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Methodologies for using performance measurement

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Abstract

The speech explores the operational dynamics of a PMS at the interface between a parent company and its subsidiary. The research is based on two case studies. The companies are both subsidiaries of US multinational companies located in Italy. Both are market leaders of different sectors and governed by different strategic mentalities and managerial methodologies that reflect the specific business strategy adopted by the parent company. The methodologies of performance management in use by the two companies are addressed respectively as pragmatic constructivism and pre-categorized analytical data paradigm.

Drawing on the narrative of the two cases we conclude that these two methodologies of performance management use support two alternative views of strategy: competitive advantage and resource-based view. The findings show that it is not simply the structure or technical design of a PMS that will determine its impact on an organization and ultimately its practical success but also the strategic mentality that underpins its functional rationale.

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METHODOLOGIES FOR USING PERFORMANCE MEASUREMENT

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Background

- › Two Italian subsidiaries of two multinational US companies
 - › More or less same financial and non financial measures
 - › Design, use and perceptions of measures very different
- › Different performance measurement methodologies?

- › Research on performance measurement systems
 - › Techniques
 - › Adoption, diffusion, success
 - › Use

- › Research gap on practice methodology






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Research questions and method

- › Research questions
 - › What are the behavioural implications of a systems approach and an actor's approach, respectively?
 - › What is their strategic rationale?

- › Research method
 - › Case study
 - › Two Italian subsidiaries of two multinational US companies
 - › Semi-structured interviews
 - › The accountants and line managers



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Performance measurement approaches

- › Systems approach
- › Assumptions
 - › Objectivism: Physical and social are the same
 - › Adapt to the environment – stimulus response
 - › Observations of facts
- › Management of PM
 - › Fit with the environment
 - › Hierarchical design and deployment
 - › Employees adapt to norm
 - › Mechanical reaction
 - › Direct

- › Actor's approach
- › Assumptions
 - › The actor constructs himself in relation to the environment
 - › Facts, possibilities, values and communication
 - › Understanding
- › Management of PM
 - › Phenomenological grounding
 - › Interactive design and deployment
 - › Understanding and values
 - › Intrinsic motivation
 - › Dialogue



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Case A: Background and strategy

- › Founded in 1956 but acquired in 2002 by US company
- › Manufacturing industry – compressors, turbines and generators
- › Until the acquisition R&D oriented, but after very finance oriented
 - › “...The parent company of today is not a product-driven company, but more a finance driven company. The company buys companies in the market, merges them and maybe the following year they are sold on to another company....” (Finance Manager)
- › Centralised decision making
- › Increased growth, standard quality and efficiency

Case A: Performance measurement

- › Targets determined by the parent company
- › Hierarchical top-down deployment
- › Tight and mechanical performance evaluation
- › Ranking of employee performance – rewards linked to ranking
 - › Top 10 % are the “top talent” and they get higher salary rates
 - › 20% are “high performers”, 60% are average
 - › The worse 10% are the “least efficient”
- › Systems approach

Case A: Implications of the PM system

- › Frustration about the mechanical use of rules and standards
- › Adapt to the minimum acceptable standard
 - › “If the work is standard ,the metric is only a matter of how fast you do it, but if the work is not standard, there are a lot of other things that the metric cannot catch. So if you are to works as a standard man, you are like a ‘monkey’ ...
 - › Europeans say, ‘OK, you have to do this and this but if you also make two other things that are not in the metrics, you do a better job’, but for the people in the US you are just doing the job of another “monkey...” (Finance Manager)
- › Opportunistic behaviour
- › What gets measured gets done
 - › ... “Each department works alone. If my colleague needs some help for commercial operations, it is his problem, not my problem ...” (Finance Manager)

Case B: Background and strategy

- › Founded: parent company in 1976; Italian subsidiary in 1987
- › Software industry: business analytics software and services
- › Subsidiary in Italy: sales, assistance and consulting
- › Steady revenue growth and profitability
- › R&D oriented – 23% of revenues reinvested
- › Long-term profitability more important than the short term
- › Customers and employees are key resources:
 - › “... we are interested in building a long-term relationship with the customer because our sales policy is mainly new sales plus renewals; so it is very important to maintain this rule ...” and “... we try to do the best in order to maintain talent, to give people opportunities to grow in terms of operational skills ...”

Case B: Performance measurement

› Understanding the business first

- › “We have rules that we can’t avoid in any case, but we have a certain level of freedom in approaching some markets and some customers ...” (Finance & Adm. Manager)
- › “In some subjects we have specialists and sometimes they are very good, very intelligent, and we have to give them the opportunity to say what they have to say; we have to listen to them. This makes things a little more complicated – you cannot just say, ‘these are the rules, so please follow them’ ...” (Finance & Adm. Manager)

› Interactive design and use of performance measurements

- › “Usually, we try to have indications, suggestions from middle management and then we make our suggestions. Obviously it requires understanding if, for example, middle managers report important issues, manipulate data or they are just trying to make people happier. This is something we have to discuss ...”
- › “In order to be able to find a solution, mainly for the customer but also for internal measurement, we can also adjust the measurement to find the proper solution for the customer. In general we are able to reach an agreement after a lot of discussion, fighting and so ...”


Case B: Implications of the PM system

› The employees are perceived to be a resource for the company

- › “The most important thing is that the people don’t feel that they are just a number. They need to think that they are important inside the organisation. For me this is the best way to motivate” (Business Developer)
- › “... We are not paying people over the market, but we try to give them, in general, an opportunity to grow professionally. We don’t always succeed – often, for example, it happens that a customer wants our people ...” (Finance & Adm. Manager)

› The PM system has some appeal to extrinsic motivation of the employees

- › “We introduced the first version of our bonus plan in 1996, and starting with sales people the reaction was very good because people felt they had an opportunity to earn money if their results were good. In general, they are more motivated to reach the goals. Obviously it is important to set achievable goals and targets because it can have a very bad impact if targets are unreasonable or too high” (Finance & Adm. Manager)

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<h2>Conclusion on cases</h2>		
	Company A	Company B
Background and strategy	<ul style="list-style-type: none"> • Business portfolio • Market growth and efficiency • Innovation through acquisition 	<ul style="list-style-type: none"> • Single business • Resources and capabilities • Organic innovation
Performance measurements	<ul style="list-style-type: none"> • Financial and non-financial measurements 	<ul style="list-style-type: none"> • Financial and non-financial measurements
Performance measurement methodology	<ul style="list-style-type: none"> • System approach • Authoritative • Standard norm • Monitoring of deviations from norms • Rewards and punishment • Direct 	<ul style="list-style-type: none"> • Actor's approach • Interactive • Phenomenological grounding • Understanding of results in relation to context • Rewards and learning • Dialogue
Implication of performance measurement system	<ul style="list-style-type: none"> • Mechanical reaction • Standardisation and adopting to norm • Extrinsic motivation • Breaks down resources and capabilities 	<ul style="list-style-type: none"> • Reflective action • Innovation and problem solving • Intrinsic motivation • Builds up resources and capabilities

Reflections on strategic rationale

Competitive vs. sustained competitive advantage

Business strategy matrix Mergers and acquisitions		ENTERPRISE STRENGTH Value and quality of the offering, market and staying power, experience	
		HIGH	LOW
GROWTH POSSIBILITIES – INDUSTRY ATTRACTIVENESS	High	Differentiation	Low cost
	LOW	Differentiation	Low cost

- Standardise products & process
- Increase sales
- Reduce cost
- Reduce R&D