expanding to the isomorphic emergence of NFPMs 	<ul style="list-style-type: none"> • Employee related performance metrics are classical operations metrics which complement financial 'stakeholder targeted' metrics 		
Environmental Labels	<ol style="list-style-type: none"> 1. Competition 2. Environment (Stakeholder and Shareholder pressure): investors 3. Industry Nature 4. Trends: Political regulations, commercial and media 5. Terrorist Threats 6. State of Bankruptcy Protection 	<ul style="list-style-type: none"> • The modification of the competitive environment from competitors, customers and regulators generates a stress on financials and explains the prominence of FPMs 	<ul style="list-style-type: none"> • Under stakeholder pressure for proof of profitability in tightened (uncertain) economic conditions organisations focus on core business operations and cash and revenue and tend to develop more rigorous isomorphic centralized formal financial and non-financial metrics and informal financial and operations metrics 	<ul style="list-style-type: none"> • The industry short term constraint (cash and revenue) makes organisations focus on fast action operations metrics and FPMs 	<ul style="list-style-type: none"> • Stakeholder, state and media pressure explains the isomorphic development of formal NFPMs 	<ul style="list-style-type: none"> • External threats such as security impacts the shape of the PMS by emphasizing FPMs 	<ul style="list-style-type: none"> • Bankruptcy protection is a revolutionary change which explains the isomorphic emergence of NFPMs 	
Action/ Interaction Labels	<ol style="list-style-type: none"> 1. Quantitative and qualitative metrics 2. Formal development of NFPMs and Specific Conception and usage of NFPMs ('luxury' performance measures) 3. Centralization of Performance Information 	<ul style="list-style-type: none"> • Operational qualitative and quantitative metrics (customer, operations, employee) are adopted because they can be easily be transformed into financials to be reported to top management and are used for compensation 	<ul style="list-style-type: none"> • Isomorphic NFPMs development are 'luxury' performance measures (i.e. developed when in comfortable financial situation) used to triangulate FPM information for demanding stakeholders (financial analysts, shareholders and the regulators) • When traditional cost savings are limited, NFPMs are developed 	<ul style="list-style-type: none"> • In organisations where Information Systems are not integrated the PMS is decoupled (corporate formal vs. operations customized metrics) • Industry metrics are a means to reduce decoupling and manager's performance dissonance 				
Outcomes Labels	<ol style="list-style-type: none"> 1. Decoupling: formal and informal performance management 2. Rigidity of Performance Measures Collection and Standardization 3. Redefining Core Activities 	<ul style="list-style-type: none"> • Decoupled PMS generates strategic inconsistency between a long term strategy and a short term practice 	<ul style="list-style-type: none"> • The rigidity of performance measures collection and standardisation is aimed at stakeholders' reassurance and creates decoupling of the PMS 	<ul style="list-style-type: none"> • The formal emergence of NFPMs complements traditional FPMs and is associated with the redefinition of the industrial activity 				

8 Cross Case Analysis

Based on Grounded Theory (1998), the set of hypotheses which have emerged from the four cases are considered as substantive theory²²⁶. These sets of hypotheses have been grouped by labels in each of the five dimensions of the Strauss and Corbin Grounded Theory methodology (1998). In the following section these assumptions will be compared among the four cases to formulate a formal theory²²⁷. This will be done through a cross case analysis whose purpose and strategy will be discussed in part one. Part two will then discuss the substantive hypotheses which relate to reasons for developing a PMS. Part three will analyse the organisational conditions which influence the use of the PMS. Part four will discuss external conditions which impact on organisation's use of the PMS. Part five will focus on the substantive hypotheses related to action and interaction strategies implemented. Part six will discuss the substantive hypotheses emerging from consequences of using a PMS. Part seven will then present the final formal hypotheses.

8.1 Purpose and Strategy of the cross case analysis

The qualitative nature of the research question on performance measurement and management which was addressed in this fieldwork led to a case study approach (Buckley, Buckley, & Chiang, 1976; Birnberg, Shields, & Young, 1990; Keating, 1995; Ahrens & Dent, 1998). The motivation for using a case-based approach with semi-structured interviews was because it is both coherent with the objectives of the study, which targets “explanatory, back generalisation and theory refining objectives” (Johnston, Brignall, & Fitzgerald, 2002) and with the Strauss and Corbin Grounded Theory methodology (1998), which was chosen as a methodological framework to structure the research project. The use of case study research methodology provided the researcher with rich and in-depth examinations of organisations. It also provided a context-based, organised and replicable way of looking at cases, as far as data collection, information analysis and reporting results were concerned (Kaplan R. S., 1983; Yin, 2003; Irvine & Gaffikin, 2006; Eisenhardt & Graebner, 2007). The type of case study which was used is exploratory in the sense that it was aimed at helping to make refined questions emerge from topical situations and call into question assumptions to be compared to theory. Qualitative analysis being foremost a meaning-seeking process (Paillé & Mucchielli, 2003), the method which was used to process collected data consists in a reformulation process of discourse bringing meaning, explaining or theorising testimonials, experiences or practices. Through different processes the researcher tried to reveal the meaning of respondents' comments. Thematic

²²⁶ i.e. limited to the domain of inquiry.

²²⁷ i.e. (more) general and conceptually abstract than substantive theory.

analysis (Paillé, 1996; Paillé & Mucchielli, 2003) was used because it can be used either in an inductive way, starting from the material ('corpus') to generate themes, or in a deductive way, starting with assumptions and validating them (or not) using a qualitative methodology to decode the meaning of interviewees' discourse. This strategy relates to Savoie-Zajc's (2000; 2004) methodological prescriptions on the "moderate logic" process which recognises the influence of the theoretical framework on the definition of studied themes (Miles & Huberman, 1994; Strauss & Corbin, 2008). In the present situation this sense making process consisted of a three step process: 1-condense data (reduction and coding), 2-present data, 3-formulate and check hypotheses. The process was guided by the five dimensions of the Strauss and Corbin Grounded Theory methodology (1998).

8.1.1 Purpose of the cross case analysis

The researcher understands the different criticisms of case study methodology as far as the generalisation of findings are concerned (Alenizi, 2001, p. 412) and supports the idea that a case method is in no sense 'theory free' (Otley & Berry, 1994). Subsequently, it is agreed that a case study approach is not meant to draw general statistical conclusions from local to global, and that the analytical generalisation of results it provides is with response to theory and not to populations (Yin, 2003; Tellis, 1997; Lukka & Mouritsen, 2002; Tellis, 1997; Eisenhardt, 1989). In this methodological context, we follow Miles and Huberman (1994) in that cross case analysis enhances the generalizability of the findings related to the phenomena under investigation. The examination of similarities and differences between cases' substantive hypotheses helps the researcher to gain both an understanding of the specific conditions under which a finding occurs and the generic processes that occur across cases. The cross-case comparison of substantive hypotheses provides the researcher with more general explanations for the phenomena under investigation according to their occurrence in more than one site (Strauss & Corbin, 1998; Alenizi, 2001). That is to say those similarities between cases will be taken as hypotheses that emerge from the case studies and therefore allow the researcher to develop a representative theoretical framework and formulate a formal theory. This process helps the researcher in selecting the relevant substantive hypotheses which then become formal hypotheses.

8.1.2 Strategy of the cross case analysis

The researcher has adopted Alenizi's cross-case methodology (2001, p. 416) across the four cases while implementing the following process: "those hypotheses that were mentioned in more than two cases will be developed to be formal hypotheses. However, those hypotheses that were mentioned

in only one case study will stay as substantive hypotheses and will not be considered as part of the formal theory. Hypotheses that were only mentioned in two cases present a grey area that needs more examination to be carried forward” towards “formal hypotheses”. Therefore the researcher will consider any evidence within other cases that would support or weaken the development of these substantive hypotheses” towards “formal hypotheses. If in other cases the researcher finds no such contradiction then such a hypothesis will be considered” to be “a formal one. However, if the researcher finds contradicting evidence for that hypothesis in another case then it would remain a substantive hypothesis and would become a subject requiring to be studied in-depth in future research”. This strategy is summarised in Figure 37 below.

Figure 37: Cross Case Strategy Stage 2: Cross Industry - Adapted from Alenizi (2001, p. 417)

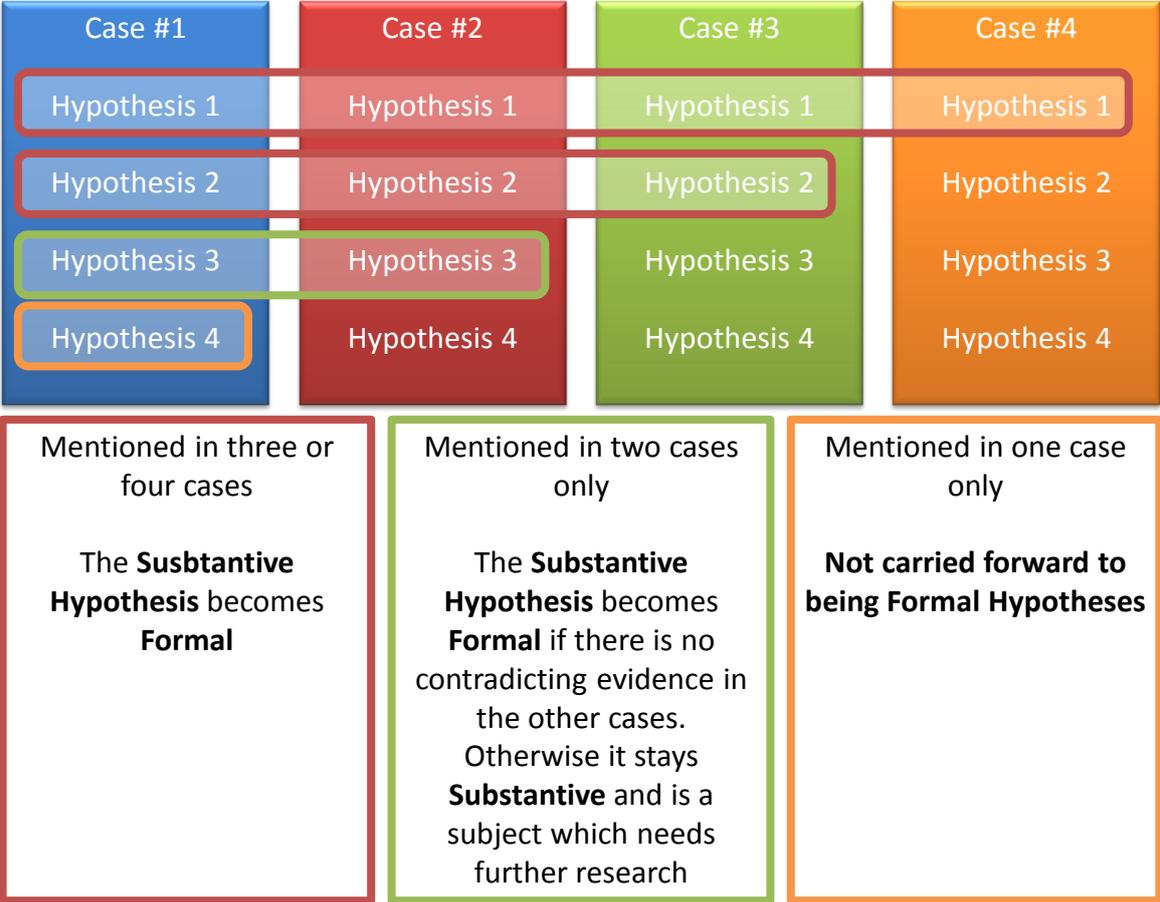


Table 50 below presents the main labels which have emerged when applying the Strauss and Corbin Grounded Theory methodology (1998) to interviews performed at Companies A, B, C and D as well as triangulation evidence emerging from the cases. These labels were presented for each of the five dimensions of the Strauss and Corbin (1998) methodology in each case study.

Table 50: Main Labels Emerging from the four case studies applying the Strauss and Corbin Grounded Theory methodology (1998)

	2. Causal	3. Organisational	4. Environmental	5. Action/ Interaction Strategies	6. Consequences
A	<ol style="list-style-type: none"> 1. Industry Nature 2. Economic Environment Sensitivity 3. Company Culture and Performance Management Reporting Structure and Process 4. Growth Model 5. Resistance to Change, company tradition of financial Metrics 	<ol style="list-style-type: none"> 1. Corporate History & Culture 2. Corporate Structure Stability 3. Employee Management (education and management competences) 4. Strategy (adaptive and cost-focused) 5. Information Systems 6. Change Management 	<ol style="list-style-type: none"> 1. Competition 2. Environment 3. Industry Nature 4. Trends: Political regulations, commercial and media 	<ol style="list-style-type: none"> 1. Quantitative and qualitative metrics 2. Formal development of NFPMs and Specific conception and usage of NFPMs 3. Centralization of Performance Information 	<ol style="list-style-type: none"> 1. Decoupling: formal and informal performance management 2. Rigidity of Performance Measures Collection and Standardisation 3. Redefining Core Activities
B	<ol style="list-style-type: none"> 1. Industry Nature 2. Economic Environment Sensitivity (Stakeholder and shareholder Pressure) 3. Company Culture and Performance Management Reporting Structure and Process 4. Rigid Growth Model 	<ol style="list-style-type: none"> 1. Corporate History & Culture 2. Corporate Structure Stability 3. Employee Management (education and management competences) 4. Strategy (low Cost Operator – low margin – high volume) customer needs and practice 5. Information Systems 6. Change Management 	<ol style="list-style-type: none"> 1. Competition 2. Environment (Stakeholder and Shareholder pressure) 3. Industry Nature 4. Trends: Political regulations, commercial and media 	<ol style="list-style-type: none"> 1. Quantitative and qualitative metrics (proof of wealth contribution) 2. Formal development of NFPMs and Specific Conception and usage of NFPMs 3. Centralization of Performance Information 	<ol style="list-style-type: none"> 1. Decoupling: formal and informal performance management 2. Rigidity of Performance Measures Collection and Standardisation 3. Redefining Core Activities 4. NFPMs cost reduction, income increase and positive corporate image
C	<ol style="list-style-type: none"> 1. Industry Nature 2. Economic Environment Sensitivity 3. Company Culture and Performance Management Reporting Structure and Process 4. Growth Model, company tradition of operations and financial Metrics 5. Management of Business Units 	<ol style="list-style-type: none"> 1. Corporate History & Culture 2. Corporate Structure Stability 3. Employee Management (education and management competences): social contract 4. Strategy (Profitable Growth) 5. Change Management 	<ol style="list-style-type: none"> 1. Competition 2. Environment normalisation (Stakeholder and Shareholder pressure, incl. financial analysts) 3. Industry Nature (cyclical and sensitive) 4. Trends: Political regulations, commercial and media 	<ol style="list-style-type: none"> 1. Quantitative and qualitative metrics 2. Formal development of NFPMs and Specific Conception and usage of NFPMs 3. Centralisation of Performance Information 4. Global-ness of performance 5. Inflation of Metrics 	<ol style="list-style-type: none"> 1. Decoupling: formal and informal performance management ('Strategic Inconsistence') 2. Rigidity of Performance Measures Collection and Standardisation 'Global-ness' another way to achieve performance 3. NFPMs cost reduction income increase and positive corporate image
D	<ol style="list-style-type: none"> 1. Industry Nature 2. Economic Environment Sensitivity (Stakeholder and shareholder Pressure) 3. Company Culture and Performance Management Reporting Structure and Process 4. Growth Model 5. Uneven perception of performance 	<ol style="list-style-type: none"> 1. Corporate History & Culture 2. Employee Management (education and management competences) outcomes and employee focused organisation 3. Strategy (leader position retrieval) 4. Change Management 5. Customer Satisfaction 	<ol style="list-style-type: none"> 1. Competition 2. Environment (Stakeholder and Shareholder pressure): investors 3. Industry Nature 4. Trends: Political regulations, commercial and media 5. Terrorist Threats 6. State of Bankruptcy Protection 	<ol style="list-style-type: none"> 7. Quantitative and qualitative metrics 8. Formal development of NFPMs and Specific Conception and usage of NFPMs ('luxury' performance measures) 9. Centralization of Performance Information 	<ol style="list-style-type: none"> 1. Decoupling: formal and informal performance management 2. Rigidity of Performance Measures Collection and Standardisation 3. Redefining Core Activities
Final Labels	<ol style="list-style-type: none"> 1. Industry Nature 2. Economic Environment Sensitivity 3. Company Culture and Performance Management Reporting Structure and Process 4. Growth Model 5. Resistance to Change 6. Management of Business Units 7. Uneven perception of performance 	<ol style="list-style-type: none"> 1. Corporate History & Culture 2. Corporate Structure Stability 3. Employee Management (education and management competences) 4. Strategy 5. Information Systems 6. Change Management 7. Customer Satisfaction 	<ol style="list-style-type: none"> 1. Competition 2. Environment 3. Industry Nature 4. Trends: Political regulations, commercial and media 5. Terrorist Threats 6. State of Bankruptcy Protection 	<ol style="list-style-type: none"> 1. Quantitative and qualitative metrics 2. Formal development of NFPMs and Specific Conception and usage of NFPMs 3. Centralization of Performance Information 4. Global-ness of performance 5. Inflation of Metrics 	<ol style="list-style-type: none"> 1. Decoupling: formal and informal performance management 2. Rigidity of Performance Measures Collection and Standardisation 3. NFPMs cost reduction, income increase and positive public image 4. Redefining Core Activities

8.2 Causal Conditions Substantive Hypotheses

The purpose of this section is to identify the similarities and the differences within the four cases that concern reasons for adopting a PMS. Table 51 below summarises those hypotheses that emerged from the aggregation of the previous four case studies' hypotheses and those that became formal. Each causal label covers a set of shared and/ or non-shared hypotheses identified by the same figure they were assigned in the hypotheses summary provided at the end of each case study. For better visibility, labels are also given a sign which helps the reader distinguish shared/non shared ones and their related hypotheses.

Section 8.2.1 will discuss shared reasons for adopting a PMS and will develop the subsequent set of formal hypotheses which can then be tested in future research for theory generalisation. Section 8.2.2 will discuss case specific hypotheses which will not be carried forward as formal hypotheses.

Table 51: Main Causal Conditions for Adopting a PMS Emerging from the four Case Studies

Company	Causal Labels/ Hypotheses	Industry Nature	Economic Environment Sensitivity	Performance Management Reporting Structure and Process and Company Culture	Growth Model	Resistance to Change	Management of Business Units	Uneven perception of performance
A	<ul style="list-style-type: none"> ■ 1. Industry Nature ▲ 2. Economic Environment Sensitivity ◆ 3. Company Culture and Performance Management Reporting Structure and Process ● 4. Growth Model ★ 5. Resistance to Change, company tradition of financial Metrics 	<ul style="list-style-type: none"> • The industry sophistication and short term constraint (cash and revenue) makes operations metrics and FPMs prominent in the PMS of organisations 	<ul style="list-style-type: none"> • In an unstable environment the PMS is structured around quantitative and financial metrics which are fast and flexible metrics for industry benchmark (stakeholders) 	<ul style="list-style-type: none"> • FPMs are prominent in the organisation because they are holistic, and are understood by everyone internally and externally 	<ul style="list-style-type: none"> • Operations and FPMs are prominent in the PMS of organisations whose growth model is reactor 	<ul style="list-style-type: none"> • In organisations where performance is traditionally measured with financial metrics and with a high resistance to change there is a tendency to not change their formal PMS 		
B	<ul style="list-style-type: none"> ■ 1. Industry Nature ▲ 2. Economic Environment Sensitivity (Stakeholder and shareholder Pressure) ◆ 3. Company Culture and Performance Management Reporting Structure and Process ● 4. Rigid Growth Model 	<ul style="list-style-type: none"> • The industry sophistication and short term constraint makes operations metrics and FPMs prominent in the PMS of organisations 	<ul style="list-style-type: none"> • In an unstable environment the PMS is structured around quantitative and financial metrics which enable fast and efficient industry benchmark to reassure stakeholders (shareholders) 	<ul style="list-style-type: none"> • FPMs are prominent in the organisation because they are holistic, embody profitability and are understood by everyone internally and externally 	<ul style="list-style-type: none"> • Operations and FPMs are prominent in the PMS of organisations whose growth model is rigid 			
C	<ul style="list-style-type: none"> ■ 1. Industry Nature ▲ 2. Economic Environment Sensitivity ◆ 3. Company Culture and Performance Management Reporting Structure and Process ● 4. Growth Model, company tradition of operations and financial Metrics □ 5. Management of Business Units 	<ul style="list-style-type: none"> • The industry immaturity, short term constrained, highly regulated, capital intensive and engineer friendly nature makes operations metrics and FPMs prominent in the PMS of organisations 	<ul style="list-style-type: none"> • In an unstable environment the PMS is structured around quantitative and financial metrics which are fast and flexible strategic industry metrics (capacity adjustment) and preserve industrial relations 	<ul style="list-style-type: none"> • FPMs are prominent in the organisation because they are global, embody profitability and are understood by everyone internally and externally and blend responsibility 	<ul style="list-style-type: none"> • Operations and FPMs are prominent in the PMS of organisations whose growth defined as performance 		<ul style="list-style-type: none"> • In organisations where performance information requirements differ from business units the PMS is differentiated 	
D	<ul style="list-style-type: none"> ■ 1. Industry Nature ▲ 2. Economic Environment Sensitivity (Stakeholder and shareholder Pressure) ◆ 3. Company Culture and Performance Management Reporting Structure and Process ● 4. Growth Model △ 5. Uneven perception of performance 	<ul style="list-style-type: none"> • The industry short term constraint highly regulated and engineer friendly nature makes operations metrics and FPMs prominent in the PMS of organisations 	<ul style="list-style-type: none"> • In an unstable (fast moving) environment the PMS is structured around quantitative and financial metrics which enable fast and efficient industry benchmark 	<ul style="list-style-type: none"> • FPMs are prominent in the organisation because they are global, embody profitability and are understood by everyone internally (used for compensation) and externally 	<ul style="list-style-type: none"> • Operations and FPMs are prominent in the PMS of organisations whose growth model is rigid 			<ul style="list-style-type: none"> • Performance measurement and management tools used at corporate level are 'decoupled' from the ones used at operations level because of uneven perception of performance
Formal Hypotheses		<p><i>Industry nature, sophistication and short term constraint is associated with the adoption of operations and FPMs in the PMS of organisations</i></p>	<p><i>In unstable environment the PMS of companies tends to be structured around quantitative and financial metrics which are quickly available and flexible strategic industry metrics, enabling fast and efficient industry benchmark to reassure stakeholders and preserve industrial relations</i></p>	<p><i>FPMs are prominent in these organisations because they are holistic, embody profitability, are understood by everyone internally and externally and blend responsibility</i></p>	<p><i>Operations and FPMs are prominent in the PMS of organisations whose growth model is rigid, reactor type and/or defined as performance</i></p>			

8.2.1 Similarities of PMS Causal Conditions

The similarities that have been identified in this section cover four aspects including “Industry Nature”; “Economic Environment Sensitivity”; “Performance Management Reporting Structure and Process and Company Culture” and “Growth Model”. The sets of hypotheses show a consensus agreement from respondents at all companies as well as triangulation information as being causes for companies' structure of a PMS. These Causal Conditions have been discussed in the case studies. The following sections will summarise them.

8.2.1.1 Industry Nature

The Industry Nature is a major theme which arose at all four companies. Industry Nature, which is a cross business causal theme, comprises different components depending whether retail or airline businesses are concerned. The sophistication level of the operations of the retail industry, that is to say the low complexity level of the tasks involved in the retail business and the short termism of its operations and profitability constraints, are associated with a requirement to craft/ adopt a PMS structured around simple and operational metrics. As established by interviews and external information sources in cases A and B, retail is an industry which is highly dependent on day to day operations and has remained very basic in its performance measurement and management system. Both explain the pre-eminence of revenue and cash management as well as basic operations indicators in the PMS.

For the airline business, several common themes add to above mentioned task sophistication – which, in this particular industry is associated with the engineer-friendly/ safety-oriented technology involved – and short termism profitability constraints. Other common themes are the immaturity of this young capital intensive industry and its highly regulated environment. As revealed by interviews and external information in cases C and D, the immaturity of this capital intensive business is associated with the adoption of a PMS which is able to provide managers with the operational and financial metrics they require to run the company under both short term operational as well as profitability constraints. The weight of the regulation (e.g. U.S. DOT), in terms of safety standards and local and international imposed policies for example (e.g. persistence of unprofitable routes and international trade agreements such as the open skies agreement) also led businesses to adopt and shape a PMS where operational metrics as well as FPMs are prominent.

The four cases stressed the importance of Industry Nature as a driver for companies to adopt and use operations and FPMs structured PMS. Therefore the first formal hypothesis regarding the relationship between Industry Nature and the PMS is as follows: “**Industry nature, sophistication and**

short term constraints are associated with the adoption of operational and FPMs in the PMS of organisations”.

8.2.1.2 Economic Environment Sensitivity

The importance of the instability of the Economic Environment emerged as a driver to adopt and use a PMS dominated by quantitative and financial metrics. Some of the reasons exposed in the retail industry are shared by the airline business, such as the quick availability and the flexible nature of these metrics to provide industry benchmarks which are able to reassure sceptical stakeholders in a fast moving and unstable environment. Other reasons are more specific to the airline industry as these indicators encompass the set of flexible strategic metrics (e.g. capacity adjustment) airlines currently use because these are the few remaining levers companies have left - in an environment where cost cutting has reached its limits – to be able to preserve sensitive industrial relations.

Therefore the second formal hypothesis regarding the relationship between Economic Environment Sensitivity and the adoption/ structure of a PMS is: **“In unstable environments the PMS of companies tends to be structured around quantitative and financial metrics which are quickly available and flexible strategic industry metrics, enabling fast and efficient industry benchmarks to reassure stakeholders and preserve industrial relations”.**

8.2.1.3 Performance Management Reporting Structure and Process and Company Culture

Evidence at the four companies shows that a rigid performance management reporting structure and its implementation process favour the structure of the PMS around a set of quantitative and financial metrics which must be meaningful for different populations: company personnel (through compensation schemes for example) but also external communities such as sceptical shareholders and financial analysts. One mission of this set of metrics is to express an ‘ill-defined’ notion of performance, therefore be holistic to embody what internal and external differentiated populations perceive as being performance, such as ‘profitability’ for example. This performance embodiment should however be loose enough to keep industrial relations stable by appropriately blending individuals’ accountability as part of company culture. This is particularly evidenced at Company C who shows a former state owned culture.

Therefore the third formal hypothesis regarding the relationship between Performance Management Reporting Structure and Process and Company Culture and the adoption/ structure of a PMS is the following: **“FPMs are prominent in these organisations because they are holistic, embody profitability, are understood by everyone internally and externally and blend responsibility”.**

8.2.1.4 Growth Model

Across the four cases the importance of companies' Growth Model was stressed as a driver to adopt and use quantitative operational and financial metrics structured PMS. The type of growth model however depends on the specificity of the company. On the retail side, both the rigidity and the reactor type of companies' growth models are associated with the prominence of operational and financial metrics in the PMS. On the airline side, it is both the rigidity and the identification of 'growth' as being performance.

Therefore the fourth formal hypothesis regarding the relationship between the Growth Model and the adoption/ structure of a PMS is: **"Operations and FPMs are prominent in the PMS of organisations whose growth model is rigid, reactor type and/or defined as performance"**.

8.2.2 Differences in the reasons for adopting a PMS

Within the four case studies, three labels which emerged from three different cases were identified: "Resistance to Change"; "Management of Business Units" and "Uneven perception of performance". Their related hypotheses will subsequently not be developed to become formal hypotheses but will remain substantive 'case-specific' hypotheses. Within the next sections each one of these hypotheses will be summarised.

8.2.2.1 Resistance to Change

The dominant coalition (i.e. the board members), resistance to change in traditional operational and financial performance measurement and management is an emerging causal condition for the structure and the persistence of such a PMS at Company A. The reason which explains this condition lies in the resistance to change being part of the nature/ culture of Company A. Even though the management of this company has been subject to top management change as power shifted from one dominant coalition to another (i.e. family), the basics of performance measurement and subsequent management were kept unchanged. This is a finding which cannot be evidenced from interviews or triangulation information at the three other companies. Therefore the hypothesis regarding the relationship between Resistance to Change and the adoption/ structure of a PMS which is: **"In organisations where performance is traditionally measured with financial metrics and with a high resistance to change, tend to not change their formal PMS"** remains substantive.

8.2.2.2 Management of Business Units

In the context of Company C, evidence shows that the activities of subunits are quite differentiated and performance information is subsequently required to be separated. This is a finding which

cannot be evidenced from interviews or external information sources at the three other companies. Therefore the hypothesis regarding the relationship between Management of Business Units and the adoption/ structure of a PMS which is: **“In organisations where the performance information requirement differs among business units the PMS is differentiated”** remains substantive.

8.2.2.3 Uneven Perception of Performance

Uneven Perception of Performance has formally emerged from respondents’ interviews at Company D which they associate with a dichotomy of performance measurement and management tools used at corporate and operations levels. This is a finding which cannot be evidenced from interviews and triangulation information at the three other companies. Therefore the hypothesis regarding the relationship between Uneven Perception of Performance and the adoption/ structure of a PMS which is: **“Performance measurement and management tools used at corporate level are ‘decoupled’ from the ones used at operations level because of uneven perception of performance”** remains substantive.

8.3 Organisational Conditions Substantive Hypotheses

This section will discuss the similarities and differences among the four cases concerning the Organisational Conditions that have impacted the use of the PMS. Four similar labels were identified in the four cases. Section 8.3.1 will discuss shared reasons and will develop the subsequent formal hypotheses while section 8.3.2 will discuss case specific hypotheses. Table 52 below presents the main Organisational Conditions labels that emerged from interviews and triangulation information in the four cases studied. Each label covers a set of shared and/ or non-shared hypotheses identified by the same figure they were assigned in the hypotheses summary provided to the reader at the end of each case study. For better visibility, they are also given a sign which helps the reader distinguish shared/non shared labels and their related hypotheses.

Table 52: Main Organisational Conditions for Adopting a PMS Emerging from the four Case Studies

Company	Organisational Labels/ Hypotheses	Corporate History & Culture	Corporate Structure Stability	Employee Management (education and management competences)	Strategy	Information Systems	Change Management	Customer Satisfaction
A	<ul style="list-style-type: none"> ■ 1. Corporate History & Culture ▲ 2. Corporate Structure Stability ◆ 3. Employee Management (education and management competences) ● 4. Strategy (adaptive and cost-focused) ★ 5. Information Systems □ 6. Change Management 	<ul style="list-style-type: none"> • Company History & Culture and management practice associates performance with industry operational and financial metrics. NFPMs are primarily developed for isomorphic purposes (not for performance evaluation) 	<ul style="list-style-type: none"> • The FPMs/ NFPMs balanced structure of the PMS depends on the stability over time of the organisation's dominant coalition 	<ul style="list-style-type: none"> • Performance and NFPMs benefits are not clear and FPMs are perceived more objective/fair than NFPMs by managers who shape the PMS to be structured around more FPMs than NFPMs 	<ul style="list-style-type: none"> • Low cost and reactor-type strategy implies a rigid and standardised PMS structured around FPMs 	<ul style="list-style-type: none"> • In organisations where Information Systems are not integrated the PMS is decoupled and is associated with the emergence of local informal NFPMs 	<ul style="list-style-type: none"> • Revolutionary change initiates PMS redesign starting with FPMs and expanding to the isomorphic emergence of NFPMs 	
B	<ul style="list-style-type: none"> ■ 1. Corporate History & Culture ▲ 2. Corporate Structure Stability ◆ 3. Employee Management (education and management competences) ● 4. Strategy (low Cost Operator – low margin – high volume) customer needs and practice ★ 5. Information Systems □ 6. Change Management 	<ul style="list-style-type: none"> • Company History & Culture and management practice associates performance with traditional industry operational and financial metrics. NFPMs are primarily developed for isomorphic (not for performance evaluation) and benchmark purposes and are associated with the leverage capacity of the organisation 	<ul style="list-style-type: none"> • The FPMs/ NFPMs balanced structure of the PMS depends on the stability over time of the organisation's dominant coalition 	<ul style="list-style-type: none"> • Performance and NFPMs benefits are not clear and FPMs are perceived more objective/fair than NFPMs by managers who shape the PMS to be structured around more FPMs than NFPMs 	<ul style="list-style-type: none"> • Low cost strategy implies a rigid and standardised PMS structured around FPMs 	<ul style="list-style-type: none"> • In organisations where Information Systems are not integrated the PMS is decoupled 	<ul style="list-style-type: none"> • Revolutionary change initiates PMS redesign starting with FPMs and expanding to the isomorphic emergence of NFPMs 	
C	<ul style="list-style-type: none"> ■ 1. Corporate History & Culture ▲ 2. Corporate Structure Stability ◆ 3. Employee Management (education and management competences): social contract ● 4. Strategy (Profitable Growth) □ 5. Change Management 	<ul style="list-style-type: none"> • Company History & Culture (highly unionised) and management practice associates performance with industry operational and financial metrics (which blends responsibility). NFPMs are primarily developed for isomorphic purposes (not for performance evaluation) and are associated with the leverage capacity of the organisation 	<ul style="list-style-type: none"> • The FPMs/ NFPMs balanced structure of the PMS depends on the stability over time of the organisation's dominant coalition 	<ul style="list-style-type: none"> • Performance and NFPMs benefits are not clear and FPMs are perceived more objective/fair (and preserve the social contract of the company) than NFPMs by managers who shape the PMS to be structured around more FPMs than NFPMs • Lack of competence and accuracy of managers generates inappropriate metric selection the performance reporting process 	<ul style="list-style-type: none"> • Analyser strategy implies a rigid and standardised PMS structured around FPMs 		<ul style="list-style-type: none"> • Revolutionary change initiates PMS redesign starting with FPMs and expanding to the isomorphic emergence of NFPMs 	
D	<ul style="list-style-type: none"> ■ 1. Corporate History & Culture ◆ 2. Employee Management (education and management competences) outcomes and employee focused organisation ● 3. Strategy (leader position retrieval) □ 4. Change Management ○ 5. Customer Satisfaction 	<ul style="list-style-type: none"> • Company History & Culture and management practice associates performance with industry operational and financial metrics. NFPMs are primarily developed for isomorphic purposes (not for performance evaluation) and are associated with the leverage capacity of the organisation 		<ul style="list-style-type: none"> • Performance and NFPMs benefits are not clear and FPMs are perceived more objective/fair than NFPMs by managers who shape the PMS to be structured around more FPMs than NFPMs (compensation) 	<ul style="list-style-type: none"> • Differentiation & analyser strategy implies a rigid and standardised PMS structured around FPMs 		<ul style="list-style-type: none"> • Revolutionary change initiates PMS redesign starting with FPMs and expanding to the isomorphic emergence of NFPMs 	<ul style="list-style-type: none"> • Employee related performance metrics are classical operations metrics which complement financial 'stakeholder targeted' metrics
Formal Hypotheses		<p><i>Company History and Culture lead to management practice which associates performance with traditional industry operational and financial metrics. NFPMs are primarily developed for isomorphic (not for performance evaluation) and benchmark purposes and are associated with the leverage capacity of the organisation</i></p>	<p><i>The FPMs/ NFPMs balanced structure of a company PMS depends on the stability over time of the organisation's corporate structure and dominant coalition</i></p>	<p><i>Performance and NFPMs benefits are not clear and FPMs are perceived more objective/ fair than NFPMs by managers who shape the PMS to be structured around more FPMs than NFPMs</i></p>	<p><i>Low-Cost/ Differentiation/ Reactor and Analyser strategies are associated with a rigid and standardised PMS structured around FPMs</i></p>		<p><i>Revolutionary change is associated with PMS redesign around core FPMs and expanding to the isomorphic mimesis emergence of NFPMs</i></p>	

8.3.1 Similarities of PMS Organisational Conditions

In this section, similarities have been identified which include four aspects: “Corporate History and Culture”; “Employee Management Education, Management Competences”; “Strategy (adaptive and cost-focused)” and “Change Management”. These are similar organisational conditions that either have negative or positive influences on the use of the PMS. These Organisational Conditions were discussed in the case studies, the following sections will summarise them.

8.3.1.1 Corporate History and Culture

The corporate history and culture of the four companies influences their performance management practices towards the incarnation of performance through traditional operational and financial indicators for reasons ranging from the capacity of such metrics to blend managers’ responsibility in highly unionised companies (e.g. Company C) to customary industry benchmarking. As demonstrated by Cho (2009), the higher profile of companies, not only makes them powerful but also exposes them to pressures²²⁸. Therefore, the formal sets of NFPMs are often not primarily introduced for performance evaluation. As illustrated in the case studies, NFPMs are developed for industry benchmark purposes, through a process of approval seeking from groups in society informed by Strategic Legitimacy Theory²²⁹ (Suchman, 1995; Hybels, 1995) and as a result of isomorphic mimesis informed by Institutional Theory (DiMaggio & Powell, 1983).

Therefore the first formal hypothesis regarding the relationship between Corporate History and Culture and the PMS is: **“Company History and Culture lead to management practice which associates performance with traditional industry operational and financial metrics. NFPMs are primarily developed for isomorphic (not for performance evaluation) and benchmark purposes and are associated with the leverage capacity of the organisation”.**

8.3.1.2 Employee Management, Education and Management Competences

The lack of clarity between ‘performance’ and NFPMs for managers enhances the prominence of FPMs in the PMS of companies because they are perceived to be more objective and fair in performance evaluation, in addition to being used for compensation purposes. This ‘FPMs fairness’ strategy emerges as being adapted to the average employee education and management competence. This also facilitates the preservation of industrial relations by avoiding the

²²⁸ “Industry does influence corporate social responsibility disclosure as higher profile firms are exposed to constant ethical and social pressure around the globe, and firms that reside at the environmentally sensitive industry are subject to increased public pressure and thus need to be thought of as providing strong environmental stewardship.” (Cho, 2009).

²²⁹ “Organisations seek to establish congruence between the social values associated with or implied by their activities and the norms of acceptable behaviour in the larger social system in which they are a part.” (Mathews, M. R., 1993).

multiplication of NFPMs which are perceived by respondents as 'less objective' in performance evaluation. In addition to this practice, respondents perceive performance reporting as not being efficient because it does not report relevant information. They associate this with the lack of competence and accuracy of reporting managers in the selection of performance metrics to be reported to top management.

Therefore the second formal hypothesis regarding the relationship between Employee Management, Education and Management Competences and the PMS is: **“Performance and NFPMs benefits are not clear and FPMs are perceived to be more objective/ fair than NFPMs by managers who shape the PMS to be structured around more FPMs than NFPMs”**.

8.3.1.3 Strategy

The two kinds of strategic types adopted by companies in the typology developed by Miles and Snow (1978) (i.e. reactor and analyser) complemented by either low-cost and/ or differentiation strategies, tend to be associated with the adoption of a rigid and standardised PMS which is mainly structured around FPMs. This is a counter intuitive assumption because two different strategies tend to impact a phenomenon in the same way. However this appears plausible based on the evidence regarding strategy and PMS structure provided in the different case studies. This confirms prior literature to the extent that no evidence was found across the four cases which supports organisational structure strategy determinism. That is to say that regardless of their strategy, most firms implemented structural configurations which are mixed, rather than being consistent across the structural dimensions without an overall performance penalty (Pleshko & Nickerson, 2008).

Therefore the third formal hypothesis regarding the relationship between Strategy and the PMS is: **“Low-Cost/ Differentiation/ Reactor and Analyser strategies are associated with a rigid and standardised PMS structured around FPMs”**.

8.3.1.4 Change Management

Across the four cases, revolutionary change (Greenwood & Hinings, 1996), whether it is a swap of the dominant coalition, a company midlife crisis, a merger or a bankruptcy, emerges as being associated with the formal redesign of the PMS with core FPMs and its expansion to integrating NFPMs. As illustrated in section 8.3.1.1, this redesign process is the expression of company approval seeking strategy from groups in society (Suchman, 1995; Hybels, 1995) and its mode of operation which is isomorphic mimesis (DiMaggio & Powell, 1983).

Therefore the fourth formal hypothesis regarding the relationship between Change Management and the PMS is: **“Revolutionary change is associated with PMS redesign around core FPMs and expanding to the isomorphic mimesis emergence of NFPMs”**.

8.3.2 Differences in PMS Organisational Conditions

Within the four cases studied, three labels which emerged from three cases or less were identified: “Corporate Structure Stability”; “Information Systems” and “Customer Satisfaction and Employee Related Performance”. Hypotheses that were mentioned in only two cases need more examination in order to be carried forward as formal hypotheses. Therefore, any evidence in other cases that would support or weaken the development of these substantive hypotheses into formal hypotheses will be considered. If in other cases no such contradiction is found then such a hypothesis will be considered a formal one. In the next sections each one of these hypotheses will be summarised.

8.3.2.1 Corporate Structure Stability

The performance policy of the Corporate Structure and that of the dominant coalition (i.e. the board members) along with their stability over time are emerging causal conditions for the structure and the persistence of a PMS across three cases. These are associated with the stability over time of the judgement which decides on the formal balance of FPMs and NFPMs in the PMS of companies. However, this is an assumption which cannot be invalidated by interviews or triangulation information in one out of four companies where case studies were performed. Therefore the fifth formal hypothesis regarding the relationship between Corporate Structure Stability and the PMS is: **“The FPMs/ NFPMs balanced structure of a company PMS depends on the stability over time of the organisation’s corporate structure and dominant coalition”**.

8.3.2.2 Information Systems

Across the four cases, respondents acknowledge the importance of information systems as a driver of performance. In two cases, respondents’ answers emphasised the lack of integration of information systems by showing the existence/ survival of local performance information systems which are informal and duplicate the global formal system. This evidence confirms a form of decoupling as described in intuitional theory literature (DiMaggio & Powell, 1983) and also confirms recent literature contrasting with the classic assumption that decoupling is an “organisational” response to external pressures by showing how it can occur through the process of resistance to accounting change (Siti-Nabiha & Scapens, 2005). Moreover, respondents’ statements show that local informal performance information systems embed operational/ quantitative financial metrics with NFPMs. However, this is an assumption which cannot be evidenced from interviews and

triangulation information at the two other companies. Therefore the hypothesis regarding the relationship between the Integration of Information Systems and the structure of a PMS which is: **“In organisations where Information Systems are not integrated the PMS is decoupled and is associated with the emergence of local informal NFPMs”** remains substantive.

8.3.2.3 Customer Satisfaction and Employee Related Performance

NFPMs such as Customer Satisfaction and Employee Related Performance metrics have formally emerged from respondents’ interviews at Company D which they have associated with classical operational metrics which complement FPMs targeted at stakeholders. This is an assumption which cannot be evidenced from interviews and triangulation information at the three other companies. Therefore the hypothesis regarding the relationship between Customer Satisfaction and Employee Related Performance metrics and the structure of a PMS is: **“Customer Satisfaction and Employee Related Performance metrics are classical operations metrics which complement financial ‘stakeholder targeted’ metrics”** remains substantive.

8.4 External Conditions Substantive Hypotheses

This section will discuss the similarities and differences within the four cases concerning the External (Environmental) Conditions that have impacted the use of the PMS. Several hypotheses that were similar within the four cases have been identified. Section 8.4.1 will discuss shared reasons and will develop the subsequent set of formal hypotheses while section 8.4.2 will discuss case specific hypotheses. Table 53 below presents the main External Conditions labels that have emerged from interviews and triangulation information in the four case studies. Each label covers a set of shared and/ or non-shared hypotheses identified by the same figure they were assigned in the hypotheses summary which was provided to the reader at the end of each case. For better visibility, they are also given a sign which helps the reader distinguish shared/non shared labels and their related hypotheses.

Table 53: Main External Conditions for Adopting a PMS Emerging from the four Cases

Company	Environmental Labels/ Hypotheses	Competition	Environment	Industry Nature	Trends: Political regulations, commercial and media	Terrorist Threats	State of Bankruptcy Protection
A	<ul style="list-style-type: none"> ■ 1. Competition ◆ 2. Environment ● 3. Industry Nature ★ 4. Trends: Political regulations, commercial and media 	<ul style="list-style-type: none"> • The modification of the competitive environment from customers, competitors and regulators generates a stress on financials and explains the prominence of FPMS 	<ul style="list-style-type: none"> • Under stakeholder (incl. financial analysts) pressure for proof of profitability in tightened (uncertain) economic conditions organisations focus on cash and revenue and tend to develop more rigorous isomorphic centralized Formal financial and non-financial metrics and informal financial and operations metrics 	<ul style="list-style-type: none"> • The industry short term constraint (cash and revenue) makes organisations focus on fast action operations metrics and FPMS 	<ul style="list-style-type: none"> • Stakeholder, state and media pressure explains the isomorphic development of formal NFPMS 		
B	<ul style="list-style-type: none"> ■ 1. Competition ◆ 2. Environment (Stakeholder and Shareholder pressure) ● 3. Industry Nature ★ 4. Trends: Political regulations, commercial and media 	<ul style="list-style-type: none"> • The modification of the competitive environment from customers competitors and regulators generates a stress on financials and explains the prominence of FPMS 	<ul style="list-style-type: none"> • Under stakeholder pressure for proof of profitability in tightened (uncertain) economic conditions organisations focus on cash and revenue and tend to develop more rigorous isomorphic centralized Formal financial and non-financial metrics and informal financial and operations metrics • NFPMS development is limited by the sophistication of the retail environment 	<ul style="list-style-type: none"> • The industry short term constraint (cash and revenue) makes organisations focus on fast action operations metrics and FPMS 	<ul style="list-style-type: none"> • Stakeholder, state and media pressure explains the isomorphic development of formal NFPMS 		
C	<ul style="list-style-type: none"> ■ 1. Competition ◆ 2. Environment normalisation (Stakeholder and Shareholder pressure, incl. financial analysts) ● 3. Industry Nature (cyclical and sensitive) ★ 4. Trends: Political regulations, commercial and media 	<ul style="list-style-type: none"> • The modification of the competitive environment from customers competitors and regulators generates a stress on financials and explains the prominence of FPMS 	<ul style="list-style-type: none"> • Under stakeholder (incl. financial analysts) pressure for proof of profitability in tightened (uncertain) economic conditions organisations focus on core business operations and cash & revenue (i.e. 'rationality of performance evaluation') and tend to develop more rigorous isomorphic centralized formal financial and non-financial metrics and informal financial and operations metrics. This process is slowed down b/c of company culture and social contract preservation 	<ul style="list-style-type: none"> • The industry short term constraint (cash and revenue) makes organisations focus on fast action operations metrics and FPMS 	<ul style="list-style-type: none"> • Stakeholder, state and media pressure explains the isomorphic development of formal NFPMS 		
D	<ul style="list-style-type: none"> ■ 1. Competition ◆ 2. Environment (Stakeholder and Shareholder pressure): investors ● 3. Industry Nature ★ 4. Trends: Political regulations, commercial and media ▼ 5. Terrorist Threats □ 6. State of Bankruptcy Protection 	<ul style="list-style-type: none"> • The modification of the competitive environment from customers competitors and regulators generates a stress on financials and explains the prominence of FPMS 	<ul style="list-style-type: none"> • Under stakeholder pressure for proof of profitability in tightened (uncertain) economic conditions organisations focus on core business operations and cash and revenue and tend to develop more rigorous isomorphic centralized formal financial and non-financial metrics and informal financial and operations metrics 	<ul style="list-style-type: none"> • The industry short term constraint (cash and revenue) makes organisations focus on fast action operations metrics and FPMS 	<ul style="list-style-type: none"> • Stakeholder, state and media pressure explains the isomorphic development of formal NFPMS 	<ul style="list-style-type: none"> • External threats such as security impacts the shape of the PMS by emphasizing FPMS 	<ul style="list-style-type: none"> • Bankruptcy protection is a revolutionary change which explains the isomorphic emergence of NFPMS
Formal Hypotheses		<i>The modification of the competitive environment originating from customers competitors and regulators generates a stress on financials and explains the prominence of FPMS</i>	<i>Under stakeholder pressure for proof of profitability in tightened and uncertain economic conditions, organisations focus on core business operations and cash and revenue and tend to develop more rigorous isomorphic mimesis centralised formal financial and non-financial metrics as well as informal financial and operations metrics</i>	<i>The industry short term constraint (cash and revenue) makes organisations focus on fast action operations metrics and FPMS</i>	<i>Stakeholder, state and media pressure explains the isomorphic development of formal NFPMS</i>		

8.4.1 Similarities of PMS External Conditions

The similarities that have been identified in this section include four aspects which are “Competition”; “Environment, Stakeholder and Shareholder pressure”; “Industry Nature” and “Trends: Political regulations, commercial and media”. These constitute similar External Conditions that either have a negative or a positive influence on the use of the PMS. These External Conditions have been discussed in the case studies, the following sections will summarise them.

8.4.1.1 Competition

Competition emerged as an important environmental condition which impacted the use of the PMS across the four cases. The modification of the competitive environment has come mainly from adapting to customers’ changing purchasing and store habits, reaction to corporate – sometimes degraded – public image, and purchasing power change. The condition related to direct competitors involves a reaction to customer behaviour modification and also involved a business model change/ swap for Company B or the creation of economy plus passenger classes for companies C and D. Regulators have also indirectly impacted Company C and D’s PMS by imposing rules and policies in both industries. These regulations range from requiring the continuation of uneconomical routes for Company D to the EU’s directive requiring integration of more balanced performance management disclosure for European companies. Because of the pressure placed on companies for return on investment these modifications in the competitive environment have generated stress on financial information which explains the prominence of FPMs in companies’ PMS.

Therefore the first formal hypothesis regarding the relationship between Competition and its influence on the PMS is: **“The modification of the competitive environment originating from customers, competitors and regulators generates a stress on financial performance and explains the prominence of FPMs”**.

8.4.1.2 Environment, Stakeholder and Shareholder pressure

In tightened and uncertain economic conditions, stakeholder’s pressure for returns (i.e. the market, shareholders and financial analysts) has caused organisations to focus on cash-flow and revenue generation because these are perceived by the environment as the rational and rigorous way to evaluate performance. For example, this pressure comes from stakeholders such as financial analysts as evidenced in Company A. This pressure pushed companies to adopt a PMS that is able to provide evidence that they control performance in the way required by stakeholders. As a consequence, and

as evidenced across the four cases, Companies tended to adopt a decoupling policy which consisted of the development of more rigorous and centralised²³⁰ formal financial and non-financial metrics able to make company performance management accepted by the norms set by their 'environment' (i.e. powerful stakeholders: the market, shareholders and financial analysts). This formal performance system is complemented by an informal system composed of financial and operational metrics which evidence the short term returns that stakeholders require. The pace of this decoupling process depends on company culture and industrial relations.

Therefore the second formal hypothesis regarding the relationship between the Environment and its influence on the PMS is: **“Under stakeholder pressure for proof of profitability in tightened and uncertain economic conditions, organisations focus on core business operations, cash and revenue and tend to develop more rigorous centralised formal financial and non-financial metrics as well as informal financial and operational metrics”**.

8.4.1.3 Industry Nature

The natures of both retail and airline industries have emerged as environmental causes which impact the shape and operation of companies' PMS. Both the retail and the airline businesses are functioning under short term constraints (such as day to day operations and cash and revenue for the retail industry) which push managers to focus on rapid action operational metrics and FPMs and to monitor and manage company performance based on these metrics.

Therefore the third formal hypothesis regarding the relationship between the Industry Nature and its influence of the PMS is: **“The industry short term constraint (cash and revenue) makes organisations focus on rapid action operations metrics and FPMs”**.

8.4.1.4 Trends: Political regulations, commercial and media

Across the four cases, the development of formal NFPMs is primarily associated with a reaction from companies to external pressures coming from their stakeholders in a wider sense. This can involve reaction to state regulation such as an EU directive which strongly invites companies to manage performance with a balanced portfolio of metrics. This can also consist in adopting socially acceptable behaviour to obtain a better public image and attract new customers through formal environmental accounting practices. This public relations' strategy leads to the decoupling of the PMS as evidenced by institutional theory and legitimacy theory.

²³⁰ This is an example of Lawrence and Lorsch's Contingency Theory's Differentiation and Integration process.

Therefore the fourth formal hypothesis regarding the relationship between the Political regulations, commercial and media and their influence of the PMS is: **“Stakeholder, state and media pressure explains the isomorphic development of formal NFPMs”**.

8.4.2 Differences of PMS External Conditions

Within the four case studies, hypotheses which emerged from one case only were identified: “Terrorist Threats” and “State of Bankruptcy Protection” which subsequently will not be developed to become formal hypotheses, but remain substantive case specific hypotheses. Within the next sections these hypotheses will be reviewed.

8.4.2.1 Terrorist Threats

External threats such as security and terrorism are risk management issues which have formally emerged from respondents’ interviews at Company D. Respondents associate these risks with a need to focus on the financials which provide reassuring information on the capacity of the company to financially survive a major dramatic event. This can be related to the disappearance of Pan Am after the Lockerbie terrorist explosion of an airplane on December 21st 1988. This is a finding which cannot be evidenced from interviews and triangulation information at the three other companies. Therefore the hypothesis regarding the relationship between Terrorist Threats and the PMS which is: **“External threats, such as security, impact the shape of the PMS by emphasising FPMs”** remains substantive.

8.4.2.2 State of Bankruptcy Protection

The impact of bankruptcy protection on the PMS emerges as an important external cause from respondents’ interviews at Company D. This state of protection whereby a company can continue to operate under the shelter of chapter 11 was an opportunity for its management to reorganise the company financials to provide evidence that the company has a future in the eyes of its stakeholders. This revolutionary change (Greenwood & Hinings, 1996) has a twofold impact: the reinforcement of the place of FPMs as public evidence of the company’s survival capacity and the emergence of NFPMs to conform to current social norms of performance management. This is an assumption which cannot be evidenced from interviews and triangulation information at the three other companies. Therefore the hypothesis regarding the relationship between the state of bankruptcy protection and the PMS which is: **“Bankruptcy protection is a revolutionary change which explains the isomorphic emergence of NFPMs”** remains substantive.

8.5 Action/ Interaction Strategies Substantive Hypotheses

This section will discuss the similarities and differences within the four cases concerning the Management Strategies arising from the use of the PMS. Section 8.5.1 will discuss shared actions and strategies and will develop the subsequent substantive hypotheses while section 8.5.2 will discuss case specific hypotheses. Table 54 below presents the main management actions/ strategies that have emerged from the interviews and triangulation information in the four cases studied. Each label covers a set of shared and/ or non-shared hypotheses identified by the same figure they were assigned in the hypotheses summary which was provided to the reader at the end of each case. For better visibility, they are also given a sign which helps the reader distinguish shared/non shared labels and their related hypotheses.

Table 54: Main Action/Interaction Strategies using a PMS Emerging from the four Cases

Company	Action/ Interaction Strategies Labels / Hypotheses	Quantitative and qualitative metrics	Formal development of NFPMs and Specific Conception and usage of NFPMs	Centralisation of Performance Information	Global-ness of performance	Inflation of Metrics
A	<ul style="list-style-type: none"> ■ 1. Quantitative and qualitative metrics ▼ 2. Formal development of NFPMs and Specific conception and usage of NFPMs • 3. Centralization of Performance Information 	<ul style="list-style-type: none"> • Operational qualitative and quantitative metrics tend to be used more at operations level and are modified to be reported to top management 	<ul style="list-style-type: none"> • Isomorphic NFPMs development are a means to triangulate FPM information for sceptic stakeholders (financial analysts) • FPMs NFPMs balance depends on levels of management and are used opportunistically by managers • When traditional cost savings are limited, NFPMs are developed 	<ul style="list-style-type: none"> • In organisations where Information Systems are not integrated the PMS is decoupled (corporate formal vs. operations customised metrics) 		
B	<ul style="list-style-type: none"> ■ 1. Quantitative and qualitative metrics (proof of wealth contribution) ▼ 2. Formal development of NFPMs and Specific Conception and usage of NFPMs • 3. Centralization of Performance Information 	<ul style="list-style-type: none"> • Operational qualitative and quantitative metrics tend to be used more at operations level (to show manager's contribution to a positive ROI) and are modified to be reported to top management 	<ul style="list-style-type: none"> • Isomorphic NFPMs development are a means to triangulate prominent FPM information for demanding stakeholders (financial analysts, shareholders and the community) and improve public image • When traditional cost savings are limited, NFPMs are developed 	<ul style="list-style-type: none"> • In organisations where Information Systems are not integrated the PMS is decoupled (corporate formal vs. operations customised metrics) 		
C	<ul style="list-style-type: none"> ■ 1. Quantitative and qualitative metrics ▼ 2. Formal development of NFPMs and Specific Conception and usage of NFPMs • 3. Centralisation of Performance Information ★ 4. Global-ness of performance ▲ 5. Inflation of Metrics 	<ul style="list-style-type: none"> • Operational qualitative and quantitative metrics of operations level are transformed into financials to be reported to top management • Quantitative operations and financial PMs are a pedagogic means to foster manager's attention of public company profitability concerns 	<ul style="list-style-type: none"> • Isomorphic NFPMs development are a means to triangulate FPM information for demanding stakeholders (financial analysts, shareholders and the regulators) and limit cost saving competition in large industrial groups • When traditional cost savings are limited, NFPMs are developed 	<ul style="list-style-type: none"> • In organisations where Information Systems are not integrated the PMS is decoupled and blends responsibilities (corporate formal vs. operations customised metrics) 	<ul style="list-style-type: none"> • Performance is conceived as 'global' because it is perceived as an outcome rather than a process • Global-ness of performance is another way to achieve performance 	<ul style="list-style-type: none"> • Responsibility blending explains the lack of sanction and subsequent metric inflation and subsequent dissatisfaction with the PMS (lack of individual objectives)
D	<ul style="list-style-type: none"> ■ 1. Quantitative and qualitative metrics ▼ 2. Formal development of NFPMs and Specific Conception and usage of NFPMs ('luxury' performance measures) • 3. Centralization of Performance Information 	<ul style="list-style-type: none"> • Operational qualitative and quantitative metrics (customer, operations, employee) are adopted because they can be easily be transformed into financials to be reported to top management and are used for compensation 	<ul style="list-style-type: none"> • Isomorphic NFPMs development are 'luxury' performance measures (i.e. developed when in comfortable financial situation) used to triangulate FPM information for demanding stakeholders (financial analysts, shareholders and the regulators) • When traditional cost savings are limited, NFPMs are developed 	<ul style="list-style-type: none"> • In organisations where Information Systems are not integrated the PMS is decoupled (corporate formal vs. operations customised metrics) • Industry metrics are a means to reduce decoupling and manager's performance dissonance 		
Formal Hypotheses		<p><i>Operational qualitative and quantitative metrics (customer, operations, and employee) are adopted at operational levels to show manager's contribution to a positive ROI; they can easily be transformed into financials to be reported to top management and are used for compensation</i></p>	<p><i>NFPMs development is associated with a legitimacy seeking strategy through isomorphic mimesis which company implement if they are in a comfortable financial situation and when they reach the limits of cost driven initiatives</i></p>	<p><i>In organisations where the information systems are not integrated, the PMS tends to be decoupled</i></p>		

8.5.1 Similarities in Action/ Interaction Strategies of using a PMS

The similarities that have been identified in this section include three aspects including “Quantitative and qualitative metrics”; “Formal development of NFPMs, Specific conception and usage of NFPMs” and “Centralisation of Performance Information”. These constitute similar management strategies arising from the use of the PMS. These Action/ Interaction Strategies were discussed in the case studies. The following sections will summarise them.

8.5.1.1 *Quantitative and qualitative metrics*

Across the four cases, operational quantitative and qualitative metrics which can easily be translated into financial indicators (e.g. customer satisfaction, operations metrics, and employee satisfaction for example) emerge as indicators which are specifically used at different operational levels because they are perceived by respondents as having more meaning than traditional financial performance metrics. This is because respondents consider the latter as ‘translations’ of operational metrics which are natural embodiments of performance. This means that, for performance information upload to higher management levels, FPMs are perceived as less tangible ‘secondary information’ deformed by the ‘finance’ prism of their translation. Respondents perceive this translation of NFPMs into FPMs as a compulsory practice to report performance information to top management because the latter are used for compensation purposes. Respondents declare that quantitative and financial metrics are used for performance evaluation to focus the attention of managers on the profitability requirements of their publicly traded companies (e.g. metrics showing a manager’s contribution to a positive ROI).

Therefore the first formal hypothesis regarding the action and interaction strategies of using a PMS is: **“Operational qualitative and quantitative metrics (customer, operations, and employee) are adopted at operational levels to show a manager’s contribution to a positive ROI; these can easily be transformed into financials to be reported to top management and are used for compensation”**.

8.5.1.2 *Formal development of NFPMs and Specific conception and usage of NFPMs*

Across the four companies, NFPMs development is associated with a legitimacy seeking strategy (e.g. improving public image) through isomorphic mimesis. Respondents associate this development with a means of performance information triangulation for sceptical and demanding stakeholders (e.g. financial analysts, shareholders, community and regulators) who do not trust prominent traditional FPMs. To some extent, NFPMs are also perceived by respondents as ‘luxury’ performance measures which can be developed when a company is in a comfortable financial situation. Respondents’ interviews show that this development is also a strategy implemented at companies where

traditional costs saving initiatives have been used and are reaching their limits, but also at companies who wish to limit subunits 'costs-saving' competition. The balance between FPMs and NFPMs in the PMS depends on the behaviour that the hierarchical level of management want to produce in performance assessment.

Therefore the second formal hypothesis regarding the action and interaction strategies of using a PMS is: **“NFPMs development is associated with a legitimacy seeking strategy through isomorphic mimesis which companies implement if they are in a comfortable financial situation and when they reach the limits of cost driven initiatives”**. This hypothesis is coherent with the contingency theory of organisational structure and more specifically with the Structural Adaptation to Regain FIT (SARFIT) theory (Donaldson, 1987; 2001). This model holds that there is fit between each contingency and one (or more) aspect of organisational structure such that fit positively affects performance and misfit negatively affects performance. An organisation initially in a strategy fit experiences a change in contingency and thereby moves into a strategy misfit and suffers declining performance: this causes adoption of a new structure so that fit is regained and performance is restored. Hence the cycle of adaptation is: fit, contingency change, misfit, structural adaptation, new fit. This causal model underlies many structural contingency theories (Burns and Stalker, 1961; Lawrence and Lorsch, 1967; Williamson, 1970; 1971; Woodward, 1965).

8.5.1.3 Centralisation of Performance Information

Across the four cases, respondents' interviews show that, in organisations where the information systems are not integrated, the PMS tends to be decoupled (i.e. opposing corporate formal and operational informal, customised metrics). As a confirmation of contingency theory's integration-differentiation relationship, case study evidence associates the adoption of easily accessible industry metrics with a means to reduce PMS decoupling and a manager's dissonant perception of performance. The adoption of industry metrics is due to external pressure but is also used as an excuse not to develop alternative performance indicators.

Therefore the third formal hypothesis regarding the action and interaction strategies of using a PMS is: **“In organisations where the information systems are not integrated, the PMS tends to be decoupled”**.

8.5.2 Differences in Action/ Interaction Strategies of using a PMS

In the four cases studies, two hypotheses which emerged from one case only were identified: “Global-ness of Performance” and “Inflation of Metrics” which subsequently will not be developed to

become formal hypotheses but remain substantive case specific hypotheses. These hypotheses will be summarised in the following sections.

8.5.2.1 Global-ness of Performance

The global-ness of performance is an action/ interaction strategy of using a PMS which has formally emerged from respondents' interviews at Company C. Respondents conceive performance as 'global' because it is understood as an outcome rather than a process. This global-ness of performance is perceived as another (i.e. corporate and national culture) way to achieve performance which blends management's responsibility in a company where industrial relations are fragile. This is an assumption which cannot be evidenced from interviews and triangulation information at the three other companies. Therefore the hypothesis regarding the global-ness of performance as an action/ interaction strategy of using a PMS remains substantive.

8.5.2.2 Inflation of Metrics

Respondents at Company C associate performance global-ness and its subsequent blending of management's responsibility with the lack of actual – negative or positive – sanction. Respondents perceive this as a cause of performance metric inflation and are dissatisfied with the PMS which lacks individual objectives. This is an assumption which cannot be evidenced from interviews and triangulation information at the three other companies. Therefore the hypothesis regarding the inflation of metrics as an action/ interaction strategy of using a PMS remains substantive.

8.6 Consequences Substantive Hypothesis

This section will discuss the similarities and differences within the four cases concerning the consequences of using a PMS. Section 8.6.1 will discuss shared reasons and will develop the subsequent formal hypotheses while section 8.6.2 will discuss case specific hypotheses. Table 55 below presents the main consequences that have emerged from interviews and triangulation information in the four cases studied. Each label covers a set of shared and/ or non-shared hypotheses identified by the same figure they were assigned in the hypotheses summary which was provided to the reader at the end of each case. For better visibility, they are also given a sign which helps the reader distinguish shared/non shared labels and their related hypotheses.

Table 55: Main Consequences of adopting a PMS Emerging from the four Case Studies

Company		Consequences Labels/ Hypotheses	Decoupling: formal and informal performance management	Rigidity of Performance Measures Collection and Standardisation	Redefining Core Activities	NFPMS cost reduction, income increase and positive public image
A	<ul style="list-style-type: none"> ■ • ◆ 	<ol style="list-style-type: none"> 1. Decoupling: formal and informal performance management 2. Rigidity of Performance Measures Collection and Standardisation 3. Redefining Core Activities 	<ul style="list-style-type: none"> • Decoupled PMS generates strategic inconsistency between a long term strategy and a short term practice 	<ul style="list-style-type: none"> • The rigidity of performance measures collection and standardisation is aimed at stakeholders' reassurance and create decoupling of the PMS 	<ul style="list-style-type: none"> • The formal emergence of NFPMS complements traditional FPMs and is associated with the redefinition of the industrial activity 	
B	<ul style="list-style-type: none"> ■ • ◆ ★ 	<ol style="list-style-type: none"> 1. Decoupling: formal and informal performance management 2. Rigidity of Performance Measures Collection and Standardisation 3. Redefining Core Activities 4. NFPMS cost reduction, income increase and positive corporate image 	<ul style="list-style-type: none"> • Decoupled PMS generates strategic inconsistency between a long term strategy and a short term practice 	<ul style="list-style-type: none"> • The rigidity of performance measures collection and standardisation is aimed at stakeholders' reassurance and create decoupling of the PMS 	<ul style="list-style-type: none"> • The formal emergence of NFPMS complements traditional FPMs and is associated with the redefinition of the industrial activity 	<ul style="list-style-type: none"> • The emergence of NFPMS is positively associated with the improvement of corporate image, cost reduction and income increase
C	<ul style="list-style-type: none"> ■ • ◆ 	<ol style="list-style-type: none"> 1. Decoupling: formal and informal performance management ('Strategic Inconsistence') 2. Rigidity of Performance Measures Collection and Standardisation 'Global-ness' another way to achieve performance 3. NFPMS cost reduction income increase and positive corporate image 	<ul style="list-style-type: none"> • Decoupled PMS generates strategic inconsistency between a long term strategy and a short term practice 	<ul style="list-style-type: none"> • The rigidity of performance measures collection and standardisation is aimed at stakeholders' reassurance and create decoupling of the PMS and responsibility dilution and counter performance 		<ul style="list-style-type: none"> • The emergence of NFPMS is positively associated with the improvement of corporate image, cost reduction and income increase
D	<ul style="list-style-type: none"> ■ • ◆ 	<ol style="list-style-type: none"> 1. Decoupling: formal and informal performance management 2. Rigidity of Performance Measures Collection and Standardisation 3. Redefining Core Activities 	<ul style="list-style-type: none"> • Decoupled PMS generates strategic inconsistency between a long term strategy and a short term practice 	<ul style="list-style-type: none"> • The rigidity of performance measures collection and standardisation is aimed at stakeholders' reassurance and create decoupling of the PMS 	<ul style="list-style-type: none"> • The formal emergence of NFPMS complements traditional FPMs and is associated with the redefinition of the industrial activity 	
Formal Hypotheses			<i>Decoupled PMS generates strategic inconsistency between a long term strategy and a short term practice</i>	<i>The rigidity of performance measures collection and standardisation is aimed at stakeholders' reassurance and create decoupling of the PMS</i>	<i>The formal emergence of NFPMS complements traditional FPMs and is associated with the redefinition of the industrial activity</i>	

8.6.1 Similarities in Consequences of adopting a PMS

The similarities that have been identified within the four case studies include two aspects which are: “Decoupling: formal and informal performance management” and “Rigidity of Performance Measures Collection and Standardisation”. These constitute the consequences that have occurred as a result of companies' use of the PMS. These Consequences have been discussed in the case studies, the following sections will summarise them.

8.6.1.1 *Decoupling: Formal and Informal Performance Management*

Respondents' interviews across the four case studies provide evidence that using a PMS results in a decoupling of performance measurement and management which opposes corporate formal metrics against informal operations-driven customised metrics. In other words, the development of informal performance measurement and management systems at the same time as a formal one. The informal system adopts a multidimensional form mixing FPMs and NFPMs across the hierarchical levels, depending on managers' own performance information requirements, with a tendency to concentrate on operational and NFPMs at lower management levels and traditional FPMs at higher and top management levels. The formal performance measurement and management system adopts the form of a multidimensional system which is socially acceptable to the company stakeholders. This dual performance management system generates a paradox between a long term strategy implemented by a short term practice which some respondents associate with counter-performance. Therefore the first formal hypothesis regarding the outcomes of using a PMS is: **“Decoupled PMS generates strategic inconsistency between a long term strategy and a short term practice”**.

8.6.1.2 *Rigidity of Performance Measure Collection and Standardisation*

Respondents' interviews across the four case studies provide evidence that using a PMS results in rigid performance measures collection and their standardisation. This is the outcome of a legitimacy seeking strategy. The purpose is to reassure sceptical stakeholders of the profitability of companies through metrics compliance (i.e. standardisation) with what is perceived by company management as a 'socially acceptable' performance measurement and management system. This process generates the above mentioned decoupling of performance measurement and management, opposing corporate formal metrics and informal operations-driven customised metrics. Respondents' interviews provide evidence that this strategy sometimes leads to responsibility dilution and counter performance.

Therefore the second formal hypothesis regarding the outcomes of using a PMS is: **“The rigidity of performance measures collection and standardisation is aimed at the reassurance of stakeholders’ and creates decoupling of the PMS”**.

8.6.2 Differences in Consequences of using a PMS

In the four cases studies, two hypotheses which emerged from three or less cases were identified: “Redefining Core Activities”; “NFPMs cost reduction, income increase and positive corporate image”. Hypotheses that were only mentioned in two cases need more examination to be carried forward as formal hypotheses. Therefore any evidence in other cases that would support or weaken the development of these substantive hypotheses into formal hypotheses will be considered. If in other cases no such contradiction is found, then such a hypothesis will be considered a formal one. In the next sections each one of these hypotheses will be summarised.

8.6.2.1 Redefining Core Activities

Respondents’ interviews across three case studies provide evidence that using a PMS results in the redefinition of core company activities. In these cases, respondents perceive the formal emergence of NFPMs as complementing traditional FPMs through a revolutionary change process and they associate this emergence with the redefinition of the industrial activity of the company such as size and format change for the retail industry and passenger fee unbundling for the airline business.

This is an assumption which cannot be invalidated by interviews or triangulation information in one out of four companies where case studies were performed. Therefore the third formal hypothesis regarding the outcomes of using a PMS is: **“The formal emergence of NFPMs complements traditional FPMs and is associated with the redefinition of the industrial activity”**.

8.6.2.2 NFPMs cost reduction, income increase and positive corporate image

Respondents’ interviews across two case studies from two different industries provide evidence that using a PMS result in the emergence of NFPMs for social legitimacy reasons. This is a process operationalized through mimetic isomorphism. As evidenced in these case studies, respondents from companies B and C associate this emergence of NFPMs with a strategy of corporate image improvement, income increase and a means of cost reduction. This is an assumption which cannot be evidenced from interviews and triangulation information at the two other companies. Therefore the hypothesis regarding cost reduction, income increase and positive corporate image as an outcome of using a PMS remains substantive.

8.7 Summary of the application of the five dimensions of the Strauss and Corbin Grounded Theory Methodology (1998) to the cross case analysis

The above sections have summarised both emerging five categories of labels and explained each of the formal hypotheses they cover. Industry nature, economic environment sensitivity, corporate culture, corporate performance management reporting structure and its process, and company growth models have emerged as causal conditions for adopting and structuring a PMS. The shape and operation is influenced by organisational conditions such as corporate history and culture, the stability of corporate structure, employee management practices (which depend on education and personnel management competences), company strategy and the way companies manage change (whether it is imposed by a bankruptcy status for example). The shape and usage of the PMS is also influenced by classic external forces such as competition, the pressure of the environment (i.e. stakeholders), the nature of the industry to which it belongs, political regulations, and also social trends which depend on commercial and media pressures. Because performance management is not a static process, the three dimensions combined make companies adopt certain action strategies regarding the structure and use of their PMS. These findings confirm seminal (Ridgway, 1956) and more modern literature on multidimensional performance management (Kaplan & Norton, 1992) because management actions involve the structure of the PMS around qualitative and quantitative metrics and its centralisation. But they also contradict prior literature in the sense that companies show a formal development of NFPMS combined with an informal usage of financial and quantitative metrics for performance measurement and management. The consequences of these managerial actions reside in the decoupling of the PMS of companies. That is to say a formal PMS complying with a traditional multidimensional idea of performance management, which is supported by an informal performance measurement and management system structured around quantitative and traditional financial metrics. Other consequences of action strategies concerning the PMS are that it is becoming rigidified both in terms of performance measures collection and their standardisation, and it is also associated with the redefinition of industrial activities. These outcomes can be explained by the need to rationalise the nature of an increasing number of formal performance metrics (through the development of ERPs for example) and the ability of traditional financial and quantitative metrics to keep the basics financial requirements of shareholders in the minds of managers. Figure 38 below presents all the emerging labels belonging to the five dimensions. Also, all formal hypotheses which have been discussed in the previous sections corresponding to the five dimensions of the Strauss and Corbin Grounded Theory methodology (1998) are summarised in Table 56 below.

The next chapter will conclude this document by highlighting the main findings and contributions of this study; it will also underline its limitations and will suggest opportunities for further research.

Figure 38: Summary of the application of the five dimensions Strauss and Corbin methodology to the cross case analysis of the four companies

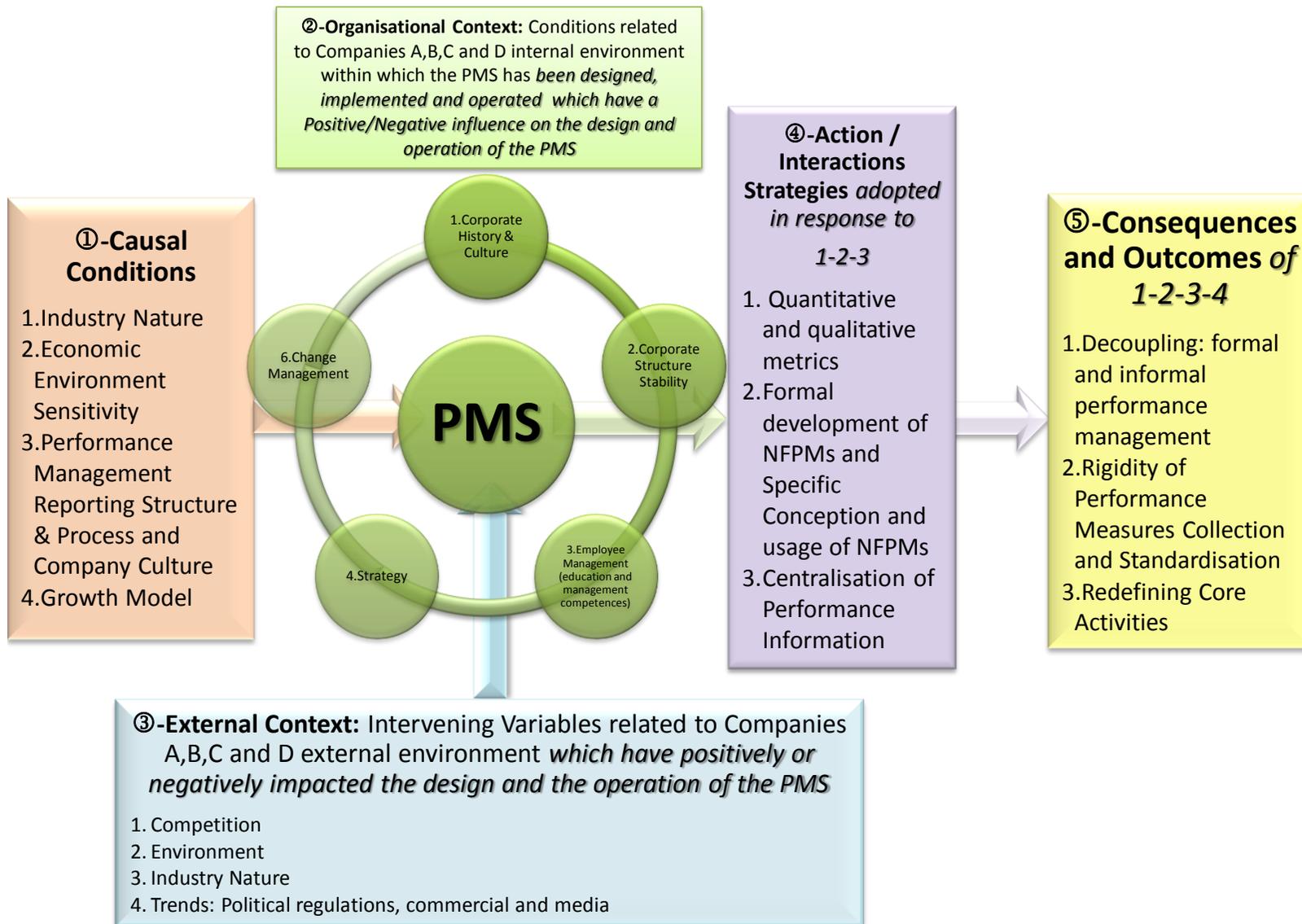


Table 56: Summary of formal hypotheses following the application of the Strauss and Corbin Grounded Theory methodology (1998) to the four case studies

Formal Causal Hypotheses	Industry nature, sophistication and short term constraint is associated with the adoption of operations and FPMs in the PMS of organisations	In unstable environment the PMS of companies tends to be structured around quantitative and financial metrics which are quickly available and flexible strategic industry metrics, enabling fast and efficient industry benchmark to reassure stakeholders and preserve industrial relations	FPMs are prominent in these organisations because they are holistic, embody profitability, are understood by everyone internally and externally and blend responsibility	Operations and FPMs are prominent in the PMS of organisations whose growth model is rigid, reactor type and/or defined as performance	
Formal Organisational Hypotheses	Company History and Culture lead to management practice which associates performance with traditional industry operational and financial metrics. NFPMs are primarily developed for isomorphic (not for performance evaluation) and benchmark purposes and are associated with the leverage capacity of the organisation	The FPMs/ NFPMs balanced structure of a company PMS depends on the stability over time of the organisation's corporate structure and dominant coalition	Performance and NFPMs benefits are not clear and FPMs are perceived more objective/ fair than NFPMs by managers who shape the PMS to be structured around more FPMs than NFPMs	Low-Cost/ Differentiation/ Reactor and Analyser strategies are associated with a rigid and standardised PMS structured around FPMs	Revolutionary change is associated with PMS redesign around core FPMs and expanding to the isomorphic mimesis emergence of NFPMs
Formal Environmental Hypotheses	The modification of the competitive environment originating from customers competitors and regulators generates a stress on financials and explains the prominence of FPMs	Under stakeholder pressure for proof of profitability in tightened and uncertain economic conditions, organisations focus on core business operations and cash and revenue and tend to develop more rigorous isomorphic mimesis centralised formal financial and non-financial metrics as well as informal financial and operations metrics	The industry short term constraint (cash and revenue) makes organisations focus on fast action operations metrics and FPMs	Stakeholder, state and media pressure explains the isomorphic development of formal NFPMs	
Formal Action/ Interaction Hypotheses	Operational qualitative and quantitative metrics (customer, operations, and employee) are adopted at operational levels to show manager's contribution to a positive ROI; they can easily be transformed into financials to be reported to top management and are used for compensation	NFPMs development is associated with a legitimacy seeking strategy through isomorphic mimesis which company implement if they are in a comfortable financial situation and when they reach the limits of cost driven initiatives	In organisations where the information systems are not integrated, the PMS tends to be decoupled		
Formal Consequences Hypotheses	Decoupled PMS generates strategic inconsistency between a long term strategy and a short term practice	The rigidity of performance measures collection and standardisation is aimed at stakeholders' reassurance and create decoupling of the PMS	The formal emergence of NFPMs complements traditional FPMs and is associated with the redefinition of the industrial activity		

9 Conclusion

This final section will highlight the main theoretical, methodological and empirical contributions of this research and link findings to existing literature (section 9.1). Then, it will underline the limitations of the study (section 9.2) and finally discuss further research possibilities (section 9.3).

9.1 Contributions of the research

As noted by Alenizi (2001, p. 493), at the end of the writing stage, the Strauss and Corbin (1998) Grounded Theory methodology encourages one to compare findings emerging from the case studies with the existing literature in order to confirm them or not: “When an investigator has finished his or her data collection and analysis and is in the writing stage, the literature can be used to confirm findings and, just the reverse, findings can be used to illustrate where the literature is incorrect, is overly simplistic, or only partially explains phenomena. Bringing the literature into the writing not only demonstrates scholarliness but also allows for extending, validating, and refining knowledge in the field. What the researcher should avoid is being insecure about his or her discoveries. Running to the published literature to validate or negate everything that one is finding hinders progress and stifles creativity” (Strauss & Corbin, 1998, pp. 51-52). Hence, the association between the outcomes of the cross case analysis (Chapter 8) and the literature review (Chapter 2) allows contributions to knowledge about the structure, operation and success of the PMS in the retail and airline industries.

9.1.1 Starting ideas

This research started with a few ideas in mind (Fendt & Sachs, 2008, p. 439). One was that companies have common and separate objectives which, for example, depend on their ownership structure (e.g. public, private, not for profit). Because they are accountable to their shareholders, the one common objective of publicly listed and private companies is that they are aiming at being ‘profitable’²³¹. Going beyond definitions of performance which see it as a goal or a process (Bourguignon A. , 1996) the corporate quest for profitability and more specifically the method(s) by which this status is reached is what one calls ‘performance’.

Another founding idea is that there is no theory which actually tells us that what is labelled ‘performance’ should or should not be measured and managed with financial and/or non-financial metrics. But there is an extensive academic literature which suggests various models of performance measurement and management. This literature is not recent (Ridgway, 1956; Drucker P. , 1954;

²³¹ This conception however does not reach the magnitude of Friedman’s (1970) declaration against what he calls a “fundamentally subversive doctrine” in a free society (i.e. the doctrine of “social responsibility”): “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud”.

Neely A. , 2005) but relies on a normative²³² - as opposed to a positive - approach which assumes that a multidimensional perspective on performance measurement and management is the best way to meet the profitability objective of companies. Among the several tools this literature has produced the Balanced Scorecard and the *Tableau de Bord* are the most popular (Bourguignon, Malleret, & Nørreklit, 2004; Marr & Schiuma, 2002), however they were surprisingly rarely mentioned spontaneously in the interview process. In the research perspective adopted in this study, the purpose of the grounded theory approach is to build a theory by bringing meaning to a messy reality. This task is performed using an investigation method which seeks to show that a combination of different circumstances - or 'conditions' - explain the structure, the usage and the success - or the failure - of a phenomenon under examination.

A third idea was that North American companies were more shareholders focused. Senior level managers are historically pushed to meet the expectations of capital markets. They are shorter term oriented, explaining that they would rely more on accounting quantitative financial information to assess performance in comparison to French companies. In this perspective, the financial function is a strong and key function providing information to shareholders.

A fourth founding idea was French companies were historically less pressured by capital markets than the North American ones, but rather by financial institutions. They would pay a greater attention to long term because they are not subject to the same pressure. Management in France would be less dominated by the financial function and the same degree of short term financial performance explaining they would rely more on long term qualitative information, less financial, and more multidimensional data to assess performance than their North American counterparts.

These ideas relied on a comparative cultural and historical approach which emphasizes the culture behind management accounting practice in France being broadly multidimensional, driven by the 'honour logic' (D'Iribarne, 1989) and goal congruence, mixing financial and non-financial information on a white-grey-black shade scale, and in North America, where the historical approach of management accounting shows practice, in comparison to the French model, as a more contractual based model, focused on financial information (Bourguignon et al, 2004; Bessire and Baker, 2005).

9.1.2 The 'myth of performance'

The main findings arising from this research show that the retailers and the airlines which were examined adopt endogenous/ opportunistic performance measures because these metrics fit their

²³² A normative approach seeks to model an ideal whereas a positive perspective is based on phenomena which are observed to validate assumptions. A normative theory is prescriptive in contrast to positive research which seeks to explain actual practices (Jeanjean, 1999; Casta, 2009; Watts, et al., 1990).

objectives of profitability. Coherent with prior literature which links different management levels and different performance measures (Lynch & Cross, 1991, pp. 88-89; Euske, Lebas, & McNair, 1993), the first contribution of this research goes beyond this and shows that 'performance' is an ill – defined concept which personifies managers' constructed 'reality' of profitability. Furthermore, following phenomenology²³³ and more particularly social constructionism (Berger & Luckmann, 1966), these companies adopt a 'myth'²³⁴ called performance. This myth is embodied by metrics which fit the requirements imposed by management's perception of their immediate 'reality'. The 'reality' of the retail industry is very competitive and constrained by short term profitability; that of the airline industry not only is very competitive and short term oriented but also highly regulated.

The second contribution of this research moderates literature which presents the extension of performance models actually implemented in companies (Bourne M. , Neely, Mills, & Platts, 2003). This research found no evidence that surveyed companies adopted a prescribed structure of performance dimensions from the many offered by academic literature, such as the balanced scorecard or the *tableau de bord*. The reasons for this are several. There is an imprecise definition (i.e. ill–defined) and a non-shared perception of 'performance'. This is a gap filled by respondents' answers which very often find a common understanding of performance in its financial form. These reasons are also tied to a real lack of top and lower management's knowledge about and/or interest in performance tools suggested by the academic literature. Respondents demonstrate a vague knowledge and understanding of performance management tools which, in the case of the BSC for example, is often limited to its acronym and to a very imprecise idea of multidimensionality. This explains why the performance metrics these companies use remain traditionally financial, but can also be non-financial, depending on their actual fit not only with managers' level in the hierarchy as suggested by prior literature (Brignall T. J., 1997; Lynch & Cross, 1991) but also their beliefs about how performance should be measured and subsequently managed. Furthermore, respondents' answers show that they are mostly satisfied with the current embodiment of what they perceive as performance through conventional metrics and they do not feel the need to 'walk the extra mile'. This is a contribution which reinforces prior evidence supporting the idea that performance is a concept which lacks definition²³⁵ (The Centre for Business Performance, 2004; Lebas M. , 1995; Bourguignon & Chiapello, 2005) and that the usage of the PMS of these companies remains on the 'Diagnostic' rather than the 'Interactive' side of control (Simons, 1995; Henri, 2006). This is coherent

²³³ Phenomenology is "A philosophical movement that describes the formal structure of the objects of awareness and of awareness itself in abstraction from any claims concerning existence. (Webster's) Phenomenology tries to organize the conditions for the 'objective study' of 'subjective topics': consciousness and the content of conscious experiences such as judgments, perceptions, and emotions.

²³⁴ "A popular belief or tradition that has grown up around something or someone; especially: one embodying the ideals and institutions of a society or segment of society" (Webster's).

²³⁵ "Performance measurement is a topic which is often discussed but rarely defined. Literally it is the process of quantifying action, where measurement is the process of quantification and action leads to performance." (Neely, Gregory, & Platts, 1995).

with prior literature because this relates to a focus on the result side of the result and determinants framework (Fitzgerald L. , Johnston, Brignall, Silvestro, & Voss, 1991).

Also, if performance can be perceived by some managers as a positive exertion towards a goal, it also appears to be a process by which managers avoid negative outcomes such as a financial loss. In such a situation, management tends to adopt a stand-still/ no wave-making behaviour which favours the institutionalisation of traditional metrics which can be explained through normative isomorphism. For example, Company A's managers keep using industry related metrics because "it is the way we do this in our industry". This behaviour can also be related to Herbert Simon's seminal work on administrative and decision processes (Simon, 1959) and more specifically to bounded rationality²³⁶.

9.1.3 Institutional Theory on PMS shape and operation

Another contribution of this research is that it goes beyond quoting legitimacy and institutional theories as a way to explain a wide variety of actions related to the PMS in surveyed companies, but it offers an operational perspective of legitimacy theory through institutional theory showing how it operates and contributes to explaining why and how different PMS are adopted in different settings. As an extension of legitimacy theory, the way surveyed companies manage the 'myth of performance' is through the adoption of a decoupled PMS structure which is produced by means of the different modalities of institutional isomorphism. Company D, for example, used the Structural Adaptation to Regain FIT (SARFIT) theory (Donaldson, 2001, p. 11) following the disequilibrium of Chapter 11 bankruptcy status to structure a PMS which, through the mimetic form of isomorphism, adopts the shape of a formal and socially accepted performance system that is able to demonstrate to the public that the company collects all the necessary evidence of its survival capacity. Company B does the same by adopting a formal PMS which embeds measures (e.g. sustainable development metrics) able to improve its public image. Relevant performance information is different among companies, but also depends on management level (i.e. it becomes more financial as the management level rises). Consequently the formal PMS of these companies is supplemented by an informal PMS structured around endogenous metrics which are endemic to the industry and corporate culture. For example, this is the case of Company A with industry 'same store' and 'like for like' income metrics, but also for post nationalised Company C's PMS embedding holistic metrics (e.g. an 'average' of quantitative metrics for example) whose outcome is the drowning of local/ individual performance information into 'global' performance. This results in blending managers'

²³⁶ An actor is rational. However, in a complex situation, one individual will not seek to explore all possibilities to find a reasonable solution. The individual will usually stop his research at the first option that will meet the actual situation, while not consuming too much time to make the selection.

accountability. This finding is coherent with prior literature showing that the performance measurement system has to be consistent with the organisation's culture (Weick, 1969).

9.1.4 PMS and cultural differences?

Another finding of this research which confirms older (Shields M. D., 1998) and more recent literature (Bouteiller & Gilbert, 2005; Andros, 2006) is that no evidence was found of national cultural differences between the different findings across the four cases. More specifically, no significant difference about the way the 'myth of performance' is managed among the four cases was found. Therefore another contribution of this research is that the decoupling of the PMS, as described in the case studies, is emerging as a common outcome of performance management which is found both in the North American and French contexts. Both U.S. and French companies adopted a decoupled PMS which fulfils management's expectations/ perceived requirements through the adoption of a formal and an informal side of the performance system, evidenced in earlier sections. The reasons which make the usage of the PMS result in the same decoupled outcome can be understood as basic ('atavistic') risk management behaviour, explained by normative isomorphism as well as bounded rationality²³⁷. This can also be connected to the fact that the four companies surveyed were large multinationals.

The decoupling of the PMS confirms contingency literature on the process of managing differentiation and integration which, in this case, is applied to performance systems. This means deciding a right balance between differentiation and integration by leaving enough freedom in the choice of performance metrics so that they match measurement requirements of the different levels of management (i.e. more operational metrics at lower levels and more financial at top levels) but at the same time integrate metrics sufficiently (i.e. gather them in a limited number of dimensions) so that they fit the basis of a common required understanding through the adoption of financial language.

9.1.5 PMS and Strategic types

No evidence was found that the structure, usage and outcomes of using a PMS are connected to the strategic types of Miles and Snow (1978). Evidence shows that surveyed companies have adopted some shared features of PMS' structure and usage such as decoupling, although they do not belong to the same strategic cluster. Moreover, no evidence was found that the use of a specific form of PMS is associated with profitability, which would confirm findings from Ittner, et al. (2003). This

²³⁷ In decision making, rationality of individuals is limited by the information they have, their cognitive limitations and the time they have to make decision.

finding, which contradicts recent literature (Hoque, 2004; Teeratansirikool & Siengthai, 2011), is an unexpected and interesting contribution because literature expects that aligning both financial and non-financial measures with competitive strategy will lead to enhanced organisational performance. Furthermore, evidence was also found which links the nature of the industry with the basic metrics used in the informal performance management system which can be explained by mimetic isomorphism. This finding is coherent with prior research which links performance measures with environment, competition and strategy (Fitzgerald L. , Johnston, Brignall, Silvestro, & Voss, 1991; Ittner, Larcker, & Rajan, 1997).

9.2 Limitations of the Study

There are a number of limitations which the researcher must address, as in any type of qualitative or quantitative research. The first limit deals with the case study method used in this research. The second addresses the difficulties of implementing the grounded theory framework. The third one deals with the process applied by the researcher to transform substantive into formal hypotheses. The fourth one deals with the researcher's bias in his interaction with the field and the research process through coding and sense-emerging/ making. The fifth one deals with the PMS understanding of respondents, including their ability to understand financial and non-financial indicator concepts.

9.2.1 Generalisation of findings to theory

The approach selected for this research relied on a limited number of case studies and a set of qualitative questions such as what, why, how and when. Such questions relate to the complex relationships one initially wanted to address. This detailed investigation process, added to the difficulties encountered in getting access to the information (Bescos, et al., 2002), explains why this researcher did not opt for traditional 'quantitative' questionnaires that require a large sample, but instead chose a qualitative approach. At the start of the study the researcher was aware that case studies are not a sufficient basis for statistical generalisation and it was also agreed that a case study approach is not meant to draw general statistical conclusions from local to global. This is mainly because the findings which are produced are related to the specific case studies performed in this research and therefore cannot be generalised statistically (Scapens, 1990). One tried to moderate this limitation by adopting a cross-case strategy (Eisenhardt, 1989) because, as Herriott and Firestone (1983) stated in Yin (1994), "The evidence from multiple cases is often considered more compelling, and the overall study is therefore regarded as being more robust" (p. 45). One believes that it is the sedimentation of multiple case studies (i.e. 'cross-case analysis') which produces layers of evidence

for better analysis than a single case study (i.e. 'within-case analysis'). Moreover, because the case study method is not 'theory free' (Otley, et al., 1994) due to 'within-case analysis', if analytical generalisation of results cannot obviously be made to populations they can be made to theory (Yin, 2003; Tellis, 1997; Lukka, et al., 2002; Tellis, 1997). Thus, it was decided to structure the research around two matched-pair case studies to which were applied the same data processing/ hypothesis emerging methodology (i.e. the Strauss and Corbin Grounded Theory methodology (1998). Subsequently the enhancement of the 'generalisability' of the phenomenon under investigation was performed through the use of a cross-case analysis method (Miles & Huberman, 1994) which transformed substantive hypotheses into formal ones so that they could further be statistically tested on a larger scale in future research. This specific limitation is a classical one of case-studies which has an extensive literature. Section 9.3.1 page 307 is suggesting further research which addresses this first limitation.

9.2.2 Difficulty in implementing Grounded Theory (i.e. 'causal' vs. 'organisational' conditions)

In this research, we considered Causal Conditions to be the events or variables that lead to the occurrence of the phenomenon under investigation. It is a set of causes along with their properties. We considered Organisational Conditions to be similar to the internal environment which surrounds the phenomenon under investigation. The phenomenon exists within a company's broad context. This context is the outcome of Causal Conditions, which facilitate management's awareness of understanding PMS' causal relationships. Contextual Conditions also create a set of circumstances to which companies' management responds through Action and Interaction Strategies. Because it is a dynamic process, organisational change (Soin, Sealb, & Cullenc, 2002) is more subtle than Kurt Lewin's changing shape of a block of ice through the 'unfreeze', 'change', '(re)freeze' model. Performance measurement systems are not simply designed and then implemented, but they evolve over extended periods of time (Waggoner, Neely, & Kennerley, 1999) which means that the distinction between causal and organisational conditions can become problematic. Causal conditions can be situated at the origin of a phenomenon, however the dynamics of organisational processes means that some may also last over time which makes them difficult to label causal or organisational (i.e. intervening) according to the definitions used above. This is a difficulty that has been exposed in prior literature which explains that Organisational Conditions are "hard to distinguish from the Causal Conditions [and that] Researchers often make a quaint distinction between active variables (causes) and background variables (context). It has more to do with what the researcher finds interesting (causes) and less interesting (context) than with distinctions out in nature." (Borgatti, 1996, p. 4).

A methodological contribution of this research lies in the solution one suggested to reduce this difficulty, which was to consider that different dated events have generated the phenomenon under investigation (i.e. Causal Conditions) and that some of them also constituted Intervening (i.e. lasting) Conditions which were Contextual Circumstances having an on-going impact on how the phenomenon is shaped and operates within the organisation. In doing this, one recognises that the grounded theory approach needs refinement, especially in the case of the study of dynamic processes such as iterative performance management systems. This methodological contribution is coherent with current literature that suggests avoiding an “overly orthodox application of [grounded theory method] rigorous objectification procedures” (Fendt & Sachs, 2008, p. 430).

9.2.3 Rationale behind the transformation of substantive hypotheses into formal hypotheses

A cross-case and hypothesis-shaping strategy as described by Eisenhardt (1989, pp. 541-543) was applied to transform substantive hypotheses into formal ones. To be more specific, one actually adapted Alenizi’s cross-case methodology (2001, p. 416) which offers an articulate process for such conversion. Thus, hypotheses appearing in at least three of the four cases were transformed into formal hypotheses. The ones appearing in one case only would remain substantive. Substantive hypotheses appearing in two cases only were problematic because they represented 50% of the ‘population’ studied. The strategy one decided to apply to solve this problem is also inspired from Alenizi’s cross-case methodology (2001, p. 416), that is hypotheses appearing in only two cases were transformed into formal ones if no evidence to contradict such hypotheses were found in the remaining case studies. This strategy of hypothesis-shaping constitutes a limitation of the research because the processes it involves are “more judgmental [in theory-building research] because researchers cannot apply statistical tests such as an F statistic” (Eisenhardt, 1989, p. 544). Therefore the emergence of hypotheses relied on the researcher’s ability to be as neutral and honest as possible regarding data collection and its interpretation.

9.2.4 Researcher’s bias in his interaction with the field and research process

The researcher’s interaction with the field constitutes a bias. This concerns the content of the semi-structured interview guide used for data collection, the selection of companies and interviewees as well as the coding and interpretation of data. As indicated before, the content of the semi-structured interview guide was constructed using prior literature so that it would address issues which would contribute to knowledge such as why, when and how the PMS are used in businesses. With the same purpose in mind, the selection of companies was done in accordance with a need to compare same and cross industries which have not recently been subject to performance measurement and

management investigation. The companies which were selected are large retail and airline multinational companies which characteristics are evidently different from non-listed and domestic (i.e. non-global) companies. This is a limitation the researcher acknowledges and keeps in mind when presenting the findings and contribution of this research. This is why section 9.3.2 suggests further research which addresses these limitations. The selection of respondents was done through top management suggestion or, failing this, by using the 'linked-in' business networking tool. As addressed in the method and methodology section of this research, participants were selected in order to inform the researcher's understanding of the area of investigation for theory generation (i.e. theoretical sampling, (Strauss & Corbin, 2008, p. 201). Thus, respondents were selected among designers and/or users of performance measurement and management tools in different functional areas of the organisation and at different hierarchical levels. The validation of coding was done using another theoretical sampling method which consists in continuously collecting and analysing data until the point of theoretical saturation is reached (i.e. coherence check of respondents' statements between them and also with the other related data collection methods until no further codes could be generated). Several sources of information were also used in combination with interviews to reduce the threats to validity and reliability. The use of a multiple case study approach (four cases) provided more confidence in claiming the degree of representativeness proportional to the quantity of cases studied (Yin, 2003). All the above methods were used in this research to reduce the possibility of researcher's bias.

9.2.5 Ambiguity of the PMS concept for respondents

Another cause of limitation of this case-based research is tied to the ability of respondents to actually understand performance measurement and management. This is a threat because some respondents hold the concept as self-evident and therefore do not question it. This is a danger for research which can be understood using sociology's Symbolic Interactionism (Blumer, 1969), which claims that people act toward things based on the meaning these have for them. These meanings are derived from social interaction and modified through interpretation. In this research, one tried to reduce this threat through data triangulation by means of theoretical sampling techniques.

9.2.6 Conclusion of limitations

The limitations mentioned above must be kept in mind in respect to the findings and contributions of this research. They however do not alter the validity of the research because they constitute usual limitations of qualitative research which everyone is aware of. The researcher agrees with these limitations and has tried to reduce them as much as possible. One believes that it is the

sedimentation of well organised case studies that will contribute to the emergence of knowledge on a particular phenomenon. In this respect, the usage of the Strauss and Corbin Grounded Theory methodology (1998) is a very important instrument to organise field messy information into causal relations which create a better understanding of a phenomenon as long as one does not use it in a rigid / dogmatic way. This constitutes a methodological contribution of this research which confirms Fendt, et al. (2008).

9.3 Further Research

Based on the emergence of substantive hypotheses, the outcome of this research resides in the definition of formal hypotheses regarding how the PMS at the companies surveyed is structured, used and to what extent it is successful or not. These findings are limited by some of the limitations listed above. The propositions below address some of these limitations.

9.3.1 Quantitative testing of hypotheses

Among the different tracks open for future research at the end of this thesis, the first obvious suggestion would be to test the set of 19 formal hypotheses empirically. For example it might be interesting to compare different categories of performance measures (e.g. financial, quantitative non-financial, qualitative) to both endogenous explanatory variables emerging from the content analysis of interviews and exogenous variables which define the context in which companies operate (e.g. economic variables). This would require building categories of PMS using multivariate methods of data analysis. These methods can also be used to analyse and classify the themes arising from interviews.

One could expect to find the following three categories: financial, quantitative non-financial and qualitative (which remains to be confirmed). An econometric approach would find the explanatory determinants of the categories of PMS. This approach would consist of estimating a qualitative econometric model and more specifically an unordered multinomial model originally suggested by McFadden (1968; 1973; 2001). This choice stems from the fact that the categories are not ordered. Once the estimation is completed, the model should allow quantifying the impact of a change in one of the determinants (e.g. a variable relative to the economic context) on the probability of moving from one category of PMS to another. Also, in a double dimension array which would incorporate the firm and the position of respondent among variables for example, it could be interesting to test the differences in company strategy by introducing individual effects (e.g. background of managers for example to test the impact of normative isomorphism).

9.3.2 Further qualitative research

This study was conducted in large (i.e. multinational) retail and airline industries, therefore another suggestion for further research consists in the replication of the study in the same or different industries of similar or different size and ownership structure, in the same or different countries. Subsequently, further research could be performed in the same industries so performance measurement and management theory could be refined through the accumulation of layers of case studies performed in these two areas. For example, this investigation could be done at other airlines which have already expressed their interest in participating in such research, in the Spanish context with Spanair for example. This would engage in broadening the number of companies surveyed in a European context and would help refine knowledge about performance measurement and management across cultures within the same industry.

Knowledge about the impact of the ownership structure, size and shareholders/ stakeholders on performance measurement and management could also benefit from a replication of this research in the same industry but with unlisted companies. The reason for suggesting further research in unlisted companies is that they may face less pressure to focus on FPMs which are of interest to shareholders (Atkinson, Waterhouse, & Wells, 1997). For example, the study could be performed in the retail industry with a company such as the Auchan Group where Association Familiale Mulliez (AFM) owns 87,5% of the group and workers the remaining 12,5%. Similarly, smaller companies will be less “international” than the four multinationals which were looked at and hence possibly more influenced by national culture. Both types may be less affected by industry norms and/or regulations with regard to PMs.

Finally the replication of this study across different industries could also enhance knowledge about how their PMS are structured, used and if these are successful or not. This could especially highlight if the decoupling similarities which have been evidenced in the retail and airline cases also emerge among other industries.

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Appendices

Appendix A: Semi-structured interview guide

1. What is measured and Why?
 1. What does your organisation call performance? Why?
 2. How does your organisation measure performance? Why? Examples?
 3. Do you agree with these performance measures? Why?
 4. When in meetings what kind of performance measure(s) does the group spend time on? Why?
 5. What is the measure you personally look at first when you come to work? What is/are the one(s) you use the most? Why? When?
 6. Do you see other ones that could be used? Why?
 7. How does performance measurement fit with your long-term/ short term strategy?
 8. How would you define your competitive strategy? (e.g. differentiation and/or cost leadership)

2. Collection of performance measures:
 1. How do you collect performance measures? What is your data collection instrument?
 2. Where?
 3. When? How often? By whom?
 4. Why?

3. Use of performance measures:
 1. How are performance measures used?
 2. Where?
 3. When? How often?
 4. By whom?
 5. Why?

4. Dissemination of performance measures:
 1. How are performance measures communicated within your organisation?
 2. Where?
 3. When? How often?
 4. By whom?
 5. Why?

5. General Information on interviewee:

Please complete the appropriate blanks with respect to your education, experience and position:

Appendix B: Coding Example of fragments of Interview transcript of D1

Colour codes inform the dimensions addressed in the interview guide

B.C. What is measured and why at D and what do you call performance at D and why?

D1 So... we do use the **balanced scorecard** approach and basically we are measuring four areas one area would be **safety**, clearly that's the prior concern for any airline, and then a second area would be, call it **financial**, third area would be the **customer experience**, hum... perception of the company from the customer perspective, and the fourth would be the, hum... from the **employee perspective, the workforce perspective**, and then within each of those areas we have **different metrics** that we're tracking against and then of course within each metrics we gonna have different actual goals hum... quantified

B.C. Why? The way you use the balanced scorecard: new or old practice at D?

D1 So I think it's something **new**, hum... you know I'm not probably a 100% certain on the history going back to the early nineties but I would say that you know the **bankruptcy** that D went into then exited from in 2006 was a transforming event and this balanced scorecard methodology hum you know liking up to a longer 5 year planning process has been something that has come out of ... arrived at the **post exit from bankruptcy** period in the **past couple years**.

B.C. Why do you think D uses BSC? Linked to the strategy of D? Etc...?

D1 Yes I think it's **clearly linked to the strategy** and hum... and what it **keeps people focused** on and helps people **achieve** is you know the cross **divisional perspective** on the business so it does not allow people to **retreat into their silos**, so even in the **finance organization** you know we'll have to think about **customer experience and workforce revitalization** and issues that are not typically core financial issues, but **because they're on the balanced scorecard** they **become more front center for the management team**.

B.C. How would you define the competitive strategy of D?

D1 Hum... you know I think we've been leaders and taken a very innovative role and hum... you know matching products to the marketplace some people would call that **unbundling of products** and services, so for example you know we, hum... many years ago decided we would have this economy plus cabin allowing for some more leg room in the coach cabin for part of the coach cabin as a product differentiator that you know hum... people would be wanting to pay for as a reward for loyalty and we've you know **attempted to monetize that** I think very successfully which is something

that not many of our competitors have matched, you know, more recently we took the lead on instituting a charge for second bags hum... as opposed to just bundling that with the ticket price hum... we were I think an **early adopter** in terms of buy on board you know unbundling sort of a food parts of the value proposition so I think you know the **overall strategy has been you gonna have to match the products and to what people are willing to pay for**

B.C. Do you think the way you measure performance fits with this strategy?

D1 Hum... sure so... Hum... you know **I think it does** because for example we're, and I'll speak to the **financial goals**, so the financial goals we're gonna focus on hum..., you know, **unit earnings or unit earnings per available seat mile on the airline business**, you know so basically what that says is look we're willing to incur a cost bad guy on a unit basis if we're getting rewarded for a revenue good guy, so for example the economy plus example I mentioned previously that actually is gonna raise your unit cost because you're gonna have fewer seats on the airplane, however if you're correctly, you know, **monetizing that value** or the market places delivering the value that you think it's gonna get you should see it in the unit revenue side of the equation so your unit earnings would be reflective of that unbundling. And other things too, we, you know, from the **customer perspective** we're gonna, we're gonna look at hum... things like the **D promoter score**, which is basically a measure of, a survey result that ask people to recommend, you know, D as a carrier to a friend and that's how sort of your promoter versus your neutral or detractor hum... results. **So I think you know in terms of putting those metrics and quantifiable goals against those metrics those actually line up very well with the corporate strategy overall.**

B.C. Do you agree with these measures?

D1 yeah, I think it's **very logical** and make sense because as I said you know safety stands by itself for an airline of course and then the other three you basically you've got **financial metrics** which speaks to, you know to the **investor community**, hum... the... the you know, the **ability to attract capital**, you got the customer represented, and you got the employees and the workforce represented, so I think between **the investors, the customers and the employees**, **those are really the key stakeholders of the enterprise.**

B.C. When in meetings kind of performance measures does the group spends time on?

D1 Hum... well my case, you know, **being in the finance position**, **it's very much financial metrics for a large part**, but we do, you know, when we're evaluating projects, we do hum... consider and value things like **impact on the customer**, hum... so it does approach into the other areas as well **of course safety always stands by itself.**

B.C. What is the measure you look at first in the morning when you come to work?

D1 I'll prob... I usually check out the operating performance, you know, on time arrivals, completion rate you know sort of how the operations do over the past day

B.C. Why?

D1 Oh... just... I think it gives you a good indication of you know, how the airline's functioning overall and on a daily basis, there's could be a lot of variability due to weather or things like that

B.C. Do you see other metrics that could be used and why?

D1 Hum... yeah, there... I think you can always argue about which metrics that are better, so, you know, for example in finance you could argue whether there should be a unit margin on a, you know, cent per asm²³⁸ basis, or should be a percentage, you know, like more of a return on... a return on revenue type metric, hum... you know, you could argue about whether it should go beyond operating and consider sort of you know the balance sheet, or financing structure, things like that, but, hum... there's not perfect solution, and I'm sure they will get refined over time, but if you look at the overall set of metrics, it makes perfect sense, I think there a very good set overall

B.C. In terms of the metrics on the 4 categories, how many metrics do you actually report to top management on a regular basis?

D1 Hum... well... I'd say the highest level there's probably about 15 metrics and 100% of them get reported, you know, very regularly the senior management and now within each of the major metrics there are sub categories that are reported hum but I don't know exactly what the roll up is, probably very senior management, hum you know, see sort of the 15 metrics and maybe the first level of this aggregation

B.C. Do you have specialized metrics per kind of reporting?

D1 Correct, they basically drill down into, you know, organizations, so you know, the finance organization will have things... will have metrics that drill down into such as how many business days does it take to produce your financial results from the previous time period and you track that or how many, you know, Sarbanes Oxley issues, if any, do you have, or the goal is zero, so clearly those are financial hum... metrics that you know, the flight operations division's not gonna have, and they gonna have their own set of drill down metrics

²³⁸ Air Seat Mile

B.C. Do the N level metrics aggregate the N-1 level ones?

D1 Yeah, I understand the question, Hum... I can't... It's possible there would be you know N-1 metrics and goals that would not roll up, so I don't, I guess I would say I don't know for sure.

B.C. What would be the balance between financial and non-financial information in the scorecard?

D1 Oh... there're a very strong emphasis on hum... financial information but I don't think I could put a percentage on it

B.C. Is there a metrics that translates non-financial metrics into financial metrics at top level management?

D1 Hum... I do think you can translate them, but I think it's an imperfect science, so, you know if you're dealing with a currency regarding customer loyalty or employee engagement, I think you know, you can have smart people trying to translate that and do good work, but clearly there's air bars associated with any sort of translation

B.C. Does top management look at financial or non-financial information or both?

D1 Top management definitely looks at the non-financial information as well as the financial information

B.C. How do you collect performance measures?

D1 So for the financial systems, we are in the process of moving to an ERP Hyperion solution, hum..., you know, phases of it have been implemented, and other phases will be coming shortly, and then regarding the non-financial information, some of it done, you know, via surveys, so for example customer loyalty or employee engagement are done by surveys, some of it done by operating statistics that are reported to the government, such as you know on-time arrivals, things like that

B.C. Frequency?

D1 They are done on a regular basis, the frequency varies, you know, depending what the metric is

B.C. Who feeds the system?

D1 There is a team that's in charge of overall hum process, but I would say there is a team that's in charge of the overall hum process, but I would say the mechanics of feeding the information are somewhat distributed across the divisions

B.C. Who designs the BSC? Who decides what indicator should be part of it or not?

D1 Right, so I mean ultimately it's you know, senior management, but we do have a "corporate strategy group" that shepherds the process and really owns the process

B.C. it is this trans-functional group which decides or the financial one?

D1 Correct, I mean they are, they do reside in the finance organization, but it's the finance organization really called "corporate strategy and finance", so it's somewhat blended

B.C. what is the use of / how are performance/ measures used?

D1 Hum... I think they're used on the front end for, you know, goal setting and aligning organization's to, you know, objectives and I think in the midstream you know they're used to evaluate projects, you know, what's the impact gonna be on... you know of project A on metric B, C, and D and then on the back end, you know, it's a way to ensure ownership and accountability, hum... for stakeholders to make sure they deliver..., the projects deliver the benefits that they were supposed to deliver

B.C. Are indicators stable or changing?

D1 Yeah, I would say, you know the metrics evolve over time, so you know, they do change, it's an evolutionary process, it's not chaotic, but you know, they, as thinking improves, they reserve the right to improve the metrics overall, hum... you know, a great example, is our employee, our customer satisfaction hum... metric, changed couple years ago, we use to have a direct rate purchase metric and then we went to this other promoter score, because the literature, the thinking you know the state of the art had evolved, so it would not be the right business decision to maintain an inferior metric just for sort of a consistency argument, you wanna have the flexibility to move to a more appropriate business metric

B.C. Do they change every year or as the state of the art evolves?

D1 They do not change every year, so, I would say it's the latter, you know, some of them are not gonna probably change, probably over a frame of a decade, they are just really core type issues, other ones I think that you know as the state of the art changes will evolve.

B.C. The cores ones are more financial or quantitative/ qualitative?

D1 Not necessarily, I think that finance ones are core, but you know even some of the safety ones such as aircraft damage events, you know, are pretty much, you know, well understood, and stable, some of the government reporting type metrics such as you know arrival within 14 minutes of schedule, or departure zero, you know, those are reported via the government and I think core across the airline industry, you know, not really subject to change.

B.C. Uses by whom? (different levels?)

D1 Correct (stop: no further comment on this).

B.C. What is their impact? And questioning the relevance of tools used?

D1 ya, so it's definitely regularly reported, and reviewed and added, you know, variances are probed, etc... and then hum... the answer to the second question I think yes, for some of them, so some of them like I said something like a departure zero statistic that's very well understood and the system of how airlines, you know U.S. carriers feed that information to the government, how the government reports the information, that's very well understood and not subject to change, you know, other things, for example, the financial metrics, you could always, you know, have different accounting or you know handle special onetime charges differently, so I think those are subject more to exploration

B.C. Time remaining 5 minutes: dissemination and communication of the metrics throughout the company?

D1 yeah, so they're very widely disseminated you know, could be on, some of them will be on the intranet, the company intranet, you know, some of them if they're financial information, you clearly have more constraints on the ability to disseminate given reporting and SEC guidelines, hum but, you know, the operational performance that's disseminated as it arrives, and some of the other metrics that are more survey driven are disseminated regularly when the results come in.

B.C. How often? Monthly Basis?

D1 Depends on the metric, I would say at least quarterly, because you know some of the, some of the employee hum... bonus programs are tied to the some of the metrics so clearly you need to report out the performance when you and those typically within the quarterly cycles

B.C. And that is reported in the intranet?

D1 correct and or, you know, corporate communication type

B.C. By whom is it reported?

D1 hum..., I mean..., you know, we would..., the finance organization would be tabulating some of the results hum but ultimately, it will go out to a corporate communication organization that has responsibility for communicating with employees and stakeholders

B.C. Reason behind this type of communicating measures?

D1 Hum... so I think it is important to communicate widely, because it reinforces you know the multidimensional aspect of people's day to day decisions, so you know, customer service or employee at the airport when they're making decisions, those decisions not only influence the customer they, you know, have financial implications, hum they, you know, might have employee... other employee satisfaction consideration, so it's important that people understand sort of the multidimensional aspects of their decisions and by reporting out on it, it reinforces that everybody is thinking across the four dimensions or the 15 metrics

B.C. Impact of the metrics on people's commitment to the goals/ strategy of the company?

D1 There's certainly anecdotal information but I don't know for sure if there something more comprehensive, they're might be...

B.C. Initial formation and personal information?

D1 Oh... sure, so I've been with D for 10 years, I spent the first 5 years in the finance organization, and then I spent two and half years in network planning which, you know, decides its scheduling and roll planning basically, and then two hand a half years in the sales organization working on corporate contracts or corporate relationships for each companies, and then I came back about 5 month ago to the finance organization

B.C. What is your initial degree?

D1 Oh... I have..., actually I have degrees, a Bachelor's and Master's degree in engineering then I have another Master's degree in applied mathematics

B.C. Engineer past to finance?

D1 Hum... I think over the course of my engineering career I became more and more focused on business and economic aspects of engineering projects and I was essentially doing rudeometry financial work and decided I liked that better than the engineering work and so I used my mathematical and analytical skills to try financing in an airline and found that I really enjoyed it

B.C. Past as engineer has strong impact on the BSC and the way managing the reporting?

D1 hum... not really because, you know it's been, it's been so long ten, ten years that I cannot, I can't really correlate the engineering background to the way the management, the way things are managed here

D1 I mean I could say that you know sort of the..., the desire to, you know, quantify everything into, or even translate everything into a financial metric seems like a, you know, something that would be **intrinsically satisfying to engineering background**, people's engineering backgrounds, but... hum... I think, you know, that **after being in the business for all the understanding, the uncertainties and the vagaries of trying to quantify everything you've got a pursuit that's gonna be an inexact science**, but I can hardly see how it would source from an engineering perspective.

Example of Memo following an Interview at Company D

(numbers in brackets refer to the reference lines of the transcript)

Performance definition/ measurement/ management

When asked to define performance the first answer is that D uses the BSC approach: It covers 4 areas, which are (to a certain extent) the KN ones:

1. Safety (+++): imposed "across" the airline industry (Internal Business Process?). However, to which extent can this be considered as a BSC dimension in the Kaplan Norton (KN) approach and not a core "routine" imposed by the industry?
2. Financial dimension (not systematically described as an end, e.g. the outcome of a good management of the 3 other dimensions in the KN model);
3. Customer (perception of the company);
4. Employee and workforce (learning and growth).

No direct causal link is suggested between these 4 dimensions; furthermore, when examples are given by the interviewee, they almost systematically involve financial examples first and then "soften" these by quoting other examples such as customer satisfaction. The other 2 dimensions are either assumed to be evident, that there is no need to remind them: safety is one and the last quoted is on "employee involvement" issues and I have no evidence to show that it refers to the KN learning issues in this interview.

In this BSC "Different metrics" are used – and sub metrics and goals quantified as well, however, there is no evidence of information integration (79), nor evidence of "replication" of the 4 dimensions across the N-x levels, which suggest that the structure of their BSC in this situation would resemble more the one of a Tableau De Bord (TDB) (86) (e.g. "integration" would be ensured by the autonomy and the level of relevance of the information for each entity "organisation" within the whole organisation). However this does not imply that the way they manage the scorecard is the French, bottom – up way.

The BSC usage is new at D. Its implementation is linked to the exiting of the bankruptcy era, which has been a “transforming event” (12) and also led to the introduction of a new 5 year strategic planning system (13).

Performance measures are presented by the interviewee to be linked to the strategy and offer cross divisional perspective (17), keep people focused/ achieve their objectives/ inducing that people are “not able to retreat into silos” (18) (reinforcing transverse vision of the organization being considered as an opportunity and not a threat to the organization). Even in the financial organization, examples are given of non-systematic financial information, for example customer satisfaction.

“Because of BSC” non-financial data are more “front centre for the management team” (20), yet, most of the examples quoted by the interviewee are financial (for part because he is the Managing Director, Financial Analysis & Corporate Development) but this also reveals that ultimately non-financial information are translated into financial metrics as a means of quantifying success, however, it is not because one translates non-financial information into a financial metric that “causal links” between performance dimensions are verified. This could then suggest that the financial perspective of the BSC is not considered as a result of a good/ fair management of the 3 others (like in the KN model), but a way or managing performance which corresponds to a corporate culture, the north American contractual culture, a security means and good practice (144-152) inherited from difficult times (12) or an end in itself.

The performance management at D is said to be aligned with strategy, first example provided by the interviewee is finance “unit earnings or unit earnings per available seat mile on the airline business” (36): the metric is “objective” and comes first in the examples: straightforward, concepts quoted include words like “core”, “well understood” (144-152), “very logical” (50), “makes perfect sense” (74). This reinforces the contractual North American side of the assessment tool whose cultural justification (being fair and agreed by the corporate/ economic community) is very important. However this conception of alignment with the strategy and the way the interviewee refers to the way they measure this alignment of the performance management system with strategy is by means of translating variables into financial information: “and we’ve you know attempted to monetize that I think very successfully which is something that not many of our competitors have matched” (28).

When customer dimension is quoted, the source of information is survey based (107), then not exempt from manipulation. However, its reference is mostly anecdotal “when we’re evaluating projects, we do hum... consider and value things like impact on the customer, hum... so it does approach into the other areas as well” (58). The interviewee several times refers to compulsory government reported non-financial information (109-145) (“on time arrivals”, 14 minutes past

schedule arrivals, etc...), which suggests the adoption of these could be somewhat forced, shadowing the Brightside of the picture formerly provided as justification for the different dimensions of the BSC at D.

When stakeholders are quoted, then investors (52) come first, then customer and employee (53) perspectives.

Limited number of metrics and 100% are said to be reported to senior management. The interviewee however expresses his doubts about the actual ones rolled up (90)

Very strong emphasis on financial information in the scorecard (93-143)

Performance Collection

Information is collected through an ERP solution (Hyperion) slowly getting more and more space in the data collection process. Not much information could be obtained on the specific frequency of collection “the frequency varies, you know, depending what the metric is” (111). The justification of the use of an ERP was not documented by the interviewee.

When asked about whom designs the performance scorecard, the first answer is “senior management” (117), but then this information is nuanced by “but we do have a “corporate strategy group” that shepherds the process and really owns the process” (112). This would suggest that the information gathered in the scorecard is designed by the corporate strategy group, which, in fact, shows to be the finance group across the entities or “organizations” (corporate D term) of the company.

Performance Usage

When interviewed on the use of performance measures, the answer is the classic 3-fold (front-end; mid-stream and back-end) justifications. The interviewee emphasizes project profitability and shareholder value as a justification of the use of performance measures “a way to ensure ownership and accountability, hum... for stakeholders to make sure they deliver..., the projects deliver the benefits that they were supposed to deliver” (126)

When interviewed on the stability of performance indicators, the interviewee acknowledges the fact that management at D tends to adapt and follow the trend of the state of the art without clarifying which state of the art they are referring to. The interviewee adds that “it would not be the right business decision to maintain an inferior metric just for sort of a consistency argument, you wanna have the flexibility to move to a more appropriate business metric” (135). However, the ones

measuring “really core type issues”, “core across the airline industry, you know, not really subject to change” (140-146) are stable (government related also).

No comment is made on the usage at different level which is rather not helpful[⊗]. The interviewee states that there is a “bounded” process of questioning the relevance of tools not affecting core issues. However, even if the metrics used are subject to evaluation and questions in terms of relevance for example “you could always, you know, have different accounting or you know handle special onetime charges differently, so I think those are subject more to exploration” (156), there is no evidence that they are actually changing or being discarded when not relevant anymore for example.

Dissemination of performance measures

The interviewee states the performance measures are “widely disseminated” (161) via the intranet but financial ones are constrained in their communication “given reporting and SEC guidelines” (163), which emphasize their weight in the whole system. “Operational performance that’s disseminated as it arrives, and some of the other metrics that are more survey driven are disseminated regularly when the results come in” (164). Intranet communication is emphasized not only in the organization, but also very much in the sales division. Intranet allows real-time individual performance monitoring (actualization of manager’s bonuses).

The frequency of communication is on a quarterly basis “because you know some of the, some of the employee hum... bonus programs are tied to the some of the metrics so clearly you need to report out the performance when you and those typically within the quarterly cycles” (167). The “Finance organization would be tabulating some of the results hum but ultimately; it will go out to a corporate communication organization that has responsibility for communicating with employees and stakeholders” (173)

Reasons behind “wide” communication are provided as such by the interviewee “I think it is important to communicate widely, because it reinforces you know the multidimensional aspect of people’s day to day decisions” (177). And also “it’s important that people understand sort of the multidimensional aspects of their decisions and by reporting out on it, it reinforces that everybody is thinking across the four dimensions or the 15 metrics” (181). This reinforces the more “dogmatic” Top – Down model of the BSC vs. a more participative/ autonomous version of the Bottom – Up structured TDB (including the non-integration of information levels).

A last question was added in response to his education, the links between an engineering background and the creation/ management of financial metrics (202 – 207).

Coding Example of a Retail Industry Interview

performance definition		no clear definition of what is performance (management and measurement) one being the tool of the other	
is "measurement"		functional perspective of performance (traditional financial or MA at org level, operations with shop floor (stocks), top management (strategy) and HR at per	
is "strategy"		more diagnostic than interactive	
	process	no BSC per se	
	target	more in the french environment than in the U.S.	
performance measurement			
	Quantitative measurement		
	Financial	clarity (straightforward, non ambiguous) pressure from shareholders pressure from stakeholders (IFRS France & U.S., media) organisational culture (clarity) sector culture ("traditionnaly", "Comp Sales", reluctance to decision making: H. Simon) bad economic situation of the firm country culture (social game: rule & power in the U.S. vs. Power game in France: security) status of management	falls more or less into 3 main trad categories of strategy, communication and motivation
	Quantitative Non-Financial	clarity (straightforward, non ambiguous) B.U. culture and management style B.U. management what is relevant for the B.U. Management culture (Contract/ Honour) engineers	really important, but too departemental opportunism (not a priority: B.U. level vs. HQ level and vice versa)
	Qualitative measurement	marketing tool vs. Cost of not implementing (CSR or SDEV for example) trendy CSR sustainable development pressure from stakeholders legal presure organisational culture (motivation) B.U. culture B.U. management economic situation of the firm management culture (contract/ honour)	Think they do the same things but not for the same reasons
Performance collection			
	formalized	ERP not only scrutiny (culture - ideology)	
	non formalized	adapted - local frequency	
Performance Usage			
	strategy fomulation and implementation	process vs. Target checking where we are complying with externalities (hard times or not)	
	communication	of goals and mean to reach them at all levels feedback to monitor acheivement against goals benchmark (internal/ external)	
	motivation	evaluation (compensation: real time with intranet) inform for better understanding and participation (learning)	