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Performance Management Systems in a Mutual Company – A Case Study of Länsförsäkringar Gotland

Abstract:

The thesis explores the performance management system (PMS) in place at the mutual company Länsförsäkringar Gotland (LFG) and how and why the measures, standards and rewards they use to construct this PMS differs when compared to companies acting on the capital market. The data collection was conducted as a qualitative single case-study where seven (7) of LFG's top managers, including the CEO, were interviewed. Through the analysis of the theory, existing research on conventional companies and our case-study on the mutual company LFG, we identified three factors that contributed to the mutual company constructing its PMS differently: The absence of capital market pressure, the customer ownership (stakeholder perspective) and the organizational structure of the company. These factors lead LFG to align themselves more closely with the theoretical framework, namely The Balanced Scorecard (BSC) and the motivation crowding theory. The focus becomes long-term goal congruence and value creation for the customer through non-financial excellence rather than short-term and superficial enhancement in financial performance that could be observed within the conventional companies.

Keywords: Performance management systems, measures, standards, rewards, mutual company

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1. Introduction

1.1 Background

Performance Management Systems (PMS) are widely used in corporate governance to reach goal congruence within a company. Goal congruence is usually associated with aligning the goals of the managers with the goals of the shareholders in the company. PMS is hence, in its most generic form, a system that seeks to measure, standardize and reward performance of the managers in such a way that they are incentivized to strive for the maximization of shareholder value. There is a variety of ways to utilize the components of the PMS and a lot of theory and research has been conducted in this area. However, the theory and the perceived empirics does not seem to always coincide.

The theory regarding PMS advocates a varied use of both financial and non-financial measures in order to achieve an all inclusive perspective on the performance of a company. Only incorporating a few measures and blindly following these leads to the risk of not seeing that the enhancement of one incorporated measure might cannibalize the performance of the company as a whole. The theory also states that even a greater variety of measures might not be sufficient if they are all solely based on financial or non-financial performance. The financial measures are so called lagging indicators that only shed light on what has happened in the company. On the other hand, non-financial measures are usually leading indicators that have the ability to show in which way the company is heading before the financial measures are actually able to capture it. This is why PMS theory advocates a combination of both types of measures in order to establish where the company is and where it is potentially heading (Anthony et al. 2014b).

Due to the need of both lagging and leading indicators in measuring company performance different PMS have been developed to aid the managers in incorporating well tailored measures with enough variety to efficiently capture the company's performance as a whole. These PMS usually also help the managers to eliminate measures that do not add significant explanatory value which narrows down the measures to a manageable amount. The most famous example of a PMS that many companies have, at least on paper, adopted is The Balanced Scorecard (BSC) by Robert Kaplan and David Norton that was first introduced in 1992. The BSC divides the measures and goals of a company into four perspectives: financial, customer, internal business and innovation & learning. In this model only the financial perspective incorporates financial measures whilst the three other perspectives should consist of non-financial measures.

The emphasis, at least in the amount of measures used, seems to be laying on the non-financial measures (Kaplan, Norton 1992). As previously mentioned, a variety of companies in multiple countries have adopted the BSC as a way to not only measure performance but also exercise management control. But how well do companies actually diversify their measures and are the managers actually rewarded and incentivized to strive for excellence on all the perspectives that BSC recommends? It turns out that in reality the capital market sets the standard for what is regarded as pivotal measures, and since these usually boil down to financial ones the companies are in a lot of cases actually measuring short term financial performance and rewarding manager's decisions that enhance these simple financial key ratios (Kraus, Lind 2010).

The research done on multiple public companies in Sweden is, as previously mentioned, showing that in practice the financial measures are dominating mainly due to the pressure that the capital market and the analysts put on the companies. The capital market values good short term performance and since analysts make their estimates mostly based on financial measures derived from quarterly reports the managers are rewarded for keeping these measures up, even at the cost of long term prosperity. Additionally, since the shareholders of public companies are usually not holding the stock for a long period of time, even the shareholder perspective has shifted towards more short term performance. A question that seems to be unanswered is how companies that are not affected by the pressure of the capital market and the shareholder perspective choose to measure, standardize and reward performance.

1.2 Purpose and The Question

This thesis sets out to close the gap that the literature and existing research leaves out. The goal with the thesis is thus to find out how companies, absent the traditional ownership structure and the capital market pressure, choose the optimal PMS and what kind of observable differences there are compared to the traditional public companies. If we observe a difference, we are interested in which factors contribute to this divergence and how it occurs. We are conducting this thesis as a single case study where we are interviewing different managers at the customer owned insurance group Länsförsäkringar Alliance. More specifically we will focus on one company within this alliance, namely Länsförsäkringar Gotland (LFG). In these interviews we delve into how the company constructs its PMS. In other words, how they measure performance, standardize these measures in order to determine if the performance has been adequate and how they reward good performance to align the incentives of the managers with the goals of the company.

The hypothesis is that, since the main reason for the prioritization of financial measures and rewards are due to the short termism and the financial focus that the capital market puts on the public companies, there has to be a different mindset and structure to the PMS in the customer owned companies due to the absence of this pressure and dual relationship that the owners being customers simultaneously create. After all the interviews are done we will compare it to the existing theory about PMS as well as with the existing research that has been done on the public companies with a traditional shareholder relationships and see how and why we see the hypothesized differences with our case study and the existing material.

We believe that there is going to be an observable difference in at least the measures and the rewards where the measures should be more influenced by the non-financial perspective due to the fact that measures like customer satisfaction directly correlate with shareholder value as the customers also act as shareholders.

The question we set out to answer is thus:

Does the PMS in a mutual company differ from companies acting on the capital market with a traditional ownership structure and if so, what factors are contributing to this observable difference?

2. Theory

We are going to explore the performance management system in place at a customer owned company and identify what potential observable differences that exist within this organization's measures, standards and rewards compared to conventional organizations' PMS. In order to successfully compare our observations, we need to build an understanding about the comparable material. This section will thus be devoted to exploring what the literature and theories have established as an effective and efficient way to measure, standardize and reward performance. Additionally, this section will also dig into how companies actually use the PMS and whether they align themselves with the theoretical perspective of the PMS or if they deviate, and if then how and why. When the theoretical framework as well as the perspective from the existing research has been explored we will be prepared to compare it to our case study. We will analyze the outcome and draw a conclusion regarding the potential differences and how the identified factors play a part in the observable empirics deviating from the conventional organizations and perhaps even the theory.

Because our case study examines the performance management system in Länsförsäkringar Gotland through separating the measures, standards and rewards from each other we have decided, that in order to receive explanatory value of each component more effectively, to do the same separation in our theory and existing research review. The review will thus be divided into three parts consisting of measures, standards and rewards. As in our analysis of the empirics we will in this section also tie the theory and existing research on these parts together in a summation part where the combined effect is explored as well.

2.1 Measures

The most widely recognized framework when it comes to performance measures is probably The Balanced Scorecard originally developed and brought to the public attention by Robert S. Kaplan and David P. Norton in a paper published in the 1992 Harvard Business Review titled The Balanced Scorecard: Measures That Drive Performance (Kaplan, Norton 1992). The paper argued that in the modern turbulent world the usage of only financial measures as indicators of performance was outdated and not sufficient enough in creating a comprehensive picture of the organization that the measures were applied to. In fact, Kaplan and Norton do not see the financial measures as indicators at all, but rather as outcomes that only explain what has already happened in the company and not what is going to happen. The paper argues that only measuring performance through financial measure such as return on capital, earnings before tax, earning per share and so on disregard the possibility that these measures have been improved at the expense of some operational part within the organization. Thus The Balanced Scorecard is a tool that helps managers see whether the improvement of one area has been done at the expense of another one. The Balanced Scorecard also allows manager to not only see how they have performed but also how they are likely to perform in the future. The Balanced Scorecard does this by, in addition to the financial measures that give information about the outcome of previously taken action, including operational (non-financial) measures that function as indicators of future performance and the direction the company is heading towards.

These leading non-financial and lagging financial measures are divided into four perspectives:

- The financial perspective, that includes the lagging measures consisting of the traditional short term earnings and return oriented measures.
- The customer perspective, which is designed to make the managers look at their performance through the eyes of the customer and actually break their mission down into tangible measures that are usually correlated with customer satisfaction.
- The internal business perspective, that focuses on the internal processes and how measures such as cycle time, employee skills and productivity can be improved to ensure continued leadership in the area of expertise.
- The innovation & learning perspective, which focuses on improvements that has to continuously be made to keep up with the turbulent environment like new product development or existing product improvement.

In summation, the four perspectives combine operational indicators that show where we can expect the financial outcomes to be in the near future. In this way the company can adopt a long term perspective that focuses on enhancing the performance throughout the whole organization at every level, not only through the superficial financial measures. Without control, the operational measures could show false improvement at the expense of other performance within the company.

The Balanced Scorecard framework has been widely recognized and adopted by many multinational companies across the world as a powerful tool in aligning manager’s performance with shareholder goals and identifying critical success factors that drive value creation (Kraus, Lind 2010). The combined use of operational and financial measures is also supported by Umit S. Bititci, the Professor of Business Performance at the Heriot-Watt University, in his paper Integrated Performance Measurement Systems: A Development Guide (Bititci, Carrie & McDevitt 1997). Andrew Likierman, the Dean and Professor of Management Practice in Accounting at the London Business School, in his paper The Five Traps of Performance Measurement published in the Harvard Business Review also supports this framework (Likierman 2009).

Bititci concluded in his paper that especially in manufacturing companies' performance measurement systems solely based on cost and financial accounting fall short in recognizing the need to make improvements that are pivotal to keep their market share and position against the competitors in the industry. According to Bititci the financial measures, when used without complementing with non-financial measures, also fail to align goals of managers with the business objectives of the organization. This leads to the performance of managers not being transferred throughout the organization's value chain up to the shareholder level, which usually is the ultimate goal of an organization. In order to align the objectives of managers with the goals of the company and minimizing information asymmetry and the costs related to it, Bititci suggests a framework very similar to The Balanced Scorecard. Bititci suggests a performance management system that incorporates both financial and non-financial measures that when combined can in a much more comprehensive way be aligned with an organization's overall strategy. These measures should be deployed from the top starting from the company's vision and then be communicated and integrated downwards in the chain through the business objectives, strategic goals, critical success factors, critical tasks action plan and finally to the individual performance measures level. When the measures are then communicated as feedback upward the same chain, the risk of them deviating from the organization's vision is minimized and the goal congruence on every level is enhanced.

Likierman also aligns himself with the view of Kaplan and Norton and their balanced scorecard framework. He takes issue with the common practice where executives assign the responsibility of performance measurement to, what he calls, spreadsheet experts that are not necessarily the right people to manage and define these measures. According to Likierman the delegation of these measures to spreadsheet experts usually lead to overrepresentation of financial measures and the insight to the company's actual performance is reduced. The pivotal part that Likierman puts emphasis on is the combination of quantitative (financial) and qualitative (non-financial) measures that not only take into account the numbers on past performance but also enables the company to assess their competitiveness against competitors within the same industry.

Likierman identifies five traps of performance measures that only using financial, short term and number oriented measures can lead to:

- The first trap is the usage of lagging measures that can lead to the risk of measuring against yourself. This trap ties to the financial performance being measured only within the company and thus only receiving information in absolutes rather than relatively. The failure derives from not comparing externally with measures that capture the performance relative to the market and industry competitors.
- The second trap relates to looking backward. The problem here is that only looking at past performance through the lagging measures and trying to improve the numbers from previous years fail to explore whether the decisions you are currently making are going to benefit you in the future. In other words, Likierman emphasizes leading measures as the important differentiator between falling and evading this second trap as well.
- Blindly looking at the numbers is the third trap that Likierman warns about. The risk relates to accepting the numbers on the financial measures at face value and not actually analyzing whether good performance on these measures actually lead to value creation or if the measures even are critical for the success of the company.
- Manipulation of the measures is the fourth issue and trap that only using financial metrics can lead to. Most of the financial measures are based on accounting numbers derived from the financial reports. The financial reports on the other hand can be artificially enhanced through multiple tricks like wrongfully capitalizing costs that should have been reported as expenses instead. Thus a greater variety of measures also relating to the operational parts of the organization will significantly decrease the likelihood and possibility of numbers manipulation.
- The final trap is relying too long on the existing performance measurement system and the information these metrics provide. As the organization evolves, so does the business and hence the useful measures of performance. Sticking to the same measures, especially the lagging financial ones, will prevent managers from seeing that the performance that is being monitored no longer corresponds to the value creation the company is seeking.

As can be seen from Likierman’s and Bititci’s papers, many respectable experts within the area of performance management agree with Kaplan and Norton that non-financial measure are an essential part of a successful performance management system. Without the combination of both leading and lagging measures the company risks taking a too short-term approach at the expense of long term success and value creation. The incorporation of non-financial measures into the performance management system thus assists managers in seeing which direction the company is heading in terms of financial performance. They also help establishing whether the enhancement of one or multiple financial measures have occurred at the expense of some operational part within the company. Finally, this incorporation determines if the enhancement is actually organic and establishes a long term value creating chain that derives from actual tangible improvements from the company rather than short-term quarterly improvements in the lagging and volatile financial measures.

Now we have established that in theory an effective and efficient way of constructing a performance management system is building it based on The Balanced Scorecard or a similar framework. In other words, a system that combines financial and non-financial measures in order to create a comprehensive outlook on the organization's overall performance, thus ensuring goal congruence and long-term value creation. In order for organizations to successfully measure their performance we would expect them to apply this framework in reality as well. But in reality there is a deviation from the theory where conventional organizations heavily prioritize financial measures. In order to understand how and why the company in our case study, that does not operate on the capital market but as a customer owned company, measure performance we have to take a closer look on the conventional companies operating on the capital market. Exploring the way these conventional companies construct their PMS gives us the tools of comparison when we later in the thesis delve into our case study.

As previously mentioned, multiple companies across the world have on paper adopted some form of The Balanced Scorecard as the performance measurement system in use. However, case studies on the so called balanced scorecard adopters show that in practice financial measures dominate and are the only ones regularly measured and tied to rewards (see the reward section) (Kraus, Lind 2010).

In the case study “The impact of the corporate balanced scorecard on corporate control - A research note” by Kalle Kraus and Johnny Lind published in the Management Accounting Research (www.elsevier.com/locate/mar) Kraus and Lind interviewed the top managers of 15 different multinational Swedish companies traded on the Stockholm Exchange. They found that 8 out of these 15 companies had on paper adopted The Balanced Scorecard, but in reality the measures were almost exclusively set only for financial performance. In fact, the case study found that even though the companies had officially declared the adoption of The Balanced Scorecard, none of the top managers in the different companies could provide details on the design of the scorecard in use or even specify the operational measures that were integrated. Instead the managers could without trouble specify all the financial measures (the common ones were Return on Capital Employed, Residual Income, Earnings Per Share and Earnings Before Interest and Taxes) used and how the rewards and standards were tied to them. Why were these companies so extremely financially focused even when it has been shown that combining them with operational measures have huge benefits?

The case study (Kraus, Lind 2010) identified three main reasons for why the companies felt they had to deviate from the theoretical approach in favor for the financial metrics: simplicity, comparability and capital market pressure. The simplicity relates to the effortlessness that calculating financial measures provide. The financial metrics are usually based on information derivable from the financial reports and thus these measures do not require additional time and money to come up with. The companies also seemed to believe that corporate control was best exercised through as few measures as possible and that the financial metrics provided the greatest outlook given the few number of metrics they wanted to use. The comparability has a strong correlation with capital market pressure. Since the vast majority of companies, due to capital market pressure, rely solely on financial metrics these metrics are the only ones’ companies can use to compare themselves to competitors. The companies feel that there is not a sufficient amount of information on competitors’ operational measures for external benchmarking. The companies felt that the only way to provide shareholders and investors with relative information that can be used as comparison against industry peers was through financial measures. Finally, the overrepresentation of financial metrics in organizations’ PMS boiled down to the pressure they felt from the capital market and the analysts’ preferences. Analysts and the capital market are financially focused and want to measure the changes in company performance on a very short-term basis. Since analysts and the capital market expectations heavily affect the stock price of companies the managers felt that they had to prioritize the enhancement and presentation of metrics that these actors used for evaluation. In other words, full financial focus.

In the paper Management accounting performance measurement systems in Swedish banks by Md. Mostaque Hussain the conclusion seems to be similar to the one in Kraus' and Lind's case study: non-financial measures are of little importance in the PMS within organizations that operate on the capital market (Hussain 2005). Hussain noted that managers in the studied companies did recognize the potential of incorporating non-financial measures, but they were still holding on to the financial metrics and had no plans to add operational measures to their framework in the near future. Hussain identifies the reason for the prioritization of financial measures as the ‘adverse economic conditions’ that can be interpreted as the biased capital market pressure towards financial performance.

In summary, the theory on performance management systems advocate a combination of financial and non-financial metrics in a framework like The Balanced Scorecard or similar. This combination ensures that every angel is covered so that one part is not enhanced at the expense of another. Further the combination of operational and financial measures ensures a long term perspective where the leading measure show the way that the organization is heading and the lagging measures confirm that the value creation is consistent. In the empirical world organizations are hesitant to adopt this recommended framework due to the fact that the capital market prioritizes short term financial performance. The view that the capital market establishes of an organization is the one affecting its stock price and the image towards investors and shareholders and thus the organizations will usually cave under this pressure and drive their performance through the financial measures.

Now that the theory and practice is established on the measures we are prepared to look at the gap in research that we aim to fill, that is how do mutual organizations (customer owned company in our case study) act when the capital market pressure is taken away? Will we still see the prominence of financial measures; will the company deviate more towards the theory when the typical pressure of the capital market is taken away or do mutual organizations act in a completely different way? Before digging into the empirics, we have to take a look at the two other parts of the performance management system: standards and rewards.

2.2 Standards

Once the measures are obtained one has to decide how they should be interpreted. A random number or other outcome in some form of performance does not give value unless it can be established what the outcome means in terms of good, average or bad performance. In order to derive explanatory value from the outcomes of the performance measures we need standards that helps us determine if the performance lives up to the predetermined notion of what is good performance. The standards that are normally used among organizations are negotiated standards, standards based on continuous improvements, model-based standards and benchmarking. It has been shown that clearly defined goals enhance the performance compared to situations where the standards are vague or non-existent. Thus the research advocates clear and easily interpreted standards that managers can compare and improve themselves against (Latham, Locke 1991).

The negotiated standards usually relate to a budget where the performance measure outcome is specified. The budget along with the model-based standards and continuous improvements are so called predetermined standards. The predetermined standards have historically been useful but due to today's turbulent and customer oriented environment these fixed standards' usefulness is debatable. These predetermined standards are especially criticized for being costly to facilitate, easily falling behind the current market requirements and giving rise to gaming of numbers rather than actual performance improvements when the standard is predetermined and known by managers. The direction regarding standardization of measures seems to be heading away from fixed standards like budgets and towards relative standardization like benchmarking. Unlike the conflict in utilization of measures the theory and the existing empirics on conventional companies seem to be much more in alignment when it comes to the standards (Hope 2007).

With benchmarking as the standard, the performance is evaluated relative to internal or external peers and the macroeconomic factors prevailing at the time of the performance. The reason for companies adopting benchmarking as the main standardization of performance seems to be the vast amount of benefits this standard provides compared to the fixed ones. The huge costs associated with the development of a budget can be eradicated through adopting benchmarking as well as making the performance management system more adaptive to changes in the industry and market environment. Also, the previously mentioned issue with number's gaming can be significantly reduced through benchmarking. When the target is not fixed but relative to how external or internal peers performed during the fiscal year, the manager has to prioritize actual performance because he or she cannot manipulate the reports to achieve numbers not known in advance. In summation the benchmarking provides a more interactive and true picture of how a company is doing in its chosen industry and avoids falling into traps that the fixed standardization has (Hope 2007). Thus it is easy to see why both the theory and practice are advocating and have adopted the relative standards in favor of the predetermined standards.

2.3 Rewards

The optimal way to motivate managers and other employees to work towards goal congruence and fully saturated value creation is a heavily debated area that has gathered many different views and approaches over the years. The viewpoints on how to create motivation often boils down to a question of what is the right way to reward performance and what kind of incentive system might actually be detrimental for a company's value creation.

The most influential theory on how to motivate and control employees through rewards towards performing in alignment with value creation to the shareholders is the agency theory. The origins of the agency theory date back almost 90 years to the book The Modern Corporation and Private Property by Adolf A. Berle published in 1932 (Berle, Means 1932). The book discusses the issue with the differing preferences between agents and principals and how to ensure that agents are actually working towards goal congruence. The agency theory also bases its view of agents on the so called theory X of human beings. Theory X, proposed by Douglas McGregor in his book The Human Side of Enterprise, views humans as inherently lazy and work averse, always prioritizing leisure over work. This theory states that in order to make humans perform in the desired way they have to be controlled and coerced into performing through the "carrot and the stick". This attitude towards how human beings act is the cornerstone that has shaped the agency theory (McGregor 1960).

As previously mentioned, the agency theory concerns how rewards should be constructed in a way that aligns the goals of agents and principals. The agency theory states that monitoring and rewarding agents is necessary for goal congruence because they have inherently differing preferences:

- They act to maximize their own value rather than the shareholder value.
- They are risk averse because a much bigger part of their total wealth is tied to the specific company compared to the shareholders that can diversify their portfolios.
- They are closer to the operations which give them access to more information than what the shareholders possess and this tempts agents to take advantage of this information asymmetry.

In order to minimize this divergence, the agency theory advocates an extrinsic reward system where monetary compensation is tied to the performance measures that most effectively will contribute to shareholder value. These measures, which the agency theory suggests the incentives to be tied to, are almost exclusively financial measures. On the higher level the incentives can be tied to stock performance through stock options or bonuses and on the lower level this variable pay is usually tied to some form of earnings measure or alternatively a return on capital measure (Anthony et al. 2014a).

Even though most of the big international companies base their reward systems on the agency theory and thus heavily rely on monetary rewards tied to financial performance, the agency theory has also been heavily criticized. The main critiques relate to the assumptions, the forceful fitting due to the ease it can be used for mathematical modelling and that the financial rewards on financial measures gives rise to earnings manipulation. The opponents of the agency theory claim that the basic assumptions about the agents being rational beings only caring about their own value maximization is wrong and that agents are actually rather irrational in their choices (Tversky, Kahneman 1981). Thus the opponents claim that the agency theory cannot be applied since the basic assumptions do not hold. The other well known critique relates to the notion that agency theory is so world renown only because it is simple to apply in models and thus the proponents disregard the fact that it might not at all be suitable as the basis for incentive systems (due to its simplicity) (Ghoshal 2005). The agency theory-based reward systems also seem to lead to earnings manipulation rather than actual enhanced and value creating performance (Cohen, Dey & Lys 2008). Managers seem to be heavily manipulating earnings and other financial measures in order to receive the rewards that are tied to the measures rather than actually performing better (McAnally, Srivastava & Weaver 2008). This discredits the success of the agency theory since it might not always lead to real performance enhancement (Bartov, Mohanram 2004).

The opponents of the agency theory usually advocate theories based on psychology. One of the main opposing theories is the motivation crowding theory, which divides the motivation of human beings into extrinsic and intrinsic motivation. According to this theory, extrinsic rewards like the monetary incentives that the agency theory advocates can crowd out the intrinsic motivation and thus the total motivation of a manager might actually decrease from monetary rewards tied to performance (Frey, Jegen 2001). The theory agrees with the agency theory when the tasks performed are simple and dull. In these cases, there is probably no intrinsic motivation to begin with so the only way to motivate managers in these types of work conditions is through extrinsic rewards. However, when the tasks become more complex and creativity is a requirement, studies show that added extrinsic rewards can actually lead to worse performance (Ariely 2008). This seems to confirm the theory that managers actually need other ways of motivation like interesting tasks that lead to self-actualization and that monetary rewards can actually lead to deterioration of the total motivation.

Regardless of the strong empirical evidence that the motivation crowding theory has, top executives still seem to be dismissive when it comes to applying the theory in their organizations. It seems like the motivation crowding theory is too dubious whereas the agency theory provides simple and easily executed solutions to the goal congruence and motivation issues (Anthony et al. 2014a). There seems to be a link with the measures and the rewards of the performance management systems. Because the capital market advocates financial measures as the main tool to create shareholder value the financial rewards seem to be the natural way for these companies to reward financial performance.

2.4 Exploring the gap

We have now reviewed the performance management system as a whole through the theory and existing empirics, separating it into measures, standards and rewards. The review revealed that the standards were the only part inside the performance management system that seemed to have a clear consensus surrounding it in the theory and in the existing empirics on conventional companies. The relative standardization known as benchmarking was the standard that had taken prominence in the current environment and was the standard advocated in the literature as well. With the measures and the rewards, the alignment was not as clear and opposing views on how to measure and incentivize managers were prominent depending on which school of theories were explored. The main reason for organizations choosing to almost exclusively utilize financial measures, even when studies showed that combining operational measures with the financial ones yielded better long term value creation, was the capital market pressure. The financial rewards seemed to be favored due to the strong prominence of the agency theory within the publicly noted organizations. The agency theory gained foothold mainly due to the strong shareholder perspective where managers are incentivized to only create financial value for the owners and thus it is assumed that also the managers only care about the same kind of financial value.

An understanding is now established on how the theory suggests that performance management systems should be constructed as well as how organizations acting on the capital market with a strict shareholder perspective construct their performance management systems. We now also have an understanding on why the construction of these systems deviate between the organizations and the theory. However, there seems to be an unexplored gap in the theory and the research. How do companies act if the main factors that lead to the deviation from the theory were taken away? In other words, how will an organization that does not act on the capital market and has a stakeholder perspective rather than a shareholder perspective construct its performance management system? There seems yet to be an answer found to this question. Thus we will take upon us to close this gap through a case study of our own.

The case study is conducted on Länsförsäkringar Gotland since it differs from all the already studied companies on exactly the two major factors that lead to the divergence of performance management systems: They are absent from the capital market and they are a customer owned company so they have a stakeholder perspective rather than a shareholder perspective. Our case study will thus explore how a customer owned company that is absent the capital market pressure acts in the construction of its performance management system. Will such a company align itself more with the theory or will we still see clear divergence in how the company measures, standardizes and rewards performance?

3. Method

3.1 Research design

We have chosen to write a qualitative study and more specifically a single case study. Since our subject is changing with trends and has not always been the same, a case study would be to prefer. Comparing and choosing qualitative methods to quantitative methods is not easy, they are not different ways of doing the same thing. The methods have different strengths and logics which leads to them being best for different questions and goals (Maxwell 2013). Maxwell describes the difference between the two methods as a distinction between "variance theory" and "process theory". Researchers of quantitative theory tend to see upon explanations as a statistical relationship between variables. In contrast researchers of qualitative theory see the explanation as a process, and that it is based on an analysis of how situations and events influence others. One of the many advantages of conducting a qualitative study is that the researcher does not know what result to look for, this leads to a more open and free research. The results from the research comes from our observations and answers from the people we have interviewed. Although we chose this method as the most appropriate, we are well aware that there are some disadvantages of a qualitative research. Interviews may become long and way to detailed which lead to excessive information that is hard to interpret. Another problem that may arise is that the quantity of data and that size of the researched sample is too small. We found that in our case we have interviewed everyone that can add explanatory value regarding the construction of PMS at LFG.

3.2 Choice of Method

The decision to do a "single" case study was done to be able to reach the intended depth of the research. Our goal is to research a company without immense pressure from the capital market and with customers as owners. These conditions apply only to a few companies and we therefore decided to write a single case study focusing on a single company, Länsförsäkringar Gotland (Dyer, Wilkins 1991). Since the existing research of performance management in customer owned companies is very limited we came to the conclusion that a single case study was the way to go. We have chosen to conduct our thesis with an abductive approach since we started with the theoretical knowledge, compared it with the empirical research and noted that they did not align. When pre-perception of the theory that a study starts out with does not match the empirics, the goal becomes to find the new matching framework that satisfies the observed deviation (Kovács, Spens 2005).

3.3 Data collection

When collecting our needed information, we held interviews with seven employees at Länsförsäkringar Gotland. We travelled to Gotland and held all of the interviews at site, to make it easy for them and to make them feel as secure as possible during the interviews. The interviewed people were selected among the top management because of the fact that they are the people responsible for performance management. We feared that interviewing more people than the top management could have led to too much unnecessary data. All interviews were individual even though our subject was not sensitive to discuss in groups. The persons we interviewed have titles such as, CEO, CFO, Bank Manager, Insurance Manager, etc. The interviews we held could be called semi-structured interviews. This method allows us to have a very flexible interview where the respondent can elaborate their answers (Qu, Dumay 2011). We put a lot of effort into preparing questions in advance and we also sent some of the main questions to the interviewees so they would have the chance to prepare. Before each interview we decided that one of us would have the role as “interviewer” and the other would be responsible for the recording and taking notes. This was done because research has shown that different interviewers may get different answers based on the interviewer’s way of asking questions. This is one of the things that differs from a structured interview where there is less room for interpreting questions. The questions that we asked were a mix of ten types of questions as presented by Qu and Dumay in their paper “The Qualitative Research Interview” (Qu, Dumay 2011) originally adapted from Kvale’s book “Interviews: An Introduction to Qualitative Research Interviewing” (Kvale 1996).

3.4 Data Analysis

Directly after each interview we had a discussion about the interview. What might be useful and what might not be? We later transcribed all of the interviews with help of the recordings. The hours of interview material put into the transcripts form our primary data that will be used in the analysis chapter together with the secondary data which consists of theory from other researchers and documents such as annual reports, their own code of corporate governance and other internal documents. When analyzing the interview data, a simple model presented by

Boyce and Neale was used (Boyce, Neale 2006). The first step is to start by transcribing all interviews and review the collected information. The second step is then to study the transcripts and look for patterns between different interviews. Step three is trying group the newly found patterns, if there are any. Another optional thing is to analyze whether any questions were answered with more enthusiasm than others. This could easily be analyzed simply by looking at the transcripts and finding the questions with the most extensive answers. The method in the analysis will be to compare our findings from our interviews to theory and earlier research on PMS.

3.5 Theory Collection and Analysis

Before any interviews were conducted, we made sure that we had studied the theory about PMS. Articles, books and papers regarding PMS, case studies and the process of interviewing were read. This data is collected using different databases available through the SSE Library, other databases such as Google Scholar and literature available at libraries. To make it possible to find the most suitable literature we participated in an introductory class held by the SSE Library. Once we had selected our literature, the papers and articles were summarized to make the analysis easier. The process of summarizing was very time consuming but rewarding since it helped us develop an understanding of the subject.

4. Empirics

4.1 Background and Context

Länsförsäkringar may at first glance look like an ordinary insurance company, but this is not the case. The Länsförsäkringar Alliance describe their organization as an “inverted pyramid”. This is due to the fact that the company Länsförsäkringar AB (LFAB) serves as a parent company but is actually a subsidiary with twenty-three owners. These owners are different regional insurance companies situated all across Sweden. These companies all have different levels of ownership in LFAB depending on their relative size. LFAB has its own subsidiaries handling administration and other parts of their business such as animal insurance and real estate. The combined group all together has about 6 200 employees serving more than 3.7 million customers (Länsförsäkringar AB 2017). This combined with the heritage of the first Länsförsäkringar formed in 1801 makes it one of strongest brands in insurance and banking.

It is not only the structure of the alliance that is different. The regional insurance companies have an unusual structure of their own. These companies are independent and their tie to each other is through the subsidiary Länsförsäkringar AB. The main difference from the traditional companies is that the regional companies have zero shareholders. The companies are owned by their insurance paying clients, and they are classified as mutual insurance companies (customer owned). How does this work in practice? How can the owners influence the company?

Out of all the customers in the region a group is elected and named council (Fullmäktige in Swedish). The council is then responsible for choosing the board of directors. This is the main way for the owners to influence the management of Länsförsäkringar. The idea behind having these regional companies is to be a large company but at the same time being as close to the customers/owners as possible. The company in our case study, Länsförsäkringar Gotland, describes the advantage of being regional in the following way: “We believe that those who are closer to you have an easier time to get involved, understand and help you rather than those who are distant.” The structure also promotes more local decision making at every regional company (Länsförsäkringar 2017).

We became interested in Länsförsäkringar because we thought that the organization and the customer ownership will have implications on performance management systems. As we noted in our theory section, there exist multiple case studies on companies acting on the capital market focusing on the shareholder perspective. Our study is based on one of the regional companies, Länsförsäkringar Gotland (LFG). LFG is a fully customer owned company operating solely on Gotland. We chose this specific company in order to get as a pure example of a mutual company as possible which we believe will most accurately reflect how the absence of the capital market and the shareholder perspective affect the construction of the performance management system. The persons we chose to interview are managers that have influence on which measure are taken and they are responsible for the follow-up. Seven managers were interviewed where five of them are a part of LFG's top management team. The positions of the interviewees are:

- Chief Executive Officer
- Chief Financial Officer
- Bank Manager
- Insurance Manager
- Insurance Claim Manager
- Private Banking Manager
- Corporate Insurance Manager

The interviewees were selected to make it possible for us to get the best insight on the construction of the performance management system in LFG.

We will approach the construction of LFG's performance management system like we did in the theory part by separating the measures, standards and rewards from each other. We believe that this separation will give us a clear view on how each part affects the system separately before in our analysis looking at the combined effect and the structure as a whole.

4.2 Measures

According to the CEO of LFG the process of measuring performance starts from the highest level through the board of directors. At this level a three-year general business plan is constructed throughout the company that will tie all the different departments of the company towards a common goal. The goals at the highest level are certain targets on revenue growth and profit margin. These targets might differ between the departments but the measures are constant. These are the main financial performance measures that are adapted on the highest level.

All of the managers interviewed including the CEO mentioned the importance of customer satisfaction. The Länsförsäkringar Alliance has according to the Swedish Quality Index (SKI-Svenskt Kvalitetsindex) the highest customer satisfaction in most of its areas of expertise (SKI 2016). As a result of this, the customer satisfaction also becomes a performance measure at the highest level through the SKI's index, an external measure the company closely follows. In order to meet and exceed customer expectations the employees on all the levels are immersed in the LFG culture of putting the customer first. Of course putting the customer first means also the prioritization of the shareholders since LFG is a customer owned company. Other customer related operational measures that LFG utilizes and even ties to rewards are for instance new email addresses gathered. The CEO emphasizes that gathered addresses will not necessarily bring the company towards the financial goals, but as the stakeholder perspective is more prevalent due to the customer ownership this perspective must be satisfied even at the expense of short-term financial performance. Furthermore, she notes that if the value chain is correctly constructed the new customers will lead to peaked performance in other areas as well.

The general business plan is broken down on a department level into performance measures that will lead to goal congruence upwards the value chain. The managers of the different departments will then further break down the measures into specific group levels and individual levels. There is a clear difference on how the performance is measured within the departments compared to how it is measured in the companies acting on the capital market. All the interviewed managers explained that the performance measures are not followed up on the individual level but that the group level performance is prioritized. Their claims are validated through the fact that variable rewards are only tied to group level performance which will be further discussed in the reward section.

In areas like agriculture LFG already has a substantial market share and thus the measurements take an even more customer based approach. Here measures like "number of customer visits" take presence over sales and other financial measures because the retention and satisfaction of long term customers are pivotal for keeping the position that LFG has on the market. Another operational measure in the private bank sector is the "activity measures" that relate to the amount of personal development meetings held.

At the financial department the measures are highly focused on cost. Total cost, operating cost and insurance claim costs as percentage of revenue are financial measures that according to the CFO are the cornerstone measures at the financial department. However even in these measures the stakeholder perspective shines through as the goal is not to minimize these costs but rather to keep them at a constant level of 95% of the revenue, which is further discussed in the standard section. The company also measures employee satisfaction. The bank manager explains that satisfied employees are an important contributor towards customer satisfaction.

4.3 Standards

The standards within LFG vary between benchmarking, continuous improvements and budgeting depending on the department. A problem mentioned more than once during the interviews was that LFG wants to compare itself with comparable companies. However, a lot of the competitors are working on a national basis which makes them less comparable. They often have their headquarters in a bigger city and on a regional basis they only have a certain part of the business. The CEO mentions that they want to compare with companies of the same size which is also a problem for LFG as a relatively small regional company.

Since there are problems with finding comparable companies when benchmarking continuous improvements are widely used. For example, the board of directors has set a target of 5% top line growth, this is something that must constantly be monitored since LFG has about 36 900 customers and the population of Gotland is about 58 000 (16-12-31). The CEO describes it likes this:

> "When we set the standard of 5% growth the employees think we are crazy, but we are making it! However, in the future this standard must be revised whether it is reasonable to have this growth target or not."

However, the CEO emphasizes that this growth target should not be reached at the expense of profitability. Growth without profitability would harm the collective that is the owners and since LFG is operating in the interest of owners this would not be suitable. This phenomenon was described by the CFO:

> "We want to participate in pushing the prices down but the important thing is that we have the right price. If we are earning more money than our long-term standard our prices are too high."

The long term standard the CFO is referring to is the total cost percentage. The board has set this as a predetermined standard of 95% of revenue in the long term. An unordinary feature is that LFG has a standard on how much money they should earn. There is no point in earning more money because if LFG makes a lot of good results, the earnings will be distributed to the owners (customers) as a repayment of insurance fees. Higher prices only lead to a bigger profit which leads to a bigger repayment hence there is no incentive to earn more money than needed for covering the claims and the development of the company. Therefore, profit maximization is not a part of LFG's corporate strategy.

As earlier mentioned an important measure is the customer satisfaction. On an alliance level the overall standard is that the Alliance should be the best in Sweden. LFG has then set their standard as being among the top of the regional companies in the Alliance. This should occur at the same time as they are improving compared to previous years. Hence, the method of standards when it comes to customer satisfaction is a mix of continuous improvement, internal and external benchmarking.

4.4 Rewards

When the managers were asked about what rewards drove performance towards the goals within LFG it became clear that intrinsic rewards had a much stronger presence compared to extrinsic rewards in the company. The monetary incentives had recently been discontinued from the company and the extrinsic rewards consisted mainly of a fixed salary (Länsförsäkringar 2016). So contradictory to what we had learned about companies' agency theory-based incentive systems the motivation in LFG was derived from intrinsic factors. When the time came for the managers to break down the targets they received for their department the employees were brought into the discussion on how to achieve the set performance targets. Empowerment is a big component in these discussions where every single member on the team has the opportunity to give input on how he or she feels that the group could most effectively and efficiently reach the targets. It was clear that this sort of empowerment was a huge driver of intrinsic motivation that undoubtedly contributed to the high existing motivation even when variable rewards were absent.

The main reason for the discontinuation of variable rewards was the stakeholder perspective. Since LFG is customer owned the goal cannot, according to the managers, be to simply sell as much as possible, the products and services sold has to also be what the customer actually needs. The top management had felt like variable rewards tied to performance carried the risk of making managers reach for financial targets at the expense of customer satisfaction. The Corporate Insurance Manager explained that tying external rewards to sales of products could lead to employees pushing insurances that the customer actually did not need. The sale of a specific, more expensive insurance plan would thus satisfy the employee due to the provision. However, the customer might actually have had the need for another type of insurance plan that he did not get because the provision was not as attractive for the employee. The CFO actually notes that sales has gone up since the variable rewards were discontinued. This growth in sales was precisely the result of the employees now selling plans they earlier did not bother with since the provision on them were not high enough. Thus in order to align the incentives with the actual needs of the customer these provisions were taken away. The absence of the variable incentives is one of the more clear-cut examples on how the company is prepared to disregard some of the most effective reward systems in order to prioritize the performance towards customer value creation.

The only monetary reward tied to performance that the employees of the company are entitled to is the so called profit sharing (resultatdelning in Swedish). The profit sharing is given to the employees (top management is not entitled to this reward) when certain performance targets are attained. Growth, costs, customer satisfaction and environment are variables that are included in the performance targets. This reward can be viewed as marginal since it is distributed only once during the fiscal year if the criteria is fulfilled. The profit sharing is calculated as 35% of the yearly base price amount which during 2016 amounted to only 15505 SEK before taxes (Länsförsäkringar 2016). The fulfillment of the criteria happens at the group level so only if the group within a specific department has succeeded will the reward be distributed. In other words, one individual cannot ensure that he or she will receive the reward for his or her individual performance. Everything else in LFG's reward system is tied to enhancing intrinsic motivation.

In addition to the empowerment of the managers and other employees and the profit sharing system, LFG has some other intrinsic incentives in place. The different departments arrange different kind of getaway trips for the employees as rewards for good performance. These trips involve usually team building agendas that are meant to strengthen the bond of the group and immerse the managers and other employees into the culture of a customer owned company. Innovation workshops are another thing that are held on the departmental and company level to motivate managers in innovating new ideas on customer satisfaction and similar topics. Another intrinsic reward is the possibility to make a career within the company and the possibility to change departments according to interests. The managers believe that listening to the employees and their wishes regarding their future within the company is paramount to long term retention of employees. Other minor rewards include Christmas donations, movie tickets and employee of the year awards.

The Insurance Manager highlights that even if they work as a group, the competition spirit is very present. Different competitions on sales are in place with boards where the best are listed. There are no monetary rewards tied to these competitions either and it is rather the performance itself that is the reward. A symbolic Lego boat is passed around the office to the top employee during a specific time frame. According to the manager this symbolic reward motivates the employees far more than monetary rewards. When asked how LFG convinces capable and highly motivated people to come work for the company when they cannot attract them through monetary incentives the bank manager explained his view.

> “I think it is important to be clear, here you are not going to get a bonus. You will have your salary and then we expect other things to drive you. At other companies you do not have the opportunity to affect locally and you will receive your budget from a higher level that you will have to follow. Here you have influence and can be a part of the development of the business plan.”

5. Analysis

5.1 The identified factors

We have now explored the performance management systems from a theoretical and empirical perspective. We noted that the system the theory advocates significantly differs from how companies choose to construct their PMS. In this chapter we will discuss the dominating factors affecting PMS in a mutual company and analyze their effects.

Early in the interview-process we knew that we had found something. From existing theory, we knew that the companies often claim they are implementing a certain system for evaluating performance when they actually are just making it up. It may be somewhat of a double standard seen to the theory, but we have chosen to believe our interviewees, due to the fact that their answers were too elaborate to be made up (further discussed in the conclusion chapter). As mentioned many times before we wanted to define the factors affecting the construction of PMS in a mutual company. So what have we found?

We have identified three factors of which we believe that the first two are more general for mutual companies and the third one is specific for the Länsförsäkringar Alliance. The identified factors are:

- The absence of capital market pressure
- The customer ownership (stakeholder perspective)
- The organizational structure of the Länsförsäkringar Alliance

There might of course be a vast amount of other factors for example factors related to personal beliefs in a certain working practice by managers. To find factors like this another study would be necessary. However, we believe that our study provides enough evidence to conclude that these factors are the main reasons for the difference we see in LFG's construction of PMS compared to the public companies'.

5.2 Capital Market Pressure

As mentioned in the theory, most of the companies with outstanding stock on the market, listed the main reason for highly prioritizing financial measures as the pressure the capital market and the analysts put on them. The capital market seemed to prefer easily interpreted financial performance measures that showed how companies had performed in the short term and thus the non-financial long term indicators became disregarded. Our case study examined a company that does not operate on the capital market and is not subjected to this pressure. Thus we believed that there should be observable differences between the company subjected to our case study and the companies acting on the capital market. We set out to find how the PMS was constructed in a company absent capital market pressure, whether this affected the construction and how the divergence became apparent.

During the interviews it immediately became apparent that LFG differed in the way they constructed their PMS compared to the actors on the capital market. Since LFG does not answer to the capital market and a wide variety of shareholders but towards its relatively small customer base, they construct the measures in a way that solely aims to maximize the customer value. The general consensus among the managers at LFG were that financial performance is needed to an extent but it cannot be prioritized at the expense of the customer satisfaction. Since financial performance is something that can temporarily be enhanced in the short term if some other parts of the operations is compromised, companies that need to show short term excellence in the financial performance might opt to do this. However, since LFG has customers that are in it for the long run these methods could be detrimental for the customer value. So for LFG it is not only the fact that they do not have any reason to solely focus on financial performance but for them to succeed they actually need to put more focus on the non-financial long term performance.

As a result of the absence of the capital market pressure, the PMS of LFG was actually more in line with what the theory advocates. On the highest level financial measures like revenue growth and profit margins are important but LFG's strategy on reaching these financial targets is based on excellence in non-financial performance. Customer visits, customer satisfaction index, amount of new email addresses acquired and total cost targets for getting the right price rather than maximizing profits are parts in the value chain that LFG believes will lead to enhancement of performance at the highest level as well. This value chain where leading indicators are used to enhance the lagging measures are exactly what Kaplan and Norton advocated in their follow up paper on The Balanced Scorecard (Kaplan, Norton 2007). In the case of the companies on the capital market, the pressure to rapidly enhance financial performance led to the non-financial measures as value creators not being a viable option since enhancing financial performance through leading indicators is a long-term strategy. Since LFG is not subjected to this pressure for short-term results, they can concentrate on long-term value creation through means that might build up at a slower pace but will guarantee a steady and prevalent growth in overall performance without compromising any part of the company.

In the same way that LFG believes that long term-value creation through non-financial means guarantees performance in line with the wishes of the customer they believe that this is the way managers should be motivated as well. Companies on the capital market using financial measures are also choosing to use financial rewards to motivate managers towards goal congruence (Anthony et al. 2014a). These companies align themselves with the agency theory since it is the most efficient way to make managers, who might not work for the company for long, goal congruent without putting time and effort on immersing them in the company's culture and finding out intrinsic tools that might motivate them. LFG wants to focus on long term retention of managers and other employees that are customer driven and understand the company's culture. To achieve this the company does not believe that monetary rewards will be enough. Again it seems like the absence of the capital market pressure gives LFG the opportunity to focus its efforts on creating a non-financial environment when it comes to motivating managers as well. LFG has no bonus or other provision system in place because they believe that this could adversely affect the customer satisfaction where insurances that equal the highest monetary rewards are pushed rather than the ones that the customer actually needs. Instead LFG adopts the motivation crowding theory and focuses on creating an environment of intrinsic motivation for the employees. The possibility to influence decisions, engage in own projects, move between departments are all part of the intrinsic reward system that LFG uses to motivate its managers to act in accordance with their long term goals of customer value creation.

5.3 Customer Ownership (Stakeholder Perspective)

When looking at The Balanced Scorecard, something interesting happens when you introduce the customer ownership. The financial perspective (how do we look to shareholders?) and customer perspective (how do customers see us?) mix together. There is no longer a separate focus on reaching the expected returns for shareholders and satisfying the demand of customers.

It might seem like this would not have any tremendous effect on a company as a whole but that is not the case. The fact that LFG has its customers as owners affects every part of the business.

During the interviews as soon as we asked a question containing the word “why?” it seemed to always get back to the fact that the customers are the owners. The important thing for the customers/owners is to get the help needed and the economic compensation according to the insurance terms when something happens. LFG has to be able to withstand a strong economic position at the same time as they are charging the “right” prices. The important thing here is that LFG has a predetermined idea on how much money they should make. The CFO, who is also responsible for managing LFG's invested capital has at a certain occasion received orders from the board of directors to take less risk because they do not need to make any more money. If you would have the goal of maximizing shareholder value, the CFO would probably be ordered to make as much money as possible. LFG then tries to see the wider picture and not solely focus on making money.

The influence that the customer ownership has on measures is easy to observe. In the interview with the Bank Manager we asked him what the number one performance measure was. We got an answer that we believe you would not get from just any other bank.

> “For us customer satisfaction is the number one measure, and I believe that if you do not have that it will be hard to do anything else. Because of the fact that we do not have any shareholder interest to consider, customer satisfaction is our version of knowing that we have satisfied our owners. So customer satisfaction is without doubt the most important.”

Here we have a clear example on how LFG is using leading measures to ensure future profitability. Of course there are some lagging measures as well such as growth and profit margin but yet again when asking the question why it leads to customer satisfaction. The more customers the more people there are to split the cost for damages hence a lower risk which is to prefer in LFG. Again we see LFG stepping away from the traditional way of doing things. They have goals as revenue growth and profit margins but they do not set out to reach these goals because they want to maximize profit, like many traditional companies would. They are simply trying to reach these goals to ensure that they have the ability to meet the customers’ demands of getting the required help when needed.

What about the rewards then? Are they affected by the customer ownership? We would without doubt say that they are. It is not suitable for mutual company like LFG to for example pay enormous bonuses to managers. The managers are dealing with the customers’ money. As the

Bank Manager said; without customer satisfaction they would have trouble getting anything else. Then imagine the media writing stories about big rewards paid out with the customers' money. Money that could have been paid back our spent on product development. This is not only applicable to rewards to top management. LFG has no monetary rewards except the so called "resultatdelning" (profit sharing). This is also interesting; we believe it would be hard to find a company where the employees have a monetary incentive to do certain things but the managers have zero benefit of reaching the targets. In the interview with the Bank Manager he also said that when employing new people, they have to be clear with telling the applicants that they will not get a bonus, they have to be driven by something else. This statement could be connected to Theory Y, the work in itself is rewarding (McGregor 1960). LFG has even started to take away rewards such as Christmas presents to the employees, instead they are donating the money to charity. Another example of this is the elimination of the variable part of some of the sales force's salary. LFG decided to add an amount to fixed salary corresponding to the average of variable part only to ensure that the variable salary did not create any intensions of selling products that the customer does not need. LFG has a strong belief that motivation does not come from monetary rewards. Hence in the construction of their PMS they are not putting emphasis on including any monetary rewards other than a fair fixed salary.

The rewards to employees takes shape in other forms. LFG promotes a high mobility within the company. If you do not find your work rewarding enough or if you want to take a step on the ladder upwards those opportunities are there, provided that you are performing. When there is an opening for a new position they always try to recruit from within if it is possible. These are examples of non-monetary rewards.

LFG has clear vision and strategy which makes it easy for them to set measures and put goals on those measures. It would be fair to say that LFG is actually adopting a balanced scorecard even though they never mentioned it in any of the interviews (Kaplan, Norton 2007). The vision they have is that they do everything for the customers. Having the vision of the customer in the center has some positive effect LFG's PMS. They are avoiding a lot of the traps related to PMS (Likierman 2009). Especially "looking backwards" and "sticking to your numbers too long". They are constantly thinking about how to raise customer satisfaction in the future, a measure that is updated continuously.

5.4 Organizational Structure

The organizational structure of LFG might be specific but in this case the effects it has on PMS is too substantial to leave out. When LFG is measuring customer satisfaction they do not only compare with competitors, they also compare with other regional companies within the LF Alliance. The internal benchmarking creates a harmless competition since the regional companies are not fighting for the same customers. There is a problem with external benchmarking because of the organizational structure. The problem is that LFG is a separate company and compared to the competitors acting on national basis they are a small company. Another problem is that the competitors has other strategies than LFG and therefore does not show the same kind of results. In their marketing they say that "we are near", which refers to the amount of offices around Sweden. The LF Alliance believes in having local offices that are fully equipped but, this comes at a price. Since they are willingly taking higher cost than their competitors their profit margins cannot be compared.

There is a reward tied to the organizational structure that according to many of the interviewees is special. Because of the fact that every regional company is independent from each other they all have responsibility for their own company. Described by the last quote in the empiric's chapter; LFG has to be clear to employees that they will not get a bonus but what they will have is an opportunity to influence. If a summer intern gets an idea, he or she can simply go to his/her boss and pitch the idea. If it is a good idea the boss that is sitting in the management team will soon be able to pitch it further and get permission from the CEO to implement the new idea. This has actually been the case according to one of the managers and it is possible since the CEO is not more than one floor up. Another example of this is that LFG recognized that farmers that have inherited a farm are not always that good at managing it. When they keep investing in for example milking robots and bigger lands all of a sudden they become corporate leaders. LFG noticed the lack of competence and rapidly hired a group of management consultants, auditors and mentors to help the farmers. They sorted out the farmers that were starting to have economic struggles and then sent someone to help them with management, auditing and mentoring.

> "This will not happen in just any other company, things you can do to affect your everyday work and the outcome of that work is what I am trying to explain to new employees. If you want the optimal salary you shouldn't come and work for us."

We have already established that the employees are believed to be motivated by intrinsic rewards, a statement which falls in line with this (Frey, Jegen 2001). The contrary to this would be a company with a central headquarter and regional offices. The headquarters decide everything from how the office is supposed to look to financial goals that should be reached.

A thing that set the regional companies in the LF Alliance aside from traditional companies is that they have both insurance and banking. The different departments create synergy effects for each other by informing existing clients that they have the opportunity to gather their personal economy under the same roof. The idea is to get as good of solution as possible for the owner and thus creating a higher customer satisfaction.

6. Conclusion

6.1 Summary

The purpose of this thesis was to first gain an understanding on how performance management systems should be constructed according to the existing theory and why they were constructed in a different way by conventional companies acting on the capital market. After the reasons for the divergence was established the thesis continued to explore how a company that is not subjected to these factors construct their PMS. The main goal of the thesis was thus to identify the factors leading to the observable difference between the theory's PMS frameworks and PMS in place at conventional companies and then study a mutual company that was able to construct their PMS without these limiting factors. Finding out how a mutual company's (namely LFG) PMS looked like, how it differed from conventional companies and why this difference existed became the main focus of our case study.

The PMS can be divided into performance measures, standards and rewards. Our thesis set out to reach the purpose by examining each part of the PMS separately in conjunction with the theory, existing research and our case study. In this way the contributions of each part could be compared separately as well as together and the effects that lead to the difference between conventional companies and LFG were more clearly revealed.

6.2 Contributions

After reviewing the theory and existing empirical research on PMS and combining them with our case study it is time to discuss the explanatory value we have been able to derive from our thesis. The comparison we made between the theory and existing research showed that companies with outstanding stock chose to almost exclusively focus on financial measures and rewards. We identified the reason for this financial focus as the capital market pressure and the short term shareholder perspective. We hypothesized, since these factors seemed to be the main contributors to the divergence from the theory, that a company who was not subjected to these factors would construct their PMS in a different way, perhaps more in line with the theory. The case study we conducted on LFG confirmed our hypothesis.

The absence of the capital market and their customer ownership (stakeholder perspective) lead to LFG aligning themselves more towards The Balanced Scorecard framework when it came to the measures. Non-financial performance became the most paramount part in LFG's PMS where they not only used it as the main value creator but also as the chain that leads to enhancement of their financial performance as well. Also, their non-financial approach made them adopt the motivation crowding theory as the basis for their reward system rather than the typical agency theory. The intrinsic motivation was almost the exclusive component that LFG's reward system set out to enhance and it was constructed in a way that lead to long term, goal congruent customer satisfaction. Their unique organizational structure was also a contributing factor to why they had to deviate from full-fledged benchmarking and instead utilize a vast variety of standards in order to set targets that were realistic but also driving the performance forward.

Our case study thus shows that LFG as a mutual organization constructs its PMS much more in line with what the theory suggests. Due to the absence of the discussed factors LFG is able to develop its strategy and align its performance in a way that promotes long term value creation rather than short term and superficial performance enhancement. Also, this long term value creation is directed towards the stakeholders through excellence in non-financial performance (mainly customer satisfaction) rather than towards only shareholders through financial performance.

To summarize our findings regarding how the identified factors affect LFG in every component of their PMS the following table can be used:

	Measures	Standards	Rewards
Absence of capital market pressure	Enables focus on long term goal congruence and value creation through non-financial excellence rather than short term and superficial enhancement in financial performance.	Marginal effects.	The use of intrinsic rewards in motivating agents to perform in alignment with customer needs rather than using financial rewards for enhanced financial performance at the expense of the customer.
Customer ownership (stakeholder perspective)	Customer satisfaction and value creation is the most important factor and will be prioritized even at the expense of short-term financial performance.	Marginal effects.	Construction of a reward system that immerses the agents in the LFG culture of putting the customer first rather than prioritizing themselves through the means of provisions.
Organizational Structure (company specific)	Marginal effects.	Ability to benchmark is limited due to the difficulty of finding comparable companies. A variety of standards like predetermined standards are used to compensate for this.	High mobility. career opportunities and the ability to influence creates intrinsic motivation. An environment where the work itself is rewarding enough to create the motivation needed is constructed.

6.3 Limitations

As a single case study we can with certainty conclude that LFG constructs its PMS with a long term perspective where non-financial performance and rewards act as the base for the value creation, which is in line with The Balanced Scorecard framework. Further we can conclude that the reason for LFG constructing their PMS more in line with the BSC framework compared to companies in the capital market is the absence of capital market pressure, the customer ownership and the organizational structure. Even though our case study provides clear indications that mutual companies, that are absent the capital market and have adopted a stakeholder perspective rather than a shareholder perspective, construct their PMS much more in accordance with what the theory suggests it has to be acknowledged that this is a single case study. Thus, even though there exists a clear indication, we are not able to draw the conclusion that all mutual companies with the same differences as LFG compared to conventional organizations would construct their PMS more in line with the BSC framework and motivation crowding theory.

Another limitation of our thesis is that our case company, LFG, is a relatively small company. We have chosen to not set this factor as contributing to the construction of their PMS since we believe it would lead to a too specific analysis which we did not set out to find. Due to the unusual construction of the organization within the LF Alliance, it might be so that the regional companies differ in some distinguished ways when it comes to PMS.

When reading the theory about PMS we found that many companies talk about their PMS being constructed in one way but implemented it in another. Due to our limited timeframe we were not able to follow up on whether managers actually acted in line with the PMS they described in the interviews. In other words, there is a possibility that a follow up might reveal that the PMS at LFG in practice differs from the PMS described by the managers.

6.4 Future research

In order to establish whether mutual companies in general actually construct their PMS in line with the BSC framework or in another way, similar studies are needed on more companies with the same ownership structure. With a larger sample of qualitative studies on mutual companies and PMS, enough explanatory value could be derived for a more general conclusion on how these companies construct their PMS. A study on multiple mutual companies might come to the same conclusion as we have but there is a possibility that our identified factors are specific for our case. As mentioned in the limitations, there might be differences between the different parts of the LF Alliance, we believe that there is enough material for an entire thesis about these differences. However, this would probably just be interesting internally for the LF Alliance.

In the interviewing process we were impressed on how well LFG seemed to perform without a financial focus. It would therefore be interesting to see more quantitative studies comparing things as profitability, credit ratings and salary to traditional companies. It would be challenging to do this research since the companies are not that comparable but we believe some interesting conclusions could be found.

Another qualitative thesis could analyze and follow up the motivation of managers when some of them are exposed to extrinsic rewards versus intrinsic rewards.

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8. Appendix

8.1 Interview structure

All the interviews were conducted in Swedish, and then transcribed in Swedish. When quoting and using the interviews in the thesis we have translated the parts used.

Introducing Question:

- Tell us a little bit about yourself, how long have you worked here, what are your main responsibilities? And so on.

Measures:

- Which measures are you using to measure performance? (financial and non-financial)
- Why have you chosen these measures?
- Does the different measures (financial and non-financial) complement each other or are they seen as separate?
- Is the choice of measures affected by the fact that you have your customers as your owners?
- How are the measures connected to the company's overall strategy and vision?
- Are you limited when choosing measure because of the customer ownership compared to you if you had been a traditional company?
- Are you implementing any certain performance management system in your company?
- The measures, do they actually represent the work put in or are they ignoring some of the performance?
- What do you think is the reason behind the choice of this certain performance measures?

Standards:

- To what are you comparing the mentioned measures in order to decide whether the performance has been bad, satisfying or excellent?
- Are you for example using predetermined standards such as budgets, continuous improvements or benchmarking?

- Why is this the optimal standard when comparing measures to outcome in LFG?
- Do the standards in a fair and effective way show the performance?

Rewards:

- Is it important to reward good performance and not reward when the performance is meeting the expected outcome?
- Is there any existing rewards system in practice today?
- How are the rewards tied to the goal of achieving the company's targets?
- Do you believe that the working process is rewarding enough or is there a need for other motivation tools?
- How would it look if all employees got bonuses at the expense of the customers/owners?
- Is it best to reward the employees on a group level or on an individual level?

Ending questions:

- Is there anything that you think is unique for LFG that we have not talked about?