Conflict as a Tool: Giving Voice to KPIs

A case study on how to build dynamism into PMM systems

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As recent economic development has created fast moving business environments for most companies, this study has the intention of answering a call from Bourne et al. (2015). The call regards the issue that most previous knowledge within the literature of Performance Measurement and Management (PMM) is founded on the assumption that organizations operate in stable environments, and that PMM systems in turbulent environments have not yet been adequately explored. Through a single-case study of a Swedish retail company, the objective of this paper was to understand how to build dynamism into the PMM system. Based on the recent findings of Melnyk et al. (2014), Micheli and Mari (2014) and Kolehmainen (2010) three components are deemed essential for dynamism: *resilience, double-loop learning* and *indirect influence*. This paper combines the three components with the management theory of dialectics (Hegel, 1812/1998) and presents the Performance Measurement and Dialectical Management model. The results indicate that the model, through a system of inherently conflicting Key Performance Indicators, has a beneficial effect on an organization's ability to build dynamism into the PMM system.

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1. Introduction

An integral part of management control systems has long been the Performance Measurement and Management (PMM) systems (e.g. Silk, 1998; Kald and Nilsson, 2000; Speckbacher et al., 2003). The PMM system provides managers with a potentially effective mechanism for enhancing strategic alignment by enabling the translation of strategy into a set of financial and non-financial measures, to report the current level of performance (e.g. Kaplan and Norton, 2001; Espstein and Manzoni, 1998; Tuomela, 2005). It also allows the organization to compare actual performance to desired performance, and to act upon variances (Melnyk et al. 2014). However, while enhancing strategic alignment the PMM systems may also introduce organizational rigidity and decrease the ability to adapt to changing circumstances (Bititci et al., 2000). In 2014, Bourne et al. shed light on the emerging issues in performance measurement and management caused by fast moving business environments with globalization, high-speed internet activities and reliance on international supply chains, and the subsequent consequences for organizational structures. The authors argued that driving performance through measures when the environment is rapidly changing is not feasible. Bourne, together with four of the most prominent researchers in the field, later published a call for research in the International Journal of Management Review (vol. 17, 2015). A main reason for the call was that most of the existing PMM knowledge is developed under the assumption that organizations operate in stable environments, and that PMM systems in turbulent environments have not yet been adequately explored (Bourne et al., 2015).

One area where there is a particular lack of knowledge is how organizations can build dynamism into PMM systems in order to maintain competitiveness in today's turbulent business environment. Melnyk et al. (2014) provided part of the answer by showing how a PMM system should enable outcome orientation through fewer KPIs. This makes the PMM system more *resilient* to environmental changes and gives employees flexibility to react to changing conditions. But, at the same time it reduces management's level of control. To compensate for the loss of control, a PMM system with few KPIs must also include an element of *indirect influence* (Kolehmainen, 2010) over employees, to align disparate functions. Additionally, Micheli and Mari (2014) explained how *double-loop learning* needs to be incorporated in the PMM system, to let environmental changes alter organizational assumptions and strategies. However, while arguably all three components are necessary for achieving dynamism, there is an absence of research regarding how these components can be combined into a coherent PMM system.

Through a case study of the Swedish retail company Rusta, which has been outperforming competition and registering double-digit growth for several years – largely due to their adaptability to changing conditions – this paper aims to contribute to the existing lack of research on dynamic PMM systems by answering the following research question:

How can organizations build dynamism into their PMM systems?

Rusta is currently facing global competition from the world's largest online retailers, dealing with suppliers from China, India, Vietnam and various parts of Europe, and is at the same time expanding to new markets. Hence, Rusta presumably is a great example of how to successfully manage an organization in times when agility is a prerequisite for survival.

The findings of this paper show that dialectical principles, where thesis meets anti-thesis in an attempt to form a synthesis (Hegel, 1812/1998), can be used to build a dynamic PMM system. Rusta uses an outcome oriented PMM system where tensions and conflicts are embraced and even encouraged. Through the implementation of conflicting Key Performance Indicators (KPIs) for various interdependent organizational functions, the aim is to generate a higher level of thinking through synthesizing the disparate – and sometimes opposing – viewpoints. In this way, the company manages to incorporate both *resilience* in order for the PMM system to stay relevant during times of rapid change, and also *double-loop learning* through which environmental changes are reflected through strategic revisions when deemed necessary. In addition, the company exercises *indirect influence* through a strong business topos (Seal and Mattimoe, 2014) to align its empowered employees.

Through the presentation of the Performance Measurement and Dialectical Management (PMDM) model, this paper intends to show how dialectics facilitates dynamism in PMM systems, leading to long-term superior performance. While the study confirms the importance of the three components previously identified as necessary for dynamism in PMM systems – *resilience*, *double-loop* and *indirect influence* – three additional components are identified as essential for the model. These are *enhanced functional specialism*, *dialectical deployment* and *dialectical leadership*. Overall, the paper illustrates the benefits of combining conflicting KPIs with the principles of dialectics.

Structure of the study

The study is structured as follows: Section 2 presents an overview of existing literature on dynamism in PMM systems and an overview of the principles of dialectics. It also presents this paper's suggested model for achieving dynamism in the PMM: The Performance Measurement and Dialectical Management (PMDM) model. Section 3 presents the research methodology used and the expected quality of the study. Thereafter, section 4 discusses the findings based on the PMDM model, and empirically illustrates the various parts of the PMDM model found in the case company. Section 5 then gives a more in-depth analysis of the findings by presenting the contributions to previous literature. Finally, section 6 offers the concluding remarks while section 7 offers reflections on the study's limitations and some suggestions for future research.

2. Literature Review

This chapter has been divided into three sections. Section 2.1 will problematize the dynamic PMM literature and identify the current calls for contributions. Section 2.2 will introduce dialectics as an approach to solving some of the problems in the dynamic PMM literature. In section 2.3 a new model is presented, answering the calls initially identified in section 2.1.

2.1 Performance Measurement and Management

During the last three decades, there has been a revolution in performance measurement and management (Bourne at al., 2014). Pure accounting based measures have been replaced by Key Performance Indicators (KPIs), focusing on both financial as well as non-financial measures, with which organizations can communicate strategic intentions to the whole organization by displaying what is being measured and what is not (Magretta and Stone, 2002). Systems such as the Balanced Scorecard (Kaplan and Norton, 1992, 1996, 2001) and the performance prism (Neely et al., 2002) have emerged, and the use of such systems is frequently recommended for facilitating strategy implementation and enhancing organizational performance (Davis and Albright, 2004). The benefits have lead organizations to invest heavily in the development and maintenance of such systems (Neely et al., 2008).

Initially, research attention was primarily directed towards the development and implementation of Performance Measurement Systems. Thereafter, the question of how such systems should be used to better *manage* for performance received more attention. Researchers recognized a need for a holistic approach to PMM systems, requiring an in-depth comprehension of the key activities in companies (Taticchi et al., 2012). The understanding of the critical role that *Performance Management* plays in organizational performance started to emerge. Performance Management encompasses the processes of assessing discrepancies between actual and targeted outcomes, flagging differences that are critical, understanding if and why there are deficiencies, and introducing corrections to close the performance gaps (Melnyk et al., 2014). When used simultaneously, the Performance Measurement and the Performance Management form a Performance Measurement and Management (PMM) system. The PMM system should be viewed as a key business process, which is central to the prosperity of any enterprise (Bititci, 1995).

The original use of the PMM was to make sure that the actions of employees were aligned with the strategy of the company, because consequences of misalignment were well known and significant (Johnson and Kaplan, 1987). However, maintaining such alignment is not easy. It is time-consuming

to reformulate metrics, to communicate those to the organization, and it takes time for employees to accept changes and adjust behavior (Melnyk et al. 2014). That is why the recent years' economic development – globalization, increasing reliance on international supply chains, emerging markets, and high-speed Internet connectivity – has reduced the benefits of such use of PMM systems. The economic development has created a fast moving business environment for most companies (Harrington et al., 2011), where frequent revisions of strategy are crucial (Bourne et al., 2014). Consequently, researchers in the field of PMM have looked beyond the traditional "scorecards with subsequent action", instead posing questions regarding how to build *dynamism* into the PMM systems – to help enterprises compete and succeed in turbulent business environments (Yadav, 2013). Throughout this paper, dynamism in the PMM is defined as the ability of the PMM system to maintain relevance in a constantly changing environment and enable the organization to stay competitive today and over time.

Several authors have explored the possibility of achieving dynamism in PMM systems. Bitici et al. (2000) proposed that dynamism might be achieved by using an auditing tool comprised of an external and an internal monitoring system, a review system, and an internal deployment system. From another angle, Bourne et al. (2000) attempted to show that using a multi-layered review process, which continuously reviews measures and targets, might enhance dynamism. However, evidence indicates that such approaches are not providing enough flexibility or adaptability to achieve the frequency of change necessary to stay relevant in today's turbulent environments (Kolehmaninen, 2010). Instead, three different components necessary for building dynamism into PMM systems have been identified by various authors: *resilience* (Melnyk et al., 2014) *double-loop learning* (Micheli and Mari, 2014) and *indirect influence* (Kolehmainen, 2010).

Traditionally, PMM systems have used KPIs that promote specific outcomes *and* focus on specific solutions. Such rigorous use is more appropriate for exploitation and efficiency in stable environments and is not sufficiently flexible to environmental change (Melnyk et al., 2014). Melnyk et al. (2014) offer an alternative approach as they shed light on the first component – *resilience* through outcome orientation – to maintain relevance even when the environment the organization operates in is constantly changing. The authors argue that resilience can be built into a PMM system by being clear about the specific outcome targeted, while leaving the solution general (Melnyk et al., 2014). In practice, this means reducing the number of KPIs and keeping only the ones most vital for the functions' contribution to business performance. This infers leaving open the way of reaching objectives for each department to decide. Consequently, the temporary misfits between

organizational strategies and the environment will no longer severely affect performance, since a resilient PMM system helps organizations maintain competitiveness when circumstances change. Moreover, Kolehmainen (2010) also highlights the importance of a lower number of KPIs – especially on the individual level – as it: prevents confusion, makes it easier for employees to re-orientate to revised strategies, and helps focus on adapting to the changes in the environment.

Historically, PMM development included substantial investment of resources to align the PMM with strategy, and thus, organizations had a tendency to not make modifications (Micheli and Mari, 2014). To be dynamic, the system must allow for questioning and alteration of organizationally fundamental issues, such as assumptions, standards, and strategies (Melnyk et al., 2014; Micheli and Mari, 2014). Such process is termed *double-loop learning* (Argyris, 1977), and not until environmental implications from the PMM system result in subsequent strategic revision does the system entail double-loop learning (Argyris, 1992). In turbulent environments, the frequency of the strategic revisions needed to maintain competitiveness increases. Consequently, the importance of efficient double-loop learning in the organization is enhanced. However, there's a lack of research on *how* the environmental changes discovered through the resilient PMM system later are transposed to the rest of the organization and into strategies. Such a process is examined in section 2.3, to provide guidance on how the two interdependent components resilience and double-loop learning can be used collectively.

In addition, a third component was identified as necessary by Kolehmainen (2010). To be able to use an outcome-oriented system with few KPIs, Kolehmainen found that the establishment of *indirect influence* was essential for aligning disparately oriented functions. This was necessary to compensate for the loss of direct control suffered by not having a more solution-driven system (Melnyk et al., 2014). Kolehmainen (2010) mentioned company-wide focus areas and subjectivity in evaluation as two processes of alignment, but since both approaches had distinct flaws she called for other approaches of indirect influence. In section 2.2, this paper provides an alternative approach of how to influence behavior indirectly. The approach is proven to be coherent with the management practice presented in the same section.

In Summary

In the literature on dynamic PMM systems, there is a prevailing consensus among scholars about dynamism being a vital element for organizations in turbulent environments. The understanding that the increasingly rapid changes place most organizations in a turbulent environment is ubiquitous,

leading to scholars' recent call for research regarding building dynamism into the PMM system (Bourne et al., 2015). Previous research has identified three essential components for building a dynamic system:

1. *Resilience* through outcome orientation – to maintain relevance of the PMM today, even when strategic revisions do not keep up with the changes in the environment.
2. *Double-loop learning* – to encompass changes in the environment into strategy to stay competitive *tomorrow*.
3. *Indirect Influence* – to align actions of disparately oriented functions with what is best for organizational performance.

This paper proposes that without all three components the PMM system will not be sufficiently dynamic, and thus, all components must be implemented. The literature provides guidance on how to implement each of the components separately. However, it lacks research on how to incorporate all components into one coherent system. Hence, this paper's research question: *How can organizations build dynamism into their PMM systems*? To answer the question, section 2.2 presents a suitable management practice and subsequently, section 2.3 entails the *Performance Measurement and Dialectical Management model* to demonstrate how such management practice can be used to incorporate all three components simultaneously.

2.2 Dialectics

Hegel (1812/1998) argued that tensions are what drive change, that it is only when something has contradiction within that it moves. He argues that the way to resolve such contradictions is through dialectics. The fundament of dialectics involves opposing elements – a thesis and an anti-thesis – where the conflict leads to interaction between the underlying elements (Benson, 1977). The intention is to resolve the conflict through a synthesis, which takes both contradictions into consideration and forms a resolution derived from higher-level thinking. Subsequently, the formed synthesis becomes the new thesis, the new standard which will face other anti-theses. Such continuously evolving syntheses constitute a synthetic process (Hegel, 1812/1998).

Dialectics is widely recognized in the theory of management. For example, Harvey (2014) illustrates dialectics in the creativity of a group, where group members with different skills and knowledge are deployed dialectically to generate "breakthrough ideas". In the organizational context, research has shown that structure and strategy can be produced, maintained and transformed through dialectical processes (Farjoun, 2002). Schad et al. (2016) propose the dialectical process to be a "meta-theoretical principle dealing with processes of synthesis, shifts, and disruptions" (p. 45). Schad et al. (2016) further shed light on the fact that there used to be consensus that a firm's superior performance was contingent on its strategic fit, but that Gulati and Puranam (2009) reasonably argued that misfit enables strategic revisions, presumably affecting performance positively. From the perspective of dialectics, superior long-term performance arises from iterations of strategy, from misfit to fit.

As argued by Harvey (2014), the above presented dialectical process can fail in two ways. First, without sufficiently diverse viewpoints or underlying conflict, there is little opportunity for synthesis to be formed. Here Harvey (2014) emphasizes that syntheses benefit from a number of subgroups with different areas of expertise, as opposed to groups with coherent thinking. She further implies that two or more previously disconnected competencies, or bodies of knowledge, should be brought together for best result. Secondly, over time the synthesis may become stagnant as viewpoints and perspectives converge. Harvey (2014) argues that environmental resources can facilitate mitigation of such risk because the environment is a source of variation for perceptions, knowledge and insights, that refines the diversity.

In 2014, Seal and Mattimoe examined how dialectics can be used in management control. The foundation for their framework lies with Nørreklit's (2011) understanding that all organizational

members are not the same. Depending on for example experience, education, and objectives – people naturally possess different skills, but also, the way they see and understand things differ. Nørreklit (2006) uses the terminology of *"reality"* when he tries to explain how various people perceive the same situation or issue in different ways. Seal and Mattimoe (2014) further argue that this "reality" of each individual person tends to be pretty similar for people working in the same functional unit (e.g. people in the marketing department all have similar experience and education, and their objectives are the same). This kind of collectively shared reality is, by Nørreklit (2006), named *topos* and has lately been used by several researchers when examining organizational management practices (e.g. Nielsen et al., 2015; Baldvinsdottir et al., 2011; Beusch, 2011).

One of Seal and Mattimoe's (2014) central discoveries was that an organization comprising different functional realities (i.e. different topos) is a perfect setting for creative and constructive dialogue in line with the principles of dialectics. Seal and Mattimoe's (2014) intention was to embrace the conflicts stemming from the differences of various functions' topos as an on-going generation of possible syntheses out of the polarized, opposing arguments. To possess the capability of dialectical management, a manager needs the ability to: communicate with and facilitate communication between functional specialisms, understand the different viewpoints, and apply a higher-level thinking to decide what will ultimately have the best possible outcome for the organization (Seal and Mattimoe, 2014). Similar to the propositions of Farjoun (2002), Seal and Mattimoe (2014) argue that dialectics can be used to constantly transform strategy in a way similar to the concept of *emergent strategy* described by Mintzberg (1978). In section 2.3, this paper attempts to demonstrate how dialectical management can be used to incorporate resilience and double-loop learning simultaneously in an organization. However, without indirect influence there is limited ability to steer the development.

As mentioned in section 2.1, there is a need for an indirect element of influence when using resilient, outcome-oriented systems. One such element can be found in Seal and Mattimoe's (2014) interpretation of the *business topos,* originally introduced by Nørreklit (2006). While each functional specialism is described as having its separate functional topos (its own rationality), the business topos governs the organization as a whole, as a meta-topos or an overarching rationality (Seal & Mattimoe, 2014). The business topos is a shared reality which adds together parts of each function's topos so that all functions understand how the other functions contribute to organizational performance. It's supposed to facilitate communication and help employees understand what are the best actions, not only from their own perspective but for the organization as a whole (Nørreklit,

2011). Thus, the business topos has an integrating effect. Moreover, the business topos tends to transform over time, to incorporate the organizational learnings and changing priorities. One can argue that the business topos serves as a benchmark of the organization's values and continuously directs the actions of employees and functions (Seal and Mattimoe, 2014).

The importance of bringing together diverse specialisms with a shared understanding was also distinguished by Harvey (2014), but in another context. Her findings of how group members' perspectives should be integrated into a shared understanding is presumably necessary in the organizational context as well as her creative group context. She explains how this integration acts like a map that guides the development of ideas in the group and she also emphasizes the importance of shared goals within group creativity to achieve the best outcome. In the presentation of the model in section 2.3 it is further demonstrated how the business topos is a requisite for the incorporation of resilience and double-loop learning into the system.

2.3 Performance Measurement and Dialectical Management

The following section will first present this paper's integration of the components identified in section 2.1 through the use of dialectics, as well as three additional components derived from dialectical management. Following that, the Performance Measurement and Dialectical Management (PMDM) model that is suitable for turbulent environments will be presented.

2.3.1 Flexibility restricted and directed by conflicting KPIs

As suggested by Melnyk et al. (2014), the intention with fewer KPIs is to maintain relevance when the surrounding circumstances change. The use of fewer KPIs presumably results in purely functionally oriented measures, since there is no room for encompassing the needs of other functions. In addition, it also simplifies employees' understanding of each measure and increases their ability and time to focus on competitors' actions and the changes in environment. However, such deployment of KPIs creates more distinct separation of functions as each individual takes into account merely the core measures for their respective function.

Recalling dialectics, such *enhanced functional specialism* orientation is welcomed and can be utilized (Seal and Mattimoe, 2014). The functionally oriented KPIs will make employees act in line with what is best for their respective function. Hence, reactions to changes in the market will be in line with what is best for each function, and not necessarily for the organization as a whole. With this outcome-oriented system, an element of questioning decisions and challenging thinking is necessary for assertion of behavior in line with what is optimal for the company. For such questioning, dialectics is advantageous. However, how can a system incorporate dialectical processes? A key to succeeding presumably lies with the careful choice of KPIs. When constructing the system, it is imperative that all the aspects crucial for the overall business' performance are encompassed by at least one function's KPIs. This way, there is always one function directly incentivized to formulate the opposing force (the anti-thesis) when any KPI poses the risk of sub-optimization, leading to conflict between functional specialisms. By choosing KPIs in such a way that conflicts between functions are inherent, the organization possesses the ability of cross-examining decisions from highly disparate viewpoints. This enables the improved decision-making and synthesizing integral in dialectical management. In this paper, the process of deploying KPIs to create conflict is termed *dialectical deployment*. The role of the manager in a system with dialectically deployed KPIs becomes the one of the *dialectical leader*. The managers are responsible for making the polarized functions communicate and for resolving conflicts in a constructive manner; generating the best

possible outcome for the company (Seal and Mattimoe, 2014). These three additional components – *enhanced functional specialism*, *dialectical deployment* and *dialectical leadership* – are derived from dialectical management and will be combined with the components identified in section 2.1 to create the model presented at the end of this chapter.

2.3.2 Externalities leading to strategic revisions entail double-loop learning

As pointed out by Franco-Santos et al. (2012), the system needs to be iterative to continuously improve. Melnyk et al. (2014) highlight the PMM systems' traditional derivative relation to strategy as a major problem for efficient double-loop learning, as environmental changes are not adequately taken into consideration. In a resilient system with conflicting KPIs, all environmental changes are acted upon in the affected function. However, since a function's actions presumably also affect the KPIs of other functions, the environmental changes are soon reflected on a larger organizational scale through conflicts and discussions. Depending on the magnitude of the environmental change, the dialectical process initiated by the conflicting KPIs will thus also encompass questioning of whether there is a need for revision of strategy. Through dialectical management, the synthesis generation would function as a "mode of enquiry" (Seal & Mattimoe, 2014) when there is a lack of fit between the strategy and the environment. This is in line with the reasoning of Gulati and Puranam (2009) that misfit enables strategic revisions.

The dialectical process implicitly engages the various functional specialisms in co-developing the organization's strategy as strategic revisions are emerging from the functions and up in the organization. When participating in the development of the strategy, conflicts help functions materialize insights of environmental changes into an understanding of how it is related to the organization. This way the knowledge of essential environmental changes is transposed to the rest of the organization, which is equivalent to double-loop learning.

2.3.3 The Business topos as an indirect process of alignment

As highlighted by Kolehmainen (2010), a major challenge with building and using a flexible system is the indirect influence required to direct behavior in the best interest of the company. This paper proposes that the concept of a company's business topos, as described by Seal and Mattimoe (2014), would be a suitable tool for such indirect influence. By incorporating the rationale of each function's contribution, the business topos serves as the organization's overarching rationality. The business topos facilitates communication between functional specialisms. Through a well-established business

topos, organizational values and objectives can be transposed to employees and affect behavior, decreasing the risk of misaligned actions.

A well-established business topos is presumably essential both for having a resilient system and for making the double-loop learning efficient. For the resilient system it functions as guidance for actions taken by employees in response to environmental changes. Without understanding the essence of how the company maximizes performance, conflicts would result in discords and compromises rather than constructive dialogue. The business topos can be viewed as the shared goals Harvey (2014) urged for, enabling employees to look beyond KPIs and focus on the collective performance. With regards to double-loop learning, the business topos helps managers revise strategy. The business topos ensures that revisions are always geared towards maximizing the future competitiveness of the organization, and not merely responses to changing conditions. Without a clear understanding of the values and organizational capabilities there is a risk of misfit between the strategy and what is actually optimal for corporate performance. This way, the strategic revisions are guided in the direction of enhanced future performance and not wandering back and forth in the turbulent environment.

2.3.4 The Performance Measurement and Dialectical Management Model

In this section, the Performance Measurement and Dialectical Management (PMDM) model for the integration of all components in a cohesive system will be presented. Compared to traditional PMM systems, the model suggests a much more outcome oriented performance measurement part with fewer KPIs, while the performance management part is given more attention. Rather than simply acting on variances after events have occurred as traditional PMM systems do, the PMDM model allows for a more proactive approach. It enables immediate actions based directly on changes in the surrounding environment. By using the management tool of dialectics, the company gets multiple perspectives on the consequences of environmental changes, thereby lowering the risk of sub-optimization of any individual measure. Hence, the model enables the organization to govern towards the best possible outcome despite an environment of constantly changing circumstances.

For illustrative purposes, the organizational context is simplified by using the relationship between two different functions. The model, similar to a synthesis process described by Hegel (1812/1998), is continuously evolving. Continuously evolving means that what is illustrated is *one sequence* of an on-going process, where the end point of what is illustrated automatically becomes the starting point of the subsequent sequence. In the model, the upper part is a mirror image of the bottom part, as they

reflect what is happening in each function. The middle part reflects the part of the organization incorporating the two functions, or more specifically, the best practices and strategies relevant for that relationship. The starting point, C_1, represents the combination of strategies used today – before the process begins – while the end point, C_2, represents the strategies agreed upon for the future.
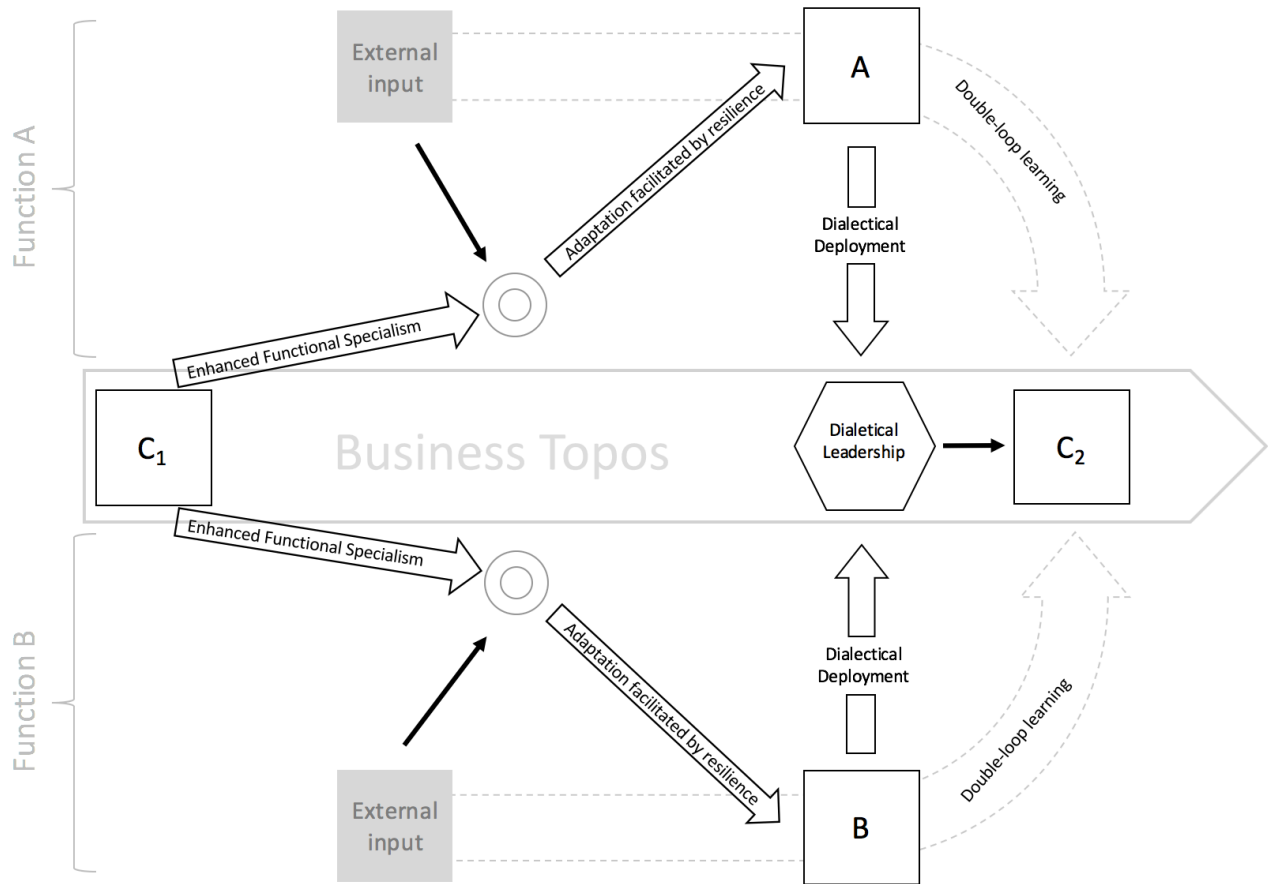
Figure 1. The Performance Measurement and Dialectical Management Model

The process starts with the chosen strategy. Each function will interpret and focus on different aspects of the strategy based on their respective functional specialism. Their understanding of what is most important is further affected by the KPIs being purely functionally oriented. Consequently, functions will to some extent diverge when adapting the strategy, as they each aim to optimize their own function's KPIs. This implies an even more distinct separation among functions, and is illustrated by the arrow labeled "*enhanced functional specialism*".

The next step includes each function's exposure to environmental changes, during which the resilience of the system (through outcome orientation with few KPIs) ensures that the PMM system

stays relevant and does not misguide employees' actions. This gives leeway for functions to react in a way they deem most suitable for maximization of KPIs. Subsequently, the divergence from the former strategies escalate to the extent that suggestions for a new set of best practices and strategies are generated. The functions formulate their own strategies, their *anti-theses* (the old strategies, C_1, being the *thesis*), of how to go forward, which is represented by A and B for the respective functions. For explanatory purpose this arrow is labeled "*adaptation facilitated by resilience*".

When anti-theses are formed and functions start optimizing their respective performance, there will be consequences for the measures of other functions. Since the system includes *dialectical deployment* of KPIs (i.e. the KPI system is constructed to inhere conflict through interdependence), cross-functional discontent will arise. This is where *dialectical leadership* is needed. The system now has two anti-theses that both need to be carefully regarded. The application of dialectics helps management take both contradictions into consideration and form a synthesis, C_2, which is derived from higher-level thinking and reflects discoveries and ideas from both functions. Through the dialectical process, *double-loop learning* is thus inherent in the system, as environmental changes are continuously reflected all the way to a possible revision of strategy. Thereof, double-loop learning is dependent on the successful implementation of the other components of the PMDM model.

As the final component of the system, the *business topos* guides the synthesis generation, and facilitates communication and constructive dialogue between functions through shared overarching goals and strategy. The business topos is what makes employees pursue the current strategy – unless possible improvements are discovered – and it is what ensures that every input from the external environment is appropriately revised, in order to actually increase organizational competitiveness. The business topos is the agenda that directs the synthetic process of strategic revision.

The PMDM model encompasses all three components deemed necessary for a dynamic system by the dynamic PMM literature. In addition, it adds three additional components necessary to complete the model and make it cohesive. Hence, this paper considers the PMDM model a potential approach to building dynamism into organizations. In chapter 4, all findings at the case company relevant to the model will be presented to further explain the six components: *Enhanced functional specialism, Adaptation facilitated by resilience, Dialectical deployment, Dialectical leadership, Double-loop learning* and *Business topos*. In the following chapter the methodology through which the model emerged is presented.

3. Method

The following chapter encompasses the presentation of and motivation for the selected research methods used when conducting the study. Section 3.1 includes the design of the study. Section 3.2 includes the process of data collection. Section 3.3 includes the data analysis process. The final section, section 3.4 includes the assessing of research quality.

3.1 Research Design

3.1.1 Empirical Method

Due to the relative absence of previous research on how to implement components of dynamism into a PMM system, a single in-depth case study was chosen as the empirical method. Qualitative research enables examination of the application of dialectical management in the context of polarized opinions and will most efficiently provide relevant information for the posed research question (Hair et al., 2007). Furthermore, the case study design is appropriate when expanding existing theory as it allows for constant combining of theory and empirics, leading to increased likelihood that the researchers are able to creatively reframe and combine them for new theory creation (Eisenhardt, 1989). It does not necessarily lead to new findings, but combining theory and findings all along the process facilitates discovery. Single case study conduction further enables the understanding of dynamics and the incorporation of observations, documents and interviews for triangulation (Eisenhardt, 1989). Moreover, the central feature of this study is to figure out *how* something works in reality and a case study is appropriate when trying to find such answers (Yin, 2014).

Although generalizability is hard to achieve when a single qualitative research design is applied and a study including multiple cases may have been more appropriate for that purpose, there are two main reasons why a single case study was the preferable option in this study: 1) an extensive single case description improves consideration of the rich surrounding context of the case (Dyer & Wilkins, 1991), and 2) it enhances the ability of having various existing functional specialism relationships explored; a multiple case study would commonly merely allow for cross-case relationships to be explored (Eisenhardt & Graebner 2007).

3.1.2. Research Approach

The approach of research for this study is in line with Dubois and Gadde's (2002) guidelines of systematically combining a deductive and an inductive approach. Such approach, where the theoretical framework, empirical fieldwork and the analysis evolve somewhat simultaneously in order to draw verifiable conclusions, is defined as an abductive research approach (Kärreman and

Alvesson, 2011). The initial work included an in-depth literature review process where a potential theoretical scope was detected. During the initial interviews, an area of relevance and interest emerged within the scope, leading to further literature reviewing and subsequent selection of a potential framework. This framework later served as support during interviews, and as findings affected the framework, revisions were made. In combination with the analysis of findings, the final framework evolved. Along the process, interview scripts where adapted to further examine the interesting data.

3.1.3 Selection of case company

The base for selection of case company was a combination of four essential factors. Firstly, the company was willing to offer unlimited data for research. Secondly, the company headquarters is situated in Stockholm, Sweden, facilitating flexibility for researchers, as it is their home base. Thirdly, the company is performing extraordinarily well in relation to industry standards and has registered double-digit growth the last couple of years despite 30 years in business, implying that the organization is a potentially good case for providing relevant insights to succeeding practically. Fourth and most importantly, the company has strong individual functions connected through a communicative leadership with focus on outcomes rather than solutions.

3.2 Data Collection

3.2.1 Primary Data Collection

The primary data includes a total number of 15 interviewees, and in total, 19 in-depth, semi-structured qualitative interviews were conducted. 14 of the interviewees were permanently working with the company while one person was a consultant who had been with the company during the last 18 months. The consultant was considered to have a more objective view of the organization and was deemed beneficial for the holistic understanding of the researchers. The interviews lasted between 16 and 127 minutes and were conducted face-to-face in Stockholm between the 19th of January and the 5th of May 2016 at the headquarters of the case company. After initially talking to the contact person, the interview objects were selected incrementally by the researchers, as the area of interest emerged over time. Five people from top management and ten people at various levels throughout the hierarchy comprised the final selection. Among the top management staff was: one of the two founders, the chief executive officer, the chief financial officer, the head of supply chain and the head of quality.

As the objective was to get deep and detailed answers, qualitative interviews were the most suitable format. Since both researchers participated in all interviews, a semi-structured method was chosen (Bryman and Bell, 2007). One of the researchers was appointed the leader role, to guide the interview somewhat along the script. The other was responsible for recording, taking notes and asking in-depth questions in particular areas of interest arising along the interviews, all in line with Eisenhardt and Bourgeois' (1998) suggestions. The semi-structure allowed for pragmatic orientation through the pre-determined questions and also more thorough elaboration on certain matters and new insights (Merriam, 1994).

After getting approval from each individual, all 19 interviews were recorded and transcribed. Interviews were held in Swedish, since both researchers and all interviewees were native Swedes and the researchers did not prefer limiting interviewees' ability of expressing themselves. All quotations were sent to the interviewee in question for approval of the quote in both the Swedish transcription and the English translation. The quotes generated from transcriptions proved useful, both in analysis and as support to arguments in the section of findings.

3.2.2 Secondary Data

Internal documents, such as an organizational chart, the structure of KPIs, corporate handouts and an organizational flow scheme were obtained from the company after conducting the first interview. Such documents were collected for triangulation purposes and also for the purpose of a more overarching understanding, enhancing the researchers' ability to elaborate on specific matters. Combining triangulation with the abductive approach facilitates the discovery process and further enables redirection (Dubois and Gadde, 2002).

3.3 Data analysis

As an abductive approach was used, collection of data and analysis were parallel processes. After each interview, researchers immediately discussed findings in order to capture reflections as recommended by Eisenhardt (1989). Additionally, each interview gave direction for the next interview, and after each interview the script of questions for the upcoming interview was written, to enhance the quality of interviews.

When conducting a case study, there are six analytic steps suggested by Miles and Huberman (1994) to be used in the data collection process:

1. Code the observed data
2. Continuously write down reflections throughout the collection process
3. Organize the data to identify differences and similarities
4. Identify patterns to use in the following data collection
5. Find the generalizations possible from the consistencies over time
6. Compare the generalizations with already existing theory

These steps have been followed in the researchers' process of data analysis. After transcription, the statements were divided between the relevant components of this paper. However, no programming tool was used for the process and the categorization of data was made manually by color-coded highlighting, mutually agreed upon between the researchers. Continuous matching of empirical findings with theory resulted in an emerged framework, combining components of dynamism with dialectical management practices.

3.4 Research Quality

Good research is by Merriam (1994) defined in terms of reliability and validity. For a case study approach in particular, the main concerns are with reliability, construct validity and external validity (Yin 2014).

A study is reliable if it is repeatable (Merriam, 1994). To be repeatable, another researcher must be able to conduct the same study on the same organization, and receive the same results (Yin, 2014). To achieve high reliability, all recordings, transcriptions, interview scripts, contact details of interviewees and everything else deemed useful in the process are stored through shared, cloud-based technology. Even documentation of the guidelines for color-coding remains in the folder. The secondary data is also stored in the folder, while the list of interviewees is to be found in the appendix. A complication of the reliability parameter is that organizations, human behavior, perceptions and even the world tend to change over time. That is why social studies find it hard to be reliable over time and as the case company is currently experiencing significant growth, it is hard to determine if the organization will look the same over the coming years. However, for the near future, this study is to be perceived as highly reliable.

Validity on the other hand is achieved if the results can be trusted based on the design of the study and the generalizability of results (Merriam, 1994). Validity in terms of external validity is concerned with generalizability beyond the study itself and the issue is considered central to research quality (Dubois & Gadde 2002; Eisenhardt 1989; Eisenhardt 1991; Smaling 2003; Yin 2014). Case studies are based on analytical generalization, which is the contrary of statistical generalization. The reason is inherent as the purpose is to expand and generalize theory, not achieving statistical robustness (Yin, 2014). Conducting an in-depth single case limits generalizability, as the purpose is to gain a deep understanding of a single case rather than generalizing across units (Merriam, 1994). However, as this paper's research questions starts with *how*, the external validity increases (Yin, 2014).

At last, construct validity regards how well the concept being studied matches the selected means and measures; it's about finding the correct format of the study for best answering the research questions. Yin (2014) suggests three different ways to enhance the construct validity, which all has been followed throughout the conduction of this paper:

1. Multiple sources of evidence were used and findings have been made through a triangulation process of the collected data.
2. A chain of evidence has been established as the reader can easily follow how conclusions were made, and the logic from where they were derived.
3. The report has been reviewed by the assigned academic tutor throughout the process, and in order to confirm empirics, both the founder of the case company and the initial contact person have reviewed the empirics.

4. Findings

This chapter will present the findings of this paper. Section 4.1 provides a background of the case company. In section 4.2 each part of the PMDM model will be thoroughly elaborated on and the way dialectics are used to build dynamism into the case company's PMM system will be illustrated.

4.1 Company Background

Rusta is a leading Swedish multiple retailer of products for home and leisure. With 80 stores in Sweden and 11 in Norway, the company today covers all of Sweden and is two years into its Norway expansion. The business idea is to offer customers great value-for-money propositions by having the best prices for a wide range of products. The company is headquartered in Upplands Väsby, Stockholm, with about 170 people working at the headquarters. Of the almost one thousand other employees, most work in the stores while the rest work in the warehouse or at the company's four purchasing offices in China, India and Vietnam. Over the past five years the two founders of the company have gradually handed over the daily operations to a new CEO and top management team, and although the two of them are still actively involved with the company the two founders today serve mainly as board members. There are two major success factors that are as true today for the company as they were at its founding. First, a determination to always cut through the middlemen in supply chains and deal directly with the suppliers. Second, an ability to spot trends early and be among the first to bring new products to market, as well as to recognize when a product category is no longer profitable due to for example increased competition. Since the global financial crisis in 2008-2009, Rusta has experienced double digit sales growth and aims to continue at the same pace.

The scope of this paper is limited to the headquarters and the interaction between different functional departments with their respective KPIs. The formation of stronger and more independent functional departments is an important organizational change that has taken place gradually as the founders have handed over the responsibility for the daily operations. While the Business & Range department still remains the center of the organization, not the least with regards to KPIs and the PMM system, the Rusta organization today is characterized by more equality between the different functional departments. Previously, the Business & Range people had a broader area of responsibility, while nowadays responsibilities have been divided among more functions. Some of the responsibilities have been handed to, for example, the Supply Chain department or the Concept department. In other cases, entirely new departments have been formed, such as the Quality department or the Outbound Replenishment department. The result has been an organizational environment with more distinct voices and disparate perspectives, which has required much more cross-functional cooperation.

An important aspect of Rusta's PMM system is how each function is measured and evaluated on only a few KPIs each. Below follows a list of the departments featured in the findings section and their respective KPIs:

1. Business & Range: Sales growth, Gross Margin and Gross Profit
2. Marketing: Number of store visitors and attitude towards the brand
3. Supply Chain: Warehouse Inventory Level and Inventory Turnover Rate
4. Purchasing Offices: Purchasing Price
5. Outbound: Store Inventory Level
6. Quality Department: Number of product returns

A notable insight is that the Business & Range department is a special case since all other functions' KPIs are, to various extents, indirectly interrelated with theirs as the Business & Range function is the core of the business. Nonetheless, employees of the Business & Range function are only concerned with maximizing their own three KPIs.

4.2 Dialectics in a dynamic PMM systems

This section is a presentation of the findings made at Rusta relevant to the PMDM model. The section encompasses six sub-sections, one for each component of the PMDM model.

Enhanced Functional Specialism

The first component of the PMDM model shows how perspectives differ due to disparate functional orientation. The Head of Supply Chain explains how the diverse understandings of different functions result in disagreements: "*There are plenty of discussions that we have where I obviously think I am right, but where others can be as certain as me of their thinking, that makes me understand that we have fundamentally diverse viewpoints. It might be about how someone, according to me, focuses on the wrong things, solve things in an inefficient way or prioritize in the wrong order. On such matters, I am commonly in disagreement with [CFO], [Head of Business & Range] or [Head of Marketing and Sales] since they are on my level in the hierarchy and it depends largely on the fact that we have different perceptions, not only that our interests differ.*" (Head of Supply Chain, 04.05.2016).

The Marketing Manager highlights the benefits of such enhanced functional specialism and how this constantly generates useful conflicts: "*It is clear how we rely more and more on experts, which results in less coherent thinking and more conflicts. However, we have resolved a lot of unnecessary conflicts by building bridges over time, but some major conflicts are always there. I think it might be beneficial that those essential ones are recurring*" (Marketing Manager, 10.03.2016). A key aspect of having more experts is that many functions that previously were part of larger departments have been separated into their own. Perhaps the most illustrating example of this is of the Quality department, which was separated from Business & Range when, for various reasons, the market started demanding higher product quality. The Head of Quality describes how quality went from being part of Business & Range's responsibilities to becoming a function of its own, and how this has enabled a different perspective to be better represented: "*When I started, I was Rusta's first Quality employee, this was in 2011. Today, we are eight people in my department and there are around 30 people that work with this in Asia [...]. For my team it is about quality and for the Business and Range guys, it is about sales. They can be more commercially minded while I am more technocratic.*" (Head of Quality, 01.03.2016) The Supply Chain Controller describes a similar example regarding the Outbound Replenishment function, previously part of Business and Range but now a department of its own: "*We are starting to get into our processes better and better. Outbound,*

for example, was strengthened when they became their own department with their own manager, which resulted in them being able to stand up for themselves. Before it was only implementation on their part, now they will say no if, for example, there is product that looks nice at a certain place in the store but has a too low margin [to be given the spot]." (Supply Chain Controller, 10.03.2016)

According to one of the Founders, there is potentially a trade-off between an employee's expertise and his or her general business acumen: *"If you have a department manager with a lot of business acumen, and who is not too focused in their competence, then they can gain unlimited influence in the organization. But the question becomes how much business acumen you can have and at the same time be a master of your field. In a way, it is probably better that the person has a more focused competence, because then you know that they will be able to guarantee the best actions for their domain [...]. While it would have been practical with middle managers who see the whole value chain, the idea is probably a bit unrealistic because it requires them all to be like founders. It is probably better to build the organization based on specialist knowledge."* (Founder, 29.02.2016). The quote illustrates that while it might have been good for the individual employee and in some regards practical for the company to fill the organization with generalists with lots of business acumen, the concept is probably unrealistic and does not give the same guarantee that a functional manager will be well equipped to fully grasp the environmental changes in his or her functional domain. Another quote from the Founder sums it up: *"Everyone does not have to know everything, but there has to be someone who knows each part very well"* (Founder, 29.02.2016).

An aspect that reduces the functional differentiation at Rusta, or rather helps constrain it, is the incentive system of upper-level managers. The CEO describes: *"On the level of top management and the level just below in this organization, meaning all managers that have significant decision-making power, there is only one indicator that counts for monetary rewards and that is how Rusta as a whole is doing. It is 50 % Rusta's sales growth, and 50 % Rusta's EBIT. It does not matter if you are the Head of Warehouse, if you are Head of Sales, if you are Head of Purchasing out in Asia, or if you are Head of Finance here at the head office."* (CEO, 04.04.2016). The CEO mentioned that this helps the organizations' direction as these incentives help eliminating sub-optimization and in making all high-level managers feel responsible for Rusta's total performance. This way the organization can have experts, while the one in charge is monetarily incentivized to always act on Rusta's behalf. However, monetary incentives are detached from performance evaluation as performance is still measured on KPIs, which enables maintaining the separation of the different

functional specialisms. In relation to the PMDM model, this monetary reward system seems to have the intention of delimiting the extent to which functions diverge from the agreed upon strategy.

Adaptation facilitated by resilience

"I recently set a target for inventory turnover rate for the category managers but it's not like I am digging deep past the performance indicator, instead I let them do it themselves. I trust them to find a way to solve problems to reach targets within their respective areas. It's an organization where we clarify that 'this is my area, and this is your area', then you get it to work through the discussion." (Supply Chain Controller, 10.03.2016). The Supply Chain Controller explains the way KPI targets are used at Rusta, and it illustrates two things. First, how outcome orientation is used to provide category managers in the Business & Range department with sufficient flexibility to factor in their respective situations. Secondly, it highlights how discussions between departments are used to arrive at solutions that satisfy the priorities of both the Business & Range and the Supply Chain departments. According to the CEO, a defining aspect of the organization is that no single function is responsible for more than a few KPIs each: *"Let us take the marketing department. In my simplified reality, which is the reality in which I want them to live, they have two jobs. Number one is to drive customer traffic to the stores, making sure that we have visitors, number two for the marketing department is to move our brand in a positive direction."* (CEO, 04.04.2016). The CEO describes how the low number of KPIs per department serves to clearly delimit their respective responsibilities, which helps them excel in their area.

A concrete example of how a specific function might respond to changes in its external environment in ways that have consequences for the whole company is given by the Head of Supply Chain. He describes how his department tracks the market prices for shipping containers, and how his department is allowed to fully focus on the supply chain aspects, even though the decisions of course will affect the whole organization: *"There are certain factors that affect how we bring home goods. For example, right now there is an all-time low [price] for bringing home goods from Asia. A container costs only 700 dollars. Then you should absolutely not warehouse in Asia, and you should absolutely not put different products in the same container. You should just take it home and sometimes even at the expense of the fill ratio, of a container not being full. Because it is that cheap. If this changes then you need to have a completely different focus. If the price for a container would suddenly go up because they stack up a lot of ships and triple the prices – which will happen and make it much more expensive to take home a container – then it becomes a whole other playing field. Then you need to account for that, and then maybe there is an argument for running a model with*

loose cargo and to have a completely different approach [...]. If the oil price increases or if the US dollar goes up, then we need to remake the model and focus on something else." (Head of Supply Chain, 04.05.2016). The quote shows both the manager's focus on constantly adapting to market changes in the supply chain domain, in line with the PMDM model.

The Head of Controlling explains that for the system with few KPIs to work, a proactive kind of controlling is required: *"It is not like we sit there and say, 'Hey you, you have not met your targets!' at the end of the year. Instead we are more proactive and work with them every day and ask 'Why was it like this? Well, it was like this because of this'. And then we try to adjust to that. I think it is very important to stay on them, that you are there to understand why things have not played out as planned and enable them to change patterns early on."* (Head of Controlling, 11.03.2016). The quote highlights how controllers at Rusta discuss the possible implications of and responses to variances, but also how they constantly try to include new aspects into their calculations. It is an example of the resilient PMM, and a technique through which potential misfits between the PMM and the changing external environment is avoided. This is in line with the suggestions of the PMDM model and shows how employees are never misguided by targets. By maintaining the relevance of the PMM, employees can continuously act upon the environmental changes to maximize performance.

According to the Head of Quality there is a need for engaging all parts of the organization in the process of reacting to markets and changing circumstances: *"There are certain parameters within which I have the freedom to act, to look at new products, new prices, new transport solutions or whatever. We have more broad guidelines now, and we are expected to contribute more ideas ourselves. When [the organization] is this big, all good ideas cannot come from [the head office]. They also have to come from [the China office], the stores and other places."* (Head of Quality, 04.05.2016). By the use of a resilient system, creativity is enabled by creating time and space for employees to act and take initiative. This helps the organization to be dynamic. However, without restraints there would be a risk for sub-optimization with functional departments maximizing their own KPIs, making the system ineffective. Business Area Manager A explains that while she feels that she has the necessary freedom to respond to external events, internally the system does require a lot of cooperation and coordination, otherwise there is a risk of organizational chaos: *"So this freedom also results in chaos. There will be situations where someone goes, 'ok, now we have decided that we are going to fill up the stores fully [with products] and it should be a nice fill ratio because [the outbound function] prioritizes that'. That will destroy our turnover rate. So we are not*

completely at pace anywhere at any time, which makes this freedom a bit frustrating." (Business Area Manager A, 05.05.2016). As shown, with enhanced functional specialism and outcome orientation there is strong need for coordination. Thus, the other components of the PMDM model: dialectical deployment and dialectical leadership, are essential to complete the system and guarantee that the perspectives of the different functional departments meet in a constructive way.

Dialectical Deployment

"Regarding driving customer traffic and KPI conflicts, it can be difficult sometimes. You have to control your margin, and at the same time, the marketing people demand for a product to drive customer traffic and then you need to lower the price. It really hurts your margin." (Business Area Manager B, 05.05.2016). The quote from Business Area Manager B illustrates a common KPI conflict at Rusta, namely that between maintaining sales margin and driving customer traffic. While both KPIs are crucial for the company, a product category's ability to drive customer traffic is particularly important at Rusta. Firstly, because having competitively priced product offers is the primary method the company uses to drive customer traffic. Secondly, because it increases the sales of the other product categories as well. To ensure that Category Managers take their responsibility for driving customer traffic, Rusta has effectively deployed the Marketing department as a guardian of the customer traffic KPI, with high influence on the pricing of product offers. One of the founders explains: *"The Business & Range department has margin targets. That results in them sometimes avoiding to respond to competitors' price adjustments. Especially the Seasonal Business Area. It is rather difficult to constantly match all competitors' prices for all products that we have. The Marketing department has a stronger propensity to respond to this than the Business & Range department, because they see that it reduces our competitiveness overall, which affects the whole company. So then they can force Business & Range to reduce [the prices of] certain products so that they are leveled with or below the competitors. Because that is the fundamental idea with the company, to be price leading. Otherwise they [the Marketing department] remove the products from the advertisement altogether. If the product does not have a competitive price it is not included in the [directly distributed advertisement]. That happens."* (Founder, 04.05.2016). Even though such removal of products from the marketing material has negative side effects such as reduced sales and higher inventory for the removed product, it is often necessary to ensure that the margin KPI of a particular product category does not trump the whole business's need to drive customer traffic.

Another example of Rusta deploying disparate and opposing KPIs against each other is found in the meetings between the Concept department, who design and plan the space in the stores, and the

Business & Range department and the Supply Chain department. Business Area Manager B explains: *"We have a forum with the Concept department. It is a structured forum where there is a meeting ahead of every revision [of the store space]. The people in the Concept department are driven by making it look nice, that everything should fit in, and that the shelves are fully stocked and the baskets are full. They sometimes clash with the Supply Chain department when they fill something up to make it look better, and really fill it up a lot. It can end up being a year's worth of product in the stores, which is a lot of inventory. But it is an organized forum where they have a project plan and then have meetings where you go through which products to put in and which ones to take out. It is the product and category managers who attend these meetings with the Concept department."* (Business Area Manager B, 05.05.2016). Business Area Manager B explains how the Concept department, who are measured and evaluated in more qualitative terms, clash with the Supply Chain department and the inventory turnover rate KPI. The quote also illustrates the importance a structured forum for facilitating cross-functional communication. With regards to the PMDM model, this is an example of how disparate perspectives meet constructively.

Another similar KPI conflict involving the Concept function, this time with the Business & Range department, is described by Business Area Manager A: *"There is one thing which I have been a bit frustrated by. Let us say the Beauty Category is going to revise their space in the store. We have a planning system, where they put in products for which they allocate space. I would like to know, ok, which section is the most profitable? Which is the least profitable? Do we have sufficiently good space for the right product, and so on. And it is the Concept department's responsibility to place all products in this planning system. Sometimes I feel that an unprofitable product gets way too much space. The people in the Concept department are driven by making it look nice, or by this particular color being better in that particular spot. But I want it to be like, "this product has the highest margin so we place it at shoulder's height, and this product has the lowest margin so we place it down here". The better dialogue that exists between the Category Manager and the Concept department, the better the end result will be."* (Business Area Manager A, 05.05.2016). The quote from Business Manager A shows two things. First, that even though the manager understands what the Concept department is trying to achieve, the manager clearly pushes mostly for her own KPIs, in this case of the margin. Second, the manager recognizes that the best result – or synthesis – comes from when the representatives from the two departments are given sufficient time to meet and discuss to arrive at the best possible solution.

The Category Manager in Business & Range elaborated on how a system, where each department only have a few KPIs, requires discussions among people in order to get all perspectives on issues: *"What it means is that a lot of different people with different KPIs need to meet and discuss actions in order for it to work. Such discussions are increasingly prevalent here at Rusta. Historically, it was not like this at all but it is positive and I feel like we benefit from it. What you really have to understand is there are a lot of people behind the KPIs, not just numbers. That is why the discussions are so important."* (Category Manager *in Business & Range,* 01.03.2016). The quote serves to contrast how the system with few KPIs per department results in an increased need for cross-functional discussions and shows the effect of dialectical deployment in PMDM model.

The Supply Chain Controller argues that even though the KPIs are in many ways conflicting, it is very important to get them to work together: *"So, the important thing is to cooperate. They are conflicting, yes. But, you become a winner if you get them to move together."* (Supply Chain Controller, 10.03.2016). The controller also emphasizes the need for structuring the communication between different departments and how these discussions happens all the time, even when higher-ranking employees are not present: *"[The conflicting KPIs] result in a great balance [between Sales Planners and Outbound Replenishment], since Sales Planners only focus on sales. However, it is vital that you discuss, how you discuss, what you talk about and what numbers you look at. We have meetings where it happens all the time, but also during the daily operations where it does not escalate all the way up to me. It is really good that it happens and it is something for which we want to increase the frequency."* (Supply Chain Controller, 10.03.2016). The need for extra close cooperation between departments with opposing KPIs is also corroborated by Business Area Manager B: *"We have a very close dialogue with the Outbound department. We sometimes want the shelves more filled up than them. We believe somewhere that having a lot of products in the stores is a good way to drive sales. And they do not want too much in the shelves because then you lock up too much capital in the stores."* (Business Area Manager B, 05.05.2016).

The quotes presented above point to two things. First, the opposing perspectives of the different functional departments create opportunities for theses and antitheses to meet. Second, for these different perspectives to come together and form syntheses there must be some structure for when and how to discuss. If these meetings are not given the time and space necessary, there is a risk that the disparate functional perspectives never actually come together constructively. According the Supply Chain Controller, the main responsibility for this lies with the managers who must be able to recognize when cross-functional discussions are needed, in order to arrive at the best possible

business decision: *"It is very important that the managers see the flows through the organization and know when it is time to talk. It is an important element of the whole structure […]. There are so many factors and that is why it is important that decisions are not made based solely on one perspective."* (Supply Chain Controller, 10.03.2016).

Dialectical Leadership

With regards to the PMDM model, the simplified assumption that the functions meet one-on-one when dialectical discussions take place is to some extent misleading. At Rusta, it is common for more than two functions to be involved simultaneously in the same dialectical process. The model shows a process between two functions, while in reality there might be various functions with input to the same decision. The empirics show how the Business & Range function can be seen as function A in the model, while there are plenty of function Bs. The CEO elaborated on this as he discussed the importance of the Category Managers' ability to synthesize opposing viewpoints stemming from the conflicting KPIs of various functions. Since the Business & Range department is at the center of Rusta's organizational structure, Category Managers are indirectly exposed to the KPIs of all the other departments: *"It's where all KPIs meet. The Category Managers and Business Area Managers set the bar for how good Rusta can be. If they have not done a high-quality preparatory work in how they have set up their actions and used inputs, then it is to very limited extent that some other function can compensate fully for that […] a bad Category Manager can ruin 100 million in a year."* (CEO, 04.04.2016). The quote shows how the Business Area department in general and the category manager role specifically have tremendous responsibility for enabling and leading cross-functional cooperation.

According to the Category Manager, the challenge lies in weighing together and synthesizing different perspectives to come up with the best possible business decision: *"It's a lot of balancing where I incorporate different opinions into the calculations while at the same time considering what the suitable course of action in the market is. I will take action based on what I think, which I later have to defend"*. (Category Manager in Business & Range, 01.03.2016). According to the Business Area Manager who is also a former category manager, the fact that so many KPIs conflict with Business & Range puts significant responsibility on that department: *"I think the main responsibility lies with us in Business & Range, since most of the KPIs in the system are steered towards us at Business & Range, we need to make the business happen."* (Business & Range Project Manager, 01.03.2016). While it is important for the category manager to incorporate all perspectives and weigh them, it is equally important to form an opinion of your own and to have the emotional capacity and

social ability to handle multiple stakeholders: *"You need consensus among all the different stakeholders with these different KPIs when forming the strategy. But you also need a strong belief in yourself, otherwise you are thrown around with the wind, with someone talking about keeping the margin high, someone else is telling you to meet your inventory targets, and so on"* (Business & Range Project Manager, 01.03.2016). This is further underlined by the founder: *"Social skills is of great importance, meaning that one is humble and does not try to overrun other functions or go behind their backs, then the whole system would collapse"* (Founder, 04.05.2016).

With all KPIs being represented by different groups of people, a manager who has the mental capacity for synthesis but who is incapable of handling the different stakeholders might end up being unable to generate the best business decisions. Without emotional strength and leadership there is a risk of sub-optimization of individual KPIs: *"There is opportunity for business acumen in the category, but you have to be really strong as category manager to be able to say 'no, now I have this [product] and it is a problem, so I am selling it off. I have this [new product] going [into the stores] instead'. Then I think even the stubborn [stakeholders], such as the margin-lover and inventory-turnover-guy, will accept it. But, you have to be strong and able to convince them when you are right."* (Business & Range Project Manager, 01.03.2016). The Business Manager further emphasize the importance of incorporating the other departments' input, and she thinks this is becoming increasingly important as the organization grows: *"I think it is very obvious that those categories which have the most positive development of their business are the ones that are good at including and cooperating with other departments. The categories that work like that come so much further and I think the bigger we become, the more important it is. I think the mindset is really important for the whole business, the cooperativeness is extremely important. You cannot drive a good business without the ability to cooperate and do it together. This is true on all levels, from product, to category, all the way to business area."* (Business & Range Project Manager, 01.03.2016). It is evident that there is a substantial need for more than a high intellectual capacity to be a good dialectical leader. In regards to the PMDM model, it is of foremost importance that the managers responsible for synthesizing have strong social skills and the ability to understand diverse perspectives. In addition, the Business & Range Project Manager also highlights the importance of the Category Manager having the persistence to not yield to the agenda of a single KPI or function, for example the "margin-lover" or the "inventory-turnover-guy".

Double-Loop Learning

The double-loop learning helps the organization stay dynamic over time as environmental factors are reflected in strategy. An example of double-loop learning at Rusta was mentioned by the Head of Supply Chain when he described how the political state of China made Rusta change, from having four purchasing offices in China, to having two in China, one in India and one in Vietnam: *"There are certain risks with China. New opportunities arose in India and Vietnam, and we also came to realize how exposed we are to potential macroeconomic changes. That is when we decided to change our Supply Chain strategy, not putting all our eggs in one basket. When initializing such process of change, we needed to steer Business and Range people to order from the new offices so that we could get them up and running, even in situations where the Chinese might have been just as good. Today, our long-term goal is to have four strong purchasing offices that complement each other."* (Head of Supply Chain, 04.05.2016).

The ability to adjust the strategy after environmental changes is seen as an inherent part of the PMDM model and an essential component to achieve dynamism. The Supply Chain Controller gives an example of how the Rusta organization constantly questions its ways of working, by incorporating the perspectives of multiple functional departments. The example in question regards how the outbound department, in charge of store inventory levels, classifies stores of different sizes. To arrive at a new potential solution, the Supply Chain Controller has had discussions with both the Business & Range department, the warehouse, the stores as well as the Outbound team: *"I think, it is not confirmed but I am going to present it soon, that our problem lies in that we classify our stores according to size. They end up in a refill group based on how big they are. Before it was only sales but that was not right either, so now it feels like we need to find a middle way here where we use both perspectives and find a better solution. [...] We understand how the current system affects not only the inventory turnover rate but also the gross margin and we can see what needs to be done"* (Supply Chain Controller, 10.03.2016). The quote shows how double-loop learning is achieved by factoring in the perspectives and priorities of different functional departments, generating organizational knowledge.

One of the most illustrative examples at Rusta of how the input from the environment leads to strategic revisions is how, as previously mentioned, the market started demanding higher product quality. The company responded by creating an entirely new function, the Quality department, which today is the guardian of the product-return KPI. The Quality department's KPI is in constant conflict with the margin KPI of the Business & Range department, since higher quality costs more. This

change affected not only the Business & Range department, but even changed Rusta's strategy and mindset with regards to quality: *"In the beginning [the Business & Range people] would look at the technician and ask 'Who is that? Is he going to ruin my business?'. Nowadays, the technicians are often invited in and asked for help, 'I am going to make this product, what should I think of?'. So that is amazing to see. It has been a journey from enemy to, if not friend, then at least support."* (Head of Quality, 01.03.2016). Evidently, the change in the external environment did not only affect the Business & Range department's way of working but also changed the structure of the organization, in line with the essence of double-loop learning.

An important prerequisite for double-loop learning in the PMDM model is that the organization is open to ideas from all parts of the organization – so that all functions are included in the dialectical processes – something evident in several of the interviews. According to the CFO this is the case at Rusta: *"I think there is a pretty high ceiling here at Rusta. If you have an idea, the organization will listen regardless of where the voice is coming from."* (CFO, 01.03.2016). The openness described by the CFO is imperative in order to include the different functions' ideas as input to the constant reformulation of the organization's strategy. This approach is further confirmed by the founder's example: *"If an idea is tried and works, the process is quick to implement it no matter where it came from. Take the new magazines as an example, it was only a couple of years ago someone in the marketing department identified the need for it and today we issue 4-5 magazines per year, allocating many millions of SEK per year to it."* (Founder, 04.05.2016).

The Founder further explains how there previously was simply not enough time for strategy to emerge from the employees themselves, and how today's larger organization, enables that kind of organizational creativity: *"We only taught them merely what we needed them to do, and the pace was extremely high so they did not have time for doing anything else or for challenging the processes. Nowadays it is a slower pace per person [due to a larger organization with more people], and that creates the opportunity for organizational creativity."* (Founder, 29.02.2016). The quote illustrates that the larger the organization has grown – and the more established the different functions have become – the easier it has become to discover opportunities for double-loop learning.

Business Topos for Indirect Influence

The importance of indirect influence is highlighted by one of the Business Area Managers: *"It is important for us to always keep our ear to the tracks and sense what is happening, in order to be*

agile. Therefore, it would be hard for us with detailed KPIs, we need the flexibility to act. However, flexibility is good when considering the external aspects but when it comes to internal decisions it is more problematic. When all departments are granted this flexibility, everyone pulls in different directions." (Business Area Manager A, 05.05.2016). Evident in this quote is the need for some sort of guiding process that aligns actions, but does not impede the functions' agility towards changing market conditions. When interviewing, a recurrent terminology for putting what is best for the company above your own KPIs and interests was used. Called the "*Rusta Hat*", it was ubiquitous knowledge in the company and used by the employees in discussions and decision-making. When asked about the purpose of the "Rusta Hat", the CEO emphasized the recurrent need for sometimes making employees look beyond their specific function and think as if they were the owners of the company. In that way, the 'Rusta Hat' can be viewed as a derivative and symbol of the company's business topos: *"To put on the Rusta hat means that you go outside of your own role and basically think as if you were responsible or you were the one who owned all of Rusta, what would you have done then? So it does not mean what is best for me, or best for you, nor best for someone working in Asia."* (CEO, 04.04.2016). He further explains how the understanding of other functions' contributions is essential for the concept of the 'Rusta Hat' to work properly: *"It is about whether to cut stone or to build a cathedral: 'My particular stone, how does it contribute to the cathedral construction? The person I am talking to, how does his/her stone contribute to the cathedral construction?' If they get that, it will be much easier to put on the Rusta Hat"* (CEO, 04.04.2016). The quote shows the importance of making employees understand the bigger picture and to be able to see the work they are currently doing in their respective functions in the context of the whole firm.

One of the founders describes how cross-functional cooperation used to be a major issue in the organization: *"You know, the biggest problem that we had, [the other Founder] and I, was that the departments did not work together"* (Founder, 29.02.2016). A key factor for the improving of cross-functional collaboration was the previously described understanding of other functions contributions to Rusta's total performance. This also requires that all employees share an understanding of the business model. While the CEO had previously pointed to the benefits of having employees in different functions focus on a few KPIs and live in simplified realities, he also made it clear that all employees, regardless of function, also need a fundamental understanding of the company's business model: *"What you need to be clear on when you build a system like this is 'what is it all about?' Why is the company successful to begin with? The first thing, for a low price company, is the sales growth. [...]. Everything deteriorates if you do not have the sales growth. That is number one. Number two, how do you drive that then? Through the low price! Lower prices, more people want to*

buy. Like the most basic national economic model. If you lower the prices demand goes up. That one is easy for people to buy into. So you constantly have to turn the volume growth into lower purchasing prices, and transfer as large a share as possible to the customers, so that they buy more, and then you end up in the price-volume-spiral. [...] So the different departments have different KPIs, but this runs like a thread. Everyone who works at Rusta has to understand these basics" (CEO, 04.04.2016). By introducing an element of shared understanding and objectives among all employees, Rusta's business topos serves to facilitate understanding between the different functions, while still enabling them to remain functionally specialized. This understanding of other functions is essential not only for making the best cross-functional business decisions, but also for ensuring that the strategic revisions generated through double-loop learning are in line with the company's fundamental business model.

The business topos' facilitating effect for strategy revisions was further elaborated on by Business Area Manager B: *"I can only compare it to the other companies I have been at, but in comparison to them, Rusta is very 'bottom-up'. If you come up with something, it can all of a sudden be considered on organizational level and then implemented. But it is very important that everyone understands the basics of the company. Otherwise the ideas are not really feasible for the whole organization. [...]. The Rusta Hat is useful in these kind of discussions. It helps me make my point."* (Business Area Manager B, 05.05.2016). While the quote illustrates the usefulness of the Rusta Hat for discussions that could potentially generate double-loop learning, it is evident that a shared understanding of the business model among the employees also is needed.

The Head of Controlling explained how she often encounters situations where what is in the best interest of the whole company runs against the KPIs of people in specific functions. In those situations, the 'Rusta Hat' supposedly becomes a very useful communication tool: *"It is something that we from controlling always wear because we see the whole picture. However, everyone does not. Sometimes employees have to make a decision that goes against their own interest, but they are not willing to. Then we come out and put the Rusta Hat on them by explaining the situation. Most times they understand when we simply mention the hat, but otherwise help them understand."* (Head of Controlling, 11.03.2016). The Supply Chain Controller emphasizes that employees' understanding of the "Rusta hat" improves the longer the employees remain with the company. She explains how new employees initially struggle to look beyond their own specific KPIs and to make decisions based on what is best for the whole company: *"They think it's really difficult! Why? Well, because they are new and it is much easier to only say 'No, stop!'. In those situations, I have to go in and direct a bit,*

it is business that we are doing here after all. It's about customers, we want to sell. It is not warehouse or KPIs that is our business model. We cannot let a control system get in the way of our sales. They think it is hard, but they learn it bit by bit.'' (Supply Chain Controller, 10.03.2016). The quote illustrates how the time aspect is key for a company's business topos to become integrated in employees' minds. However, when the business topos has been firmly established it helps managers to indirectly align employees' actions along the company's overall goals. The business topos is shown to be important in order to compensate for the loss of control through having few KPIs. The Marketing Manager explains: *"It is very hard to design a system that encompasses everything. Every time someone [in a specific functional department] does something for all of Rusta, should that be highlighted? That is probably very difficult incorporate in a system, therefore the Rusta Hat functions symbolically and helps you to always have it in the back of your head.* (Marketing Manager, 10.03.2016)

Even though the "Rusta Hat" clearly is a well-functioning tool for indirect alignment, a quote by the founder describes a situation where it was not sufficient for directing actions in the best interest of the company, indicating that the system is not perfect: *"Everybody wants their campaign to be rolled out during the pay-week of October instead of the same week in September since history tells us that customers spend more money then. It is evident that some categories are more suitable for that week but yet, all categories tweaked themselves to be stronger candidates for it, which is detrimental to the organization as a whole. No one seemed to be willing to put on the Rusta Hat, resulting in [the CEO] having to step in and make the decision for them."* (Founder, 04.05.2016).

While there is evidence of its shortcomings, the "Rusta Hat" plays a vital role in Rusta's operations. Together with every functional department's understanding of how the other interrelated functions contribute to the company's main objectives, the "Rusta Hat" constitutes Rusta's business topos. As described in the PMDM model, the business topos guides employees to act in line with what is best for the company. It also facilitates dialectic discussions, as it creates a shared understanding of how the discussants' respective functions contribute to company performance. Hence, it is an important component, permeating the organization and all the other components of the PMDM model.

5. Contributions

In section 5.1, the findings of this paper will be contrasted with previous findings of the dynamism in PMM literature, providing an answer to the research question: How organizations build dynamism into their PMM systems? In addition, showing how the principles of dialectics can be augmented by KPIs, section 5.2 will present a contribution to the literature of dialectics.

5.1 Contributing to the literature of dynamism in PMM systems

The findings of this paper support the research by previous authors, which identified important components required in a PMM system in order to achieve dynamism. These components are resilience through outcome orientation (Melnyk et al., 2014), double-loop learning capability (Melnyk et al., 2014; Micheli and Mari, 2014), and the capability for indirect influence (Kolehmainen, 2010). By using the principles of dialectics and identifying three other components, this paper is able to implement the above mentioned components to build a coherent model, through which dynamism can be built into a PMM system. Compared to traditional PMM systems the PMDM model contains fewer measures, and instead of simply acting on variances, the PMDM model enables immediate actions based directly on changes in the surrounding environment. Through the use of dialectics – amplified by conflicting KPIs – the risk of detrimental sub-optimization is mitigated. Throughout this section, the contribution of the findings of each of the PMDM model's six components will be elaborated.

Enhanced Functional Specialism

The ability to use a low number of KPIs per function requires division of departments into smaller more specialized functions, in order to cover all KPIs essential to business performance. Smaller functions that had previously been incorporated as sub-units to other functions became detached and formed functions of their own, with their own manager, KPIs and agenda. The company further augmented this effect by relying increasingly on functional experts – as opposed to generalists – in the different functions. The experts focused on maximizing what was core to business success from their own point of view and were deemed better suited to interpret changes in the environment related to their area of expertise than generalists. The use of specialized functions with experts is essential for Rusta as it results in the generation of continuously contrasting – and often opposing – arguments between functions. This was shown to be imperative for the PMDM model, as it facilitates the use of dialectics. The findings are in line with how Seal and Mattimoe (2014) showed how deliberate separation of functions creates favorable settings for dialectics. However, this has not

been further elaborated in the context of dynamic PMM systems, and is thus a new contribution to existing literature.

Adaptation facilitated by resilience

Since the KPIs chosen for each department were few and fundamental to the respective function, employees of the various functions had increased flexibility in how to achieve their targets. The strong focus on outcomes empowered each function to decide its response to changes in the external environment, increasing the timeliness and agility of each function, and the organization as a whole. The result therefore confirms the research by Micheli and Mari (2014) and Kolehmainen (2010) about using a low number of KPIs to be agile towards environmental changes. The findings are also in line with the propositions by Melnyk et al. (2014) regarding how outcome orientation results in increased resilience of the PMM system, making the organization more adaptable.

Dialectical Deployment

While the deployment of disparate functional perspectives has previously been covered in Management Accounting by Seal & Mattimoe (2014), this paper looked at the dialectical deployment of opposing KPIs in a PMM system. This dialectical deployment entails designing the KPI system so that functions' KPIs are inherently conflicting, and so that these conflicts can be handled constructively. This dialectical deployment was shown to be a good method for achieving a balance between the perspectives of different functional departments and to prevent sub-optimization. By letting the disparate perspectives interact through discussions and forums, the opposing KPIs served to augment the contrast between different functions' perspectives. This created possibilities for constructive conflict and, consequently, better business decisions were made. In this way, dialectical deployment was found to be a crucial step in the PMDM model. Two prerequisites were identified as necessary for successful dialectical deployment to occur. First, that representatives of interacting departments are given sufficient time, so that discussions can transcend from being about the two different departments' disparate KPIs to being about making the best possible decision for the whole company. Second, managers must take responsibility for identifying important focal points that require cross-functional discussions. The use of conflicting KPIs was shown to be a useful method for preventing sub-optimization. This represents a new contribution to the literature on dynamism in PMM systems.

Dialectical Leadership

The findings clearly illustrate the importance of strong dialectical leadership for positions that required cross-functional cooperation and exposed managers to the KPIs of other functional departments. The managerial traits described as necessary included not only the mental capacity for synthesizing the opposing arguments, but also the emotional and social capability to handle conflicts with multiple – and sometimes persistent – stakeholders such as the "margin-lover" and the "inventory-turnover-guy". Another aspect that was clearly illustrated was how the PMM system was set up so that senior managers in cross-functional dialectical positions were only evaluated on the entire company's performance, regardless of which department they were head of. Consequently, by escalating unresolved conflicts to managers incentivized by corporate performance Rusta ensured the decisions stemming from the most intense conflicts to be aligned with what is best for the company. Our findings are in line with those of Kolehmainen (2010) that point to the importance of cultivating relevant managerial capabilities, but further adds the mental capacity for synthesis and emotional and social capability to handle conflicts as important attributes of managers. This was discussed by Seal and Mattimoe (2014) but has not been considered in the literature on dynamism in PMM systems. Overall, our findings indicate that the role of the manager throughout the organization grows more important and becomes more difficult when using the PMDM model.

Double-Loop Learning

In the PMDM model, and as seen at Rusta, the double-loop learning is inherent and achieved through the successful implementation and use of the other components. The findings highlight how Rusta is constantly evolving by responding and adjusting to changes in the external environment, with measures and targets continuously being proactively questioned. It was shown that the input from smaller functional departments could result in the reformulation of the company's strategy, thereby showing that the company's PMM had a two-way relation with the strategy and was not merely a derivative. This is in line with the proposal by Melnyk et al. (2014), that a two-way relation supports a system in being dynamic. Furthermore, it was also evident how good ideas were allowed to emerge – regardless from where in the organization they came – and how the more established functions have improved the opportunities for double-loop learning. These findings are in line with the propositions of Melnyk et al. (2014) and Micheli and Mari (2014) regarding the importance of double-loop capability for making the system dynamic.

Business topos for indirect influence

The findings of this paper showed how the case company, at various levels of the organization, used the "Rusta Hat" as the symbol of the owners' perspective in decision-making and the synthesis process. Given that each functional department has a basic understanding of how the other functions contribute to organizational performance, the "Rusta Hat" facilitates communication and progress as it adds a clarified element of shared objectives to the organizations' various functions. The use of such an overarching tool for making functions strive in the same direction furthermore helps top management by aligning the actions of empowered employees, thus facilitating the use of an outcome oriented PMM with few KPIs. Additionally, as functions strive in the same direction and strategic revisions are emerging from those functions, it inherently helps directing double-loop learning. The "Rusta Hat", together with the cross-functional understanding, serves as the business topos of the PMDM model. This provides an example of what Kolehmainen (2010) called for when she highlighted the need for indirect processes of alignment – to exercise indirect influence over employees' behavior. However, the business topos develops over time and requires a high level of integration in all functions to be successful. Such conditions may not be possible to meet for organizations of other characteristics. Hence, the call from Kolehmainen (2010) is not yet satisfied, as there might be other approaches more suitable in other settings.

Additional insights for the PMDM model

Having discussed how the findings contrast with those of the existing dynamic PMM literature, it is also important to elaborate the ways in which the findings and the PMDM model proposed in chapter 2.3 did not cover all aspects. Two areas are discussed below: the possibility of synthesizing at lower levels of the organization, and the inclusion of more than two departments simultaneously in the generation of a synthesis.

Something that was seen repeatedly at the case company was how more complex cross-functional conflicts often had to be escalated to a manager, in line with the thinking of the PMDM model. However, something that was also evident was how conflicts could be resolved without escalation. Resolving conflicts further down the organization is potentially valuable since it frees up more time for senior managers to spend on complex matters. The key factors for the possibility of synthesizing at lower levels was the cooperation ability and the synthesis capability of middle managers. Kolehmainen (2010) also talked about the increased responsibility of middle managers in order to create dynamism in PMM systems. Part of this paper's contribution is to highlight the importance of the middle managers' ability to handle multiple stakeholders and synthesize their disparate

perspectives. This does not call for a change to the model, but it does emphasize the benefit for companies to ensure that suitable managers are put in positions at cross functional focal points.

An observation that would potentially call for an adjustment of the model is the involvement of more than two functional departments in the synthesis generation process. The current model assumes the involvement of merely two functions, while it was clear that there were instances when multiple functions were involved simultaneously. To some extent this can be explained by the case company's organizational setup with the Business & Range department clearly at the center of the KPI system. However, since many companies often have one particular functional department with a more dominant role, it is at least something that would require consideration if the model is to be applied in another company.

5.2 Contributing to the field of dialectics

This single case-study of a dynamic PMM system further provides some final contributions to the literature of dialectics within Management Accounting. The findings of this paper are in line with Farjoun's (2002) research, that strategy can be produced, maintained and transformed through dialectical processes. Also, Harvey's (2014) reasoning of using various subgroups with diverging expertise for breakthrough ideas is seen to be applicable and preferable when applying dialectics in the organizational setting – not only in the group context. Furthermore, two potential failures of dialectics were highlighted by Harvey (2014): 1) not having sufficiently diverse viewpoints or underlying conflicts, and 2) that synthesis may become stagnant over time as perspectives converge. With the PMDM model, the risk of the two potential failures is mitigated.

This study implies that sufficient underlying conflict can be fabricated through dialectically deploying KPIs by giving separated functions conflicting and interdependent KPIs. This way, conflict will automatically arise when functions try to maximize their respective outcomes. For maintaining the disparate perspectives and avoid becoming stagnant, Harvey (2014) proposes that environmental resources can facilitate a mitigation of the risk of convergence. Using the environment as a source of variation for perceptions, knowledge and insights that refines diversity has in this study been found useful in the context of organizations as well. The PMDM model enables dialectical management to reach full potential as environmental factors are actively considered in the formation of anti-theses.

Seal and Mattimoe's (2014) reach-out for further examination of dialectical management in the context of tension management between functions has been responded to through this study. The use of dialectics has proven effective in yet another organization, this time in the sector of retail. However, in contrast to Seal and Mattimoe's conceptual use of dialectics when designing a management control system, the PMDM model is focused on building dynamism into a PMM system. In this sense it is more practical, as it focuses on the relationship between interrelated functions. As mentioned above, without the environmental factors and the conflicting KPIs, Seal and Mattimoe's (2014) framework is exposed to both the risk of insufficient underlying conflicts and the risk of converging perspectives over time. Such factors should presumably be considered to further strengthen their framework of dialectical management.

6. Concluding remarks

This paper has presented the Performance Measurement and Dialectical Management (PMDM) model, answering the question "*how can organizations build dynamism into their PMM systems?*". The model is comprised of six individual components. Three of these had previously been identified by the dynamic PMM literature: *resilience* through outcome orientation (Melnyk et al., 2014), *double-loop learning* capability (Melnyk et al., 2014; Micheli and Mari, 2014), and the capability for *indirect influence* (Kolehmainen, 2010). In addition, three new components were identified as essential in order to form a complete system: *Enhanced functional specialism*, *Dialectical deployment*, and *Dialectical leadership*. The contribution of this paper lies in showing how all these components can be combined through the PMDM model and build dynamism in the PMM system. The model was developed by combining the recent dynamic PMM literature with the theory of dialectics in management (Benson, 1977; Harvey, 2014) and management control (Seal & Mattimoe, 2014). By using conflicting KPIs as a generator of antitheses to current assumptions and strategies, the PMDM model synthesizes different functional perspectives. The model enables the organization to timely and effectively respond to changes in the business environment, whereas traditional PMM systems rather acts on evaluated discrepancies between targeted and actual outcomes. Such traditional use is no longer feasible as the global development increases the turbulence most organizations operate in and forces proactivity and rapid adaptability.

While organizations could potentially attain a partial benefit from using any of the components in separation, it is when all parts are present that a PMM system can become fully dynamic. The use of more specialized functional departments and experts was seen to be imperative for identifying important changes in the external environment. There is a need for a resilient PMM system, where outcome oriented functions are allowed the necessary agility to respond to environmental changes in their respective domains. This inevitably results in clear contrast between the perspectives of different functions, further augmented by the implementation of conflicting KPIs. By deploying KPIs against each other, conflicts are inherent and the PMM system can effectively achieve balance and mitigate the risk of sub-optimization. However, this is dependent on strong dialectical leadership as the responsibility of making conflicts constructive lies with managers. It requires them to have both the mental capacity for synthesis as well as the social and emotional capabilities to handle multiple stakeholders driven by contradicting KPIs. When implemented successfully these steps enable the PMM system to generate continuous double-loop learning through strategic revisions, which is essential to ensure that both the PMM system and the organization adjust in pace with the fast-

changing business environment. Finally, indirect influence on the employees is deemed necessary to steer the process in a desired direction and is attained by having a shared understanding of the company's business model and its overarching goals.

In closing, even though the contribution of this paper primarily is to the literature on dynamic PMM systems, it also makes contributions to the field of dialectics. First, it responds to Harvey's (2014) identified need for methods ensuring sufficient underlying conflict between disparate viewpoints and for avoiding long-term stagnation of the synthesis process. This paper shows how – in an organizational context – having interdependent specialist functions with conflicting KPIs results in diversity among perspectives, and how the risk of stagnation is mitigated by continually using input from the external environment to create contrast between viewpoints. Second, the paper responds to the call by Seal & Mattimoe (2014) for further examination of managing tensions between functions. However, while Seal & Mattimoe's (2014) article had a more conceptual scope regarding dialectics in management control, this paper showed explicitly how to use dialectics to build dynamism into a PMM system.

7. Limitations and Further Research

This chapter first presents some limitations of the study and then some suggestions for further research.

By combining the previous literature on dynamism in PMM systems with the perspective of the management theory of dialectics, this paper aimed to examine how to build dynamism into PMM systems. As management theory generally includes simplifications of reality, this study does not attempt to be more than a moderately precise depiction of reality. Consequently, there are a couple of limitations to this paper worth mentioning.

One limitation is that the paper is based on a single case study with a rather small sample of interviewees. Although this allows for providing important analytical depth, it might lower the generalizability of the findings. Furthermore, the case company is active in the retail industry and the PMM system suitable for such setting might not be viable in organizations operating in other industries. One reason is that different industries are subject to varying levels of turbulence, and hence might require substantially different levels of dynamism. Also, conducting interviews at various organizational levels of the case company might have led to biases in responses as interviewees might have distorted the answers to please superiors rather than reporting the true situation. However, to improve the objectivity by minimizing the potentially distorted answers the authors guaranteed anonymity and the option to stop recordings at any time. Cross-examination of data from various sources was also conducted to reduce doubts regarding dishonest statements.

Further research should preferably address some of the limitations presented above. This paper presents the PMDM model and finds clear evidence that the case company, to a large extent, uses the different components when measuring and managing for performance. In order to see whether some aspects of the model, or the model in its entirety, is prevalent in other organizational settings, further research could examine if similarities are found in organizations within other industries. In order to increase generalizability, future research could for example conduct a multiple case study, the study could be conducted in another region, or the study could be conducted in assorted sizes of corporations.

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Appendix – List of interviews

#	Position	Date	Location	Duration
1	Head of Business Development	19.01.2016	Stockholm	01:20
2	Founder	29.02.2016	Stockholm	02:08
3	Head of Quality	01.03.2016	Stockholm	00:53
4	Chief Financial Officer	01.03.2016	Stockholm	00:47
5	Business & Range Project Manager	01.03.2016	Stockholm	01:06
6	Founder	01.03.2016	Stockholm	00:49
7	Process Consultant	03.03.2016	Stockholm	00:58
8	Supply Chain Controller	10.03.2016	Stockholm	00:58
9	Product Manager	10.03.2016	Stockholm	00:51
10	Marketing Manager	10.03.2016	Stockholm	00:46
11	Category Manager	10.03.2016	Stockholm	00:51
12	Head of Controlling	11.03.2016	Stockholm	00:45
13	Chief Executive Officer	04.04.2016	Stockholm	01:01
14	Founder	04.04.2016	Stockholm	00:16
15	Head of Supply Chain	04.05.2016	Stockholm	00:25
16	Founder	04.05.2016	Stockholm	00:27
17	Head of Business Development	05.05.2016	Stockholm	00:23
18	Business Area Manager A	05.05.2016	Stockholm	00:21
19	Business Area Manager B	05.05.2016	Stockholm	00:22