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# The Inadequacy of Performance Measures

A study of the problems of incomplete performance measures in decoupled reward systems

**Authors:**

Andreas Klavebäck (22807)

Yves Moyat (40862)

**Supervisor:**

Martin Carlsson-Wall

Associate Professor, Department of Accounting

**Abstract**

This paper examines to what extent managers perceive the inherent incompleteness of performance measures to be an issue in the context of established reward systems. Drawing upon data from the Swedish Corporates & Institutions division of a northern European wholesale bank, we study managerial attitudes towards the incompleteness of performance measures. Utilizing the framework of enabling and coercive forms of control, we highlight the distinctive and enabling features of reward processes by demonstrating how the incompleteness of performance measures is regarded as less of an issue when the decoupling between evaluation PMSs and reward PMSs is strong. In contrast, when this decoupling appears to be weaker, managers tend to be more concerned about the inability of performance indicators to reflect operational performance. Consequently, incompleteness is not perceived as an issue as it sparks the emergence of a network of action, which acts to serve the purpose that the incomplete performance indicators cannot, namely to facilitate managerial decision making in the reward allocation process. Our findings thus suggest that incomplete performance measures are inadequate to the purpose of allocating rewards. Our research nuances previous findings on the practical significance of incomplete performance measures by emphasizing the disconnect between the use of performance measures for the purposes of performance evaluation and reward allocation. In doing so, we add to the understanding of whether and when incompleteness is perceived as an issue in practice.

Key Words: Incompleteness, Performance Measures, Reward Systems

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Andreas Klavebäck Yves Moyat

**Contents**

## 1. Introduction

*"In the wake of modern physics, Galileo argued that the world was written in mathematical terms. As a consequence, the task of scientists was deemed to count what was countable, measure what was measurable, and what was not measurable, make measurable."* (Micheli & Mari, 2014, p.152).

Centuries later, organizations turned to accounting and the development of performance measurement systems (PMSs) in order to measure their own performance accordingly. Driven by the notion that performance needed to be made measurable and measured, however, most organizations ignored what researchers today accept as a universal truth, namely that *"not everything that can be counted counts, and not everything that counts can be counted"* (Cameron, 1963, p. 13). Management accounting studies have devoted considerable time and effort in identifying and understanding the inability of performance measures to capture the full extent of contemporary organizations (Dambrin & Robson, 2011; Hopwood, 1972; Lillis, 2002; Mouritsen, Hansen, & Hansen, 2009), and more recent literature has developed to discuss if and when the incompleteness of performance measures is of practical importance to managers in organizations (Dambrin & Robson, 2011; Jordan & Messner, 2012). To this end, potential tensions between the facilitating role of accounting and its role as an instrument of control have been examined in order to highlight managers' perception regarding the *enabling* or *coercive* qualities of accounting (Adler & Borys, 1996; Jordan & Messner, 2012). It was first established that incompleteness was not a practical concern if the degree of transparency in a PMS is low. Research showed that opacity in a PMS leaves room for faith in its performativity and functionality (Dambrin & Robson, 2011). Jordan & Messner (2012) took these findings one step further and argued that it is not transparency in itself that causes the incompleteness of performance indicators to be a cause for concern, but rather mounting vertical pressures that limit the flexibility and operating abilities of managers who use these same indicators. In other words, to what extent managers perceive incompleteness as an issue depends on the transparency of the PMS (Dambrin & Robson, 2011) and more importantly on the vertical pressure within the organization (Jordan & Messner, 2012). This suggests that problems of incompleteness do not depend on the representational qualities of performance indicators but rather on how they relate to the world of action and specific contexts (Dambrin & Robson, 2011; Jordan & Messner, 2012; Micheli & Mari, 2014; Mouritsen et al., 2009). While the perception of incompleteness as a problem has been studied to some extent, many of these studies are focused on performance *evaluation* and relatively little thought has been given toward the

problems of incompleteness of PMSs used specifically for *reward* purposes. Studies from closely related fields of research have found that there are often distinct differences in the use of performance measures for evaluation purposes and for reward purposes (van Veen-Dirks, 2010).

Our paper aims at further investigating managers' perception of incompleteness as a problem by specifically addressing the uses of performance measures for rewarding employees. We seek to nuance the stream of literature on incompleteness by addressing the often ignored but prevalent decoupling between evaluation PMS and reward PMS (van Veen-Dirks, 2010). The question we are interested in is "to what extent do managers perceive incompleteness to be an issue in the context of established *reward* systems and does the relationship between performance evaluation and reward allocation have any effect on the perception of incompleteness as a problem in practice?".

To address this, we draw upon data from a single in-depth case study of the Corporates & Institutions division of a wholesale bank. Using data from interviews with management, we recognize a clear distinction in the perception of incompleteness as a practical problem between contexts where there is a strong disconnect between evaluation and rewards and contexts where this decoupling is weaker. We adopt Adler & Borys' (1996) framework of enabling and coercive control in order to better interpret managers' perception of incompleteness. Specifically, we relate the notion of *enabling* control to *incompleteness* in a *reward*-oriented empirical setting. As mentioned, our observations suggest that incompleteness is of little concern when managers perceive a strong decoupling between evaluation practices and reward practices, which raises the question to what extent performance measures are adequate to the purpose of allocating rewards.

Our analysis contributes to previous research on the incompleteness of performance measures (Dambrin & Robson, 2011; Jordan & Messner, 2012; Lillis, 2002; Mouritsen et al., 2009) by further addressing circumstances under which incompleteness is considered to be a problem. While current findings already provide interesting insights on this topic, we nuance the discussion by highlighting the decoupling between evaluation and rewards.

The structure of our paper is as follows. We first provide a more detailed overview of relevant literature before we present an in-depth account of the stance of current research in regard to the perception of incompleteness as a problem. We then introduce the analytical concepts which we use to analyze our observations. Following this, we present a more detailed account on how these

concepts will be used in our analysis. After presenting our empirical findings we analyze these and discuss our main insights. We conclude by summarizing our findings and contributions to existing literature, acknowledging the limitations of our paper, and finally by providing suggestions on the direction of future research.

## 2.1. Domain Theory

### 2.1.1. The Development of Performance Measurement Systems

Performance measurement systems attempt to translate strategies into operational terms, thereby improving organizational performance (Ferreira & Otley, 2009). But as contemporary organizations experience continuous change, so do the underlying PMSs. In their early stages, PMSs tended to include only the translation of financial performance, captured by frameworks drawn from the discipline of economics (Otley, 1999). However, the discussion around PMSs evolved to discussing how the exclusive measurement of financial measures does not successfully capture the full extent of contemporary operations (Franco-Santos, Lucianetti, & Bourne, 2012; van Veen-Dirks, 2010). To overcome this 'incompleteness' of financial measures, the effects of integrating non-financial measures in PMSs has been widely discussed in research, most famously so through Kaplan & Norton's (1992) introduction of the Balanced Scorecard. As organizations began struggling with the use of non-financial measures in PMSs, one line of research focused on comparisons between financial and non-financial measures (Ittner, Larcker, & Randall, 2003; Lau & Buckland, 2001; van Veen-Dirks, 2010).

In her research of 140 Dutch industrial companies, van Veen-Dirks (2010) highlights a disconnect between a PMS committed to evaluation and a PMS committed to rewards. She finds that the purpose of use (evaluating or rewarding) affects the relative importance of and reliance on financial and non-financial performance measures. Specifically, her research shows that the reliance on performance measures (both financial and non-financial) is greater when *evaluating* performance than it is when *rewarding* performance. In other words, van Veen-Dirks (2010) finds strong evidence of a disconnect between evaluation PMS and reward PMS. By highlighting the gaps between the use of financial and non-financial performance measures, the paper concludes that the relative importance attached to financial and non-financial performance measures potentially leads to confusion resulting in managers' discontent regarding existing PMSs.

In terms of using financial and non-financial performance measures, research has also addressed the use of measures specifically for reward purposes (Webb, 2004), how financial and non-financial measures relate to motivation (Kunz, 2015) and to organizational trust (Hartmann & Slapničar, 2009). Research has thus not only highlighted deviations in the purpose of PMSs but also illustrated how performance measures are used differently for such purposes (Hartmann & Slapničar, 2009; Kunz, 2015; van Veen-Dirks, 2010; Webb, 2004). Using performance measures for certain purposes often relies (to a varying extent) on the reliability of those measures (Artz, Homburg, & Rajab, 2012). Consequently, the (in)completeness of performance indicators is of importance and interest to the field of PMS studies.

### 2.1.2. The Incompleteness of Performance Measures

#### Research Consensus: Performance Indicators are Incomplete

Research on the incompleteness of performance measures was triggered by Hopwood's (1972) case study on a large Chicago-based manufacturing company, where he concludes how organizational complexity cannot be expected to be fully reflected in an accounting system. Hopwood (1972) used his case to illustrate how relying on accounting information may lead to dysfunctional effects and argues that accounting data are incomplete (and even biased) indicators of managerial performance, despite often being the most important formal source of information within organizations. The idea of incompleteness and the failure of measures to reflect organizational complexity has since gained much support (Ahrens & Chapman, 2007; Busco & Quattrone, 2017; Bürkland, Mouritsen, & Loova, 2010; Dambrin & Robson, 2011; Jordan & Messner, 2012; Micheli & Mari, 2014; Mouritsen et al., 2009). Although, as mentioned, the inability of financial measures to entirely account for organizational performance gave rise to a series of studies on non-financial performance metrics (Franco-Santos et al., 2012; Kaplan & Norton, 1992; van Veen-Dirks, 2010; Webb, 2004), simply including non-financial measures in a PMS does not solve the problems of incompleteness (Dossi & Patelli, 2010). Favoring one type of measure over the other does not necessarily imply fewer problems of incompleteness. Both qualitative and quantitative measures can be equally problematic, and their degree of incompleteness is often equally severe (Dossi & Patelli, 2010).

Regardless of the type of measure constructed and used, research consensus implies that performance measures are in fact incomplete per se, as they fail to represent organizational

complexity and reality (Ahrens & Chapman, 2007; Briers & Chua, 2001; Bürkland et al., 2010; Dambrin & Robson, 2011; Jordan & Messner, 2012; Jørgensen & Messner, 2010; Lillis, 2002; Micheli & Mari, 2014; Mouritsen et al., 2009; Preston, Cooper, & Coombs, 1992). Ahrens & Chapman (2007) find, in their exploratory field study of a restaurant chain, that only in simple contexts can measures (in the form of targets) provide an understanding of the practical effects that they have on a stand-alone basis. Briers & Chua (2001) show how managers in a manufacturing company must compromise and supplement accounting data with best guesses to gain comfort in relying on figures. Mouritsen et al. (2009) also observe, in their multiple case study of three high-tech firms, how managers use various sources of knowledge to fill the gaps left as a consequence of accounting information being incomplete and unable to reflect reality to a satisfactory extent. Further, Preston et al. (1992) show how accounting numbers in the UK hospital system are being fabricated and formed in a fragile manner. In their study of the French pharmaceutical industry, Dambrin & Robson (2011) find further support that performance measures are incomplete. The managers in their study are unable to identify a link between performance measures and actions of their representatives. One manager even clearly states that "you cannot make this link and you will never make it because you don't have the data to make it" (Dambrin & Robson 2011, p. 440). Dambrin & Robson (2011) further argue that performance measures are not able to represent true performance or resemble the world but interestingly, they find that managers use the incomplete performance measures to evaluate drug representatives (evaluation) and allocate compensation bonuses (reward) despite the fact that the incompleteness of the measures used is a widely accepted truth. The usefulness of management accounting calculations in such a case is thus paradoxical because there is no link between these calculations and the activities to which they are supposedly related (the activities they help organize) and in this sense, they are incomplete (Mouritsen, et al. 2009).

The incompleteness of accounting data, or performance measures specifically, is not the result of faulty creation. Technically complete measures are extremely difficult to construct (Lillis, 2002). This notion is supported by Micheli & Mari (2014) who relate performance indicators to physical sciences and engineering in an attempt to provide an applicable theoretical base on the notion of performance measurability. They argue that both research and practice in performance measurement are limited by the fact that performance measurability is an underdeveloped concept in the field. The authors challenge the idea that performance measurement could ever allow an

organization to determine its true performance and criticize traditional PMS research for assuming that objectivity, accuracy, and precision (the key properties of measurement) are error-free. Indeed, Jørgensen & Messner (2010) also raise the issue that in practice organizational participants have a tendency to rely blindly on numbers, especially in complex organizations. In their paper, Micheli & Mari (2014) suggest that it does not make sense that an indicator can be either 'good' or 'bad'. Instead, indicators can be either adequate or inadequate to purpose. Micheli & Mari (2014) then further argue that the general criterion for 'good' measurement, if such a thing exists, should be an acceptable trade-off between quality of the indicator and available resources.

Relating these ideas to the disconnect between PMSs used for evaluation purposes and reward purposes (van Veen-Dirks, 2010), it is easy to question if performance measures can ever be considered to be universally adequate to purpose if used for such different purposes. Keeping this in mind, it becomes obvious that the criterion of purpose adequacy requires performance measures to be contextualized in order to be understood properly (Dambrin & Robson, 2011; Deville, Ferreir, & Leleu, 2014; Groen, Wouters, & Wilderom, 2017; Jordan & Messner, 2014; Micheli & Mari, 2014; Mouritsen et al., 2009; van Veen-Dirks, 2010).

We have presented research consensus on the fact that performance indicators are considered incomplete, but this does not mean that incomplete measures cannot be useful. For instance, Mouritsen et al. (2009) conclude that measures neither describe nor represent reality, but add perspective to various activities and relate them to organizations. Paradoxically, they argue that measures must be incomplete, because incompleteness is what produces productive tensions.

**Consequences of Incompleteness: Networks of Action**

Despite sometimes being perceived as problematic, incomplete measures may also lead to productive tensions, which enable a continuous search for improvement to be maintained (Busco & Quattrone, 2017). In this sense, accounting numbers and performance measures are not necessarily valuable because of their intrinsic value content, but rather because of the actions they may trigger (Busco & Quattrone, 2017; Dambrin & Robson, 2011; Jordan & Messner, 2012; Micheli & Mari, 2014; Mouritsen et al., 2009). Chua (1995) finds that incompleteness leads to the upholding of a network of organizational action. In this study of hospital DRGs, she shows how flawed approximations, or, in other words incomplete measures, tie interests together in a manner that creates a network of organizational action. It is their ability to tie interests and individuals

together that makes these measures valuable, not their (in)ability to represent reality. Ahrens & Chapman (2007) find that although imperfect, performance evaluation is mainly valuable for restaurant managers because it helps them plan for the future. In addition to this, Mouritsen et al. (2009) find that accounting calculations also serve to create dialogue. Calculations, they claim, are not only mobilized by others, but also mobilize actors and create contexts. They also propose that calculations cannot operate on their own, but need a network of practices and commitments to operate.

In conclusion, previous research has shown that performance measures are inherently incomplete but can still lead to positive effects in organizations, for instance through the creation of networks of action. For negative effects to arise, however, one must first assume that incompleteness is perceived as an issue in practice. Our study aims at contributing to this line of research to further our understanding of when and why incompleteness is actually perceived as an issue in practice (Dambrin & Robson, 2011; Jordan & Messner, 2012).

### 2.1.3. The Perception of Incompleteness as an Issue in Practice

Several studies have examined whether or not managers are concerned with incomplete performance measures in practice. Lillis (2002) shows how the ability of performance measurement systems to facilitate strategically important decisions and managerial action is constrained by incomplete performance measures. Ahrens & Chapman (2004) also observe how restaurant managers attack the appropriateness of the standards in the PMS, clearly perceiving incompleteness as an issue. Wouters & Wilderom (2008) demonstrate how incompleteness leads to performance measurement practices (that are not shared throughout the organization) evolving within organizational sub-units. Different units may develop their own performance metrics, and these are unknown outside the unit in which they are produced. From a senior management perspective, these unit-specific practices make it seem like the organization completely lacks a coherent PMS which can be a cause for concern. Bürkland et al. (2010) observe how incompleteness is perceived as an issue by using ANT (actor-network-theory) not only to illustrate how ‘broken’ inscriptions within a firm’s ERP system are created and travel through the firm, but also to highlight the many uncertainties these ‘broken’ inscriptions result in. In Giovannoni & Maraghini’s (2013) study of an Italian clothing company, incomplete PMSs need to be

complemented by alternative integrating mechanisms such as social interaction, before achieving organizational integration.

In contrast to the previous examples, incompleteness is perceived as less of an issue in cases where pragmatism is prevalent. Many studies identify managers to be what Power (2007) would describe as calculative pragmatists, meaning that they adopt a pragmatic approach to dealing with numbers (Dambrin & Robson, 2011; Jordan & Messner, 2012; Micheli & Mari, 2014). Calculative pragmatists do not necessarily rely blindly on numbers, but neither do they believe that there is zero intrinsic information value in accounting numbers (Power, 2007). Pragmatism can also be seen as a solution to, or a way of dealing with, incompleteness in the sense that calculative pragmatists have a fairly high level of tolerance towards incompleteness as they believe that measures are only able to offer simple estimates of reality (Jordan & Messner, 2012). In fact, Dambrin & Robson (2011) openly criticize that the debate of performance measures too often ignores practical implications such as information accessibility. In this sense, Dambrin & Robson (2011) claim that performance measurement may lack understanding of itself as a practice and that a pragmatic approach is necessary to build an understanding of them. This pragmatic approach goes hand in hand with the notion of regarding measures to be adequate or inadequate to task rather than true representations of reality (Ahrens & Chapman, 2007; Micheli & Mari, 2014). For instance, Briers & Chua (2001) observe that 'soft-data' problems are not considered important in the larger organizational context as there is much trust in the performance measurement system and belief in the experts of these systems. Likewise, Bürkland et al. (2010) find that organizational members may simply learn to live with incompleteness because local interactions in day-to-day work compensates for measures not being complete in themselves. Jordan & Messner (2012) further observe how managers often adopted a pragmatic approach to the trade-off between incomplete performance indicators and enabling control. In other words, some organizations operate under the assumption that "*doing* something [has] priority over *measuring* it" (Jordan & Messner, 2012, p. 551). In this sense, pragmatic attitudes play an important role when determining both the purpose adequacy of performance measure and managers' perception of incompleteness.

Dambrin & Robson (2011) find that drug representatives in the pharmaceutical industry are not necessarily concerned about the incompleteness of performance measures. The drug representatives in their study pay very little interest to the seemingly severe incompleteness of the performance measures they are evaluated on, despite the fact that their sales bonuses make up a

large part of their total compensation and are calculated on the same incomplete measures. Dambrin & Robson (2011) provide potential explanations as to why incompleteness is not perceived as an issue in the pharmaceutical industry. They argue that ambivalence regarding professional identity and opacity in the system play important roles in this specific context. Because the system is not transparent, drug representatives trust it to be rigid. The authors argue that the lack of transparency thus leads to a widespread unawareness of, or indifferent attitude towards, incomplete measures. This 'methodological opacity' illustrates how, when there is opacity in the system, people appear to trust it. In other words, Dambrin & Robson (2011) argue that because there is little transparency in the PMS, incompleteness is not perceived as an issue. The incompleteness is simply not identifiable.

In regard to sales bonuses and their relative size and importance, Dambrin & Robson's (2011) pharmaceutical industry is the empirical opposite to the case of manufacturing managers of Jordan & Messner (2012), whose sales bonuses make up only a minor part of their total compensation. Yet, these managers seem to care about the incompleteness of performance measures. Jordan & Messner's (2012) study concludes that managers mainly perceive incompleteness as an issue if it inhibits their operational abilities, as for instance if indicators are being used for evaluation purposes and in the setting of specific targets. In other words, Jordan & Messner (2012) find that incompleteness is perceived as an issue under high vertical pressures. The study also finds that attitudes towards incompleteness change over time as more effort and work is required to impact performance measures, and more time is required to identify opportunities that can positively impact these indicators. Jordan & Messner (2012) argue that in the case of Dambrin & Robson (2011), a low level of transparency in the system leaves room for faith and, consequently, incompleteness is not necessarily perceived as a problem. However, in light of their own findings in the manufacturing industry, Jordan & Messner (2012) argue that transparency allows for closer scrutiny of the indicators, which opens up to potential concerns. In their empirical setting, transparency of the PMS and performance indicators is higher than that in Dambrin & Robson's (2011) pharmaceutical industry. Consequently, they do not find that transparency is a cause for concern regarding incomplete performance indicators in itself, but rather when it is combined with high vertical pressures.

In conclusion, to what extent managers perceive incompleteness as an issue depends on the transparency of the PMS (Dambrin & Robson, 2011) and, more importantly, on the vertical

pressure within the organization (Jordan & Messner, 2012). If the performance indicators are linked closely to evaluation and the PMS is transparent, the incompleteness can be a practical problem and a cause for concern (Jordan & Messner 2012). However, if the degree of transparency is low, faith in the system is easier to maintain even if incomplete measures are used for evaluating individuals (Dambrin & Robson 2011). These findings add to the idea that problems of incompleteness do not depend on indicators' representational qualities, but rather on how indicators are related to the world of action and specific contexts (Dambrin & Robson, 2011; Jordan & Messner, 2012; Micheli & Mari, 2014; Mouritsen et al., 2009).

As we have illustrated, most studies in this field of research have focused on the use of PMS for evaluation purposes, while to a certain extent ignoring a potential decoupling between evaluation and rewards systems (van Veen-Dirks, 2010). Our paper aims at further investigating the context in which managers perceive the incompleteness of performance measures to be an issue. We aim to add to this stream of literature by nuancing the perception of incompleteness as a practical issue by addressing the decoupling between performance measures used for the purpose of evaluation, which has previously been studied (Dambrin & Robson, 2011; Jordan & Messner, 2012), and for the purpose of rewarding. Specifically, we ask ourselves to what extent managers perceive incompleteness to be an issue in the context of established *reward* systems and does the relationship between evaluation and rewards have any effect on the perception of the incompleteness of performance measures.

## 2.2. Method Theory

### 2.2.1. Enabling and Coercive Control

Understanding how managers in organizations react to formal control systems has long been a topic of interest in the field of management accounting studies. Adler & Borys' (1996) framework of enabling and coercive forms of control has been useful to understand the functionality of management control systems in various settings (Ahrens & Chapman, 2004; Jordan & Messner, 2012; Wouters & Wilderom, 2008). In order to justify our application of this framework, we will first introduce its underlying elements before illustrating its usefulness in management accounting studies.

Adler & Borys (1996) distinguish between enabling and coercive types of formalization of accounting systems. They define features of enabling and coercive formalization such as internal

transparency, global transparency, flexibility, and repair as well as the process of designing and implementing a control system. Specifically, internal transparency is seen as coercive if its main purpose is to surface and punish employees' mistakes. In contrast, it is seen as enabling when it guides employees by providing an understanding of the underlying rules and rationale of the system and is able to provide feedback on performance (Adler & Borys, 1996). Global transparency is viewed to have coercive characteristics when it restricts employees in understanding the broader system they are working in. It is viewed as enabling when it provides employees with the necessary information to understand the broader context they are working in, to help them in optimizing their efforts, and to identify local and system-wide opportunities for improvement (Adler & Borys, 1996). Flexibility is seen as coercive when the respective system does not allow for deviations from the intended use or allows for deviations only following a superior's approval, but viewed as enabling when deviations from the intended use are assumed to be potential learning opportunities rather than risks (Adler & Borys, 1996). The repair feature is viewed as coercive when its main purpose is to highlight employees' mistakes in order to evoke compliance. In contrast, it is viewed as enabling when repairs are seen as opportunities for improvement (Adler & Borys, 1996). In summary, coercive forms of formalization limits employees' scope of action by trying to create an error-free system, whereas enabling forms of formalization aim at utilizing employees' skill-sets and thus preparing them for inevitable contingencies, i.e. facilitating their work (Ahrens & Chapman, 2004).

Ahrens & Chapman (2004) were the first who translated the theory-based framework of Adler & Borys' (1996) into the context of management control systems (MCSs) in practice, by illustrating how the enabling usage of MCSs helps the management of a restaurant chain to pursue the objectives of efficiency and flexibility. Building on the practical relevance of the framework, Wouters & Wilderom (2008) focus on analyzing the enabling characteristics in the design and implementation process of a PMS. They distinguish between the success of small organizational changes (reconfiguration of the system) compared to the creation of new practices and find that features such as existing PMS experience, professionalism, and allowing for experimentation with measures enhance the enabling nature of an PMS. Furthermore, Wouters & Wilderom (2008) suggest that by not only building on the professionalism of managers, but by involving them in the design and development process of the PMS, arising issues as a consequence of incompleteness can be compensated for and, ultimately, the validity of the PMS be enhanced. Chapman & Kihn

(2009) demonstrate how the level of system integration fosters an enabling approach to management control by using Alder & Borys' (1996) four design characteristics. Jordan & Messner (2012) further discuss how two of Adler & Borys' (1996) design characteristics of enabling controls (repair and flexibility) can help solve problems of incompleteness. They argue that narrow concerns of incompleteness can primarily be solved through minor repair work, while broader conceptions of incompleteness may be solved through flexibility. Jordan & Messner (2012) also emphasize that the concept of control, as understood by Adler & Borys' (1996) framework can be perceived as somewhat static. They highlight the need to view the concept of control as a dynamic process between superiors and subordinates, enabling one to more easily identify the link between the control aspects of accounting and its action-facilitating functions.

In addition to the four design characteristics of the framework, Adler & Borys (1996) mention asymmetries of power and other resources such as knowledge, skills, and rewards to be further characteristics that can evoke a coercive or enabling environment within an organization, in the sense that a decentralization or centralization of these characteristics promotes enabling and coercive forms of control, respectively. Furthermore, reality checks in the form of demanding clients, customers, and existing competition evoke enabling formalization, while their absence leads to the opposite (Adler & Borys, 1996).

We have presented the general design characteristics of Adler & Borys' (1996) framework, their relevance for and application in practical settings (Ahrens & Chapman, 2004; Ahrens & Kihn, 2009; Jordan & Messner, 2012; Wouters & Wilderom, 2008), as well as complementary factors that promote enabling approaches of control such as rewards and competitive pressure. Hence, we argue that the majority of the discussed literature utilizes the framework to assess enabling forms of controls for MCSs in general (Ahrens & Chapman, 2004; Chapman & Kihn, 2009) or in relation to evaluating performance, by highlighting the inherent incompleteness of performance measures (Jordan & Messner, 2012; Wouters & Wilderom, 2008), but not in terms of specifically assessing the enabling characteristics of reward allocation processes.

### 2.3. Theoretical Framework

The extent to which an accounting system is perceived as enabling is contingent on how well it facilitates managers' work and decision-making. Jordan & Messner (2012) argue that much of the research on the dysfunctional effects that may arise as a consequence of relying on accounting

information has long had a strong emphasis on performance evaluation and the controlling aspect of accounting numbers. Consequently, they apply Adler & Borys' (1996) framework in order to address the decision-facilitating role of accounting and prove the applicability of this framework in understanding how managers handle incomplete accounting numbers when making decisions. Following this lead, we still argue that relatively little attention has been given to *reward* allocation processes, as opposed to *evaluation* processes and chose to focus explicitly on the decision-facilitating (enabling) aspect of *reward* processes. The framework has not been used to address the decision-facilitating qualities of a reward system, or the role of incompleteness in bonus allocation processes. We adopt Adler & Borys' (1996) framework to enhance our understanding of how managers deal with incompleteness in decision-making processes, albeit in a different context than what has previously been done. Although not tailored to reward systems, the framework does provide some insightful perspectives on how reward systems can be perceived by organizational members.

In terms of internal transparency, we argue that managers' decision-making processes in regard to bonus allocation is facilitated if the reward system allows managers to convey alternative, subjective, measures in an understandable way to the employees that are subject of this bonus allocation process, despite the lack of performance measures to base the bonus allocation on. Global transparency is argued to act as decision-facilitating in regard to bonus allocation if the absence of a link to performance measures does not impede managers in serving the objectives of the organization. More specifically, the reward system is considered enabling if it aids managers in understanding why and to what extent bonus allocation decisions do not need to reflect precise employee performance (as we will discuss further on). Flexibility, we argue, is potentially the most decision-facilitating design characteristic of the framework when examining reward systems. Its importance to the bonus allocation process stems from enabling managers to not only identify apparent incomplete performance measures, but to respond pragmatically in finding an alternative base for the bonus allocation decision. In other words, flexibility liberates managers from potential system-rigidity and thereby serves to improve organizational efficiencies. We consider the aspect of repair to be the least impactful design characteristic of the framework in terms of enabling managers in the bonus allocation decision-making process, at least on a stand-alone basis. Following the logic that bonuses should, ideally, represent an employee's 'true' performance, it is the underlying performance measures, not the bonus allocation process itself that needs repair.

Consequently, we argue that the greater the extent of repair-work conducted on performance measures, the stronger the link that can be established between bonus allocation and performance measures (which can never be complete, only sufficiently adequate to purpose). Repairing measures and forcing managers to use them leads to reduced flexibility for managers to respond and in this sense, repair and flexibility are intertwined in a reward system.

Having presented examples of the four characteristics of controls as presented by Adler & Borys' (1996) framework, we now suggest that Adler & Borys' (1996) framework is an appropriate lens to apply in order to answer our research question, mainly due to the fact that it allows us to nuance reward systems and to reflect upon how incompleteness affects the managers using the reward system, regardless of the purpose of that use. Consequently, we devote the remainder of this section to describe how this framework enables us to problematize how reward systems are used by managers to control in both coercive and enabling ways, as well as discuss potential areas in the process of allocating bonuses where incompleteness might become a problem for the same managers.

We argue that reward systems are generally designed to be used as an enabling form of control, i.e. to incentivize employees. Previous research has shown many of the enabling effects of reward systems. For instance, Chen, Williamson, & Zhou (2010) argue that using rewards to promote motivation can help overcome obstacles that limit the effectiveness of incentives. Furthermore, Eisenberg (2001) finds that rewards leads to high levels of intrinsic motivation.[1] Thus, even without Adler & Borys' (1996) concepts of *enabling* and *coercive* control we can envision how reward systems are used for enabling purposes, such as by paying employees above their measured performance in order to motivate them, incentivize them to work harder, or even in order to make sure they do not leave the organization (retention). Introducing the distinction between enabling and coercive forms of control (Adler & Borys, 1996) raises the question to what extent reward systems can be used for coercive purposes, as opposed to the enabling purposes as outlined above. Deliberating to what extent reward systems can be used for coercive purposes, we argue that one prime example would (although the notion of rewards being coercive is seemingly counterintuitive) relate to a reward system where the bonus payment is entirely up to a manager's discretion. In a

[1] Eisenberg (2001) finds that individual performance contingent rewards lead to higher levels of intrinsic motivation than group-performance contingent rewards and non-performance contingent rewards.

setting where large bonus payments are the norm, an intentionally low bonus payment could be given to employees as a punishment. Low bonus payments of this kind could serve to signal or incentivize an employee to resign 'willingly', especially in settings where labor unions are strong and firing employees is a difficult and administrative process. Finally, bonuses tied strictly to performance leaves little room for organizational-wide reallocation of funds, which can be a prerequisite for responding to changing market conditions, even more so if a company is performing poorly and needs to manage its liquidity.

In summary, we argue that enabling uses of a control system would refer to incentivizing employees and paying them extra in addition to what can be purely motivated by their measured performance. Coercive uses of a control system could, in its extreme form, lead to de-motivating employees to the extent that they willingly leave the organization. Both of these uses of the reward system is a way for managers to exert control upon their subordinates. Important to note, however, is that we have not yet discussed to what extent managers who use the system perceive it as enabling or coercive in the sense that it either facilitates or constrains their abilities to make decisions.

In order for managers to use reward systems for both enabling and coercive purposes as discussed, we argue that an explicit and unwavering link between performance measures and rewards is not possible to maintain. If bonuses are based strictly on performance measures, managers have no discretion in paying employees above or below their measured contribution, and thus there is no flexibility in using the system for other types of control purposes. Consequently, we reason that in order for reward systems to be used to control as described previously, there should be flexibility in the input factors of the reward-allocation decision. In this sense we argue that relying solely on performance measures (regardless of their degree of incompleteness) does not allow managers to use reward systems to control. This idea is supported by van Veen-Dirks (2010) who, as mentioned, finds that there is little reliance on performance measures when allocating rewards (as opposed to when evaluating performance). What information do managers making these decisions then rely on? Examples of such information would include the need of strategically reallocating funds within the organization and payments needed to retain employees (incentives).

Where then, does the notion of incompleteness come in? What we suggest is that the necessity of paying someone above or below their measured performance is a consequence of incomplete

performance measures. If measures would be universally complete and able to capture performance perfectly, managers would feel no need to incentivize employees to stay with the organization, as they are being paid exactly according to their performance, just as they would be anywhere else. This, of course, assumes that the link between performance evaluation and rewards can be made but in the case of perfect measures this link could, theoretically, be easily established. Hence, having complete performance measures would enable managers to know the 'true value' of employees and their performance. Paying above or below this value would not make economic sense. The reason managers would want to pay employees more or less than what is indicated by their measured performance in the first place is because managers feel uncertain about the 'true value' of each employee's performance. Hence, they would feel the need to over or under-compensate employees in order to maintain control. In other words, the fact that measures are incomplete would lead to managers having to estimate the value of individual performance and, consequently, incompleteness is what would cause managers to use other, supplementary (and perhaps arbitrary), input factors in the reward system in order to control effectively. Incompleteness could thus lead to uncertainty regarding performance, and in order for reward systems to facilitate control and decision-making, managerial discretion would be warranted.

Given this reasoning, it becomes evident that we need to map out to what extent the reward system facilitates decision making in terms of rewards (allocating bonuses). By addressing these aspects of the reward system, we can more effectively establish whether or not it is perceived (by managers) as enabling or coercive, and how the incompleteness of performance measures affects this perception. The incompleteness of performance measures would be perceived as a problem if these measures limit the decision-facilitating role of the reward system in place. Incompleteness would, in turn, limit the facilitating role of a reward system if there is little flexibility in how to allocate rewards. If managers are forced to rely on incomplete performance measures, we argue that these measures are, in fact, constraining any facilitating characteristics of the reward system and, consequently, forcing managers to rely on performance measures could cause them to perceive incompleteness as a problem. By decoupling the decision-making process from incomplete measures, managers would not perceive incompleteness as a primary concern. Thus, incomplete measures should cause a reward system to be perceived as coercive and thus problematic in practice the heavier the reliance is on the use of performance measures in determining rewards. Using the terminology of van Veen-Dirks (2010), the presence of a strong *disconnect* between the evaluation

process and the rewarding process would serve to bring the enabling aspects of the reward system to light. The incompleteness of performance measures should not, in this case, limit the facilitating aspects of the reward system. Consequently, if the reward system is decoupled from (incomplete) performance measures, managers would have an easier time accepting this system and perceive it as enabling.

In light of the above, we emphasize the usefulness of the framework of enabling and coercive control in addressing our research question "to what extent do managers perceive incompleteness to be an issue in the context of established *reward* systems and does the relationship between performance evaluation and reward allocation have any effect on the perception of the incompleteness of performance measures?". By primarily introducing us to the enabling and coercive *purposes* of rewards, the framework enables us to problematize reward allocation processes and when the incompleteness of performance measures would be considered a problem in such processes. As mentioned, the specific data we need to examine relates to the facilitating aspects of the reward system. First and foremost, the relative importance of rewards should be mapped out in order to get a general sense of the performance culture in the studied organization. By understanding the strength of the performance culture and the importance of bonuses, we are able to assess to what extent managers are likely to even care about reward processes in the first place and the extent to which managers are subject to vertical pressures (Jordan & Messner, 2012). Furthermore, reality checks (demanding clients, customers, and existing competition) play an important role in the perception of a system as enabling (Adler & Borys, 1996). We argue that these also serve the purpose of forming the performance culture of an organization. In addition to this, we need to identify PMS(s) in place and look at how performance evaluation is linked (if at all) to rewards. In regard to performance evaluation, we will focus on how evaluations take place as well as what type of measures are used, and how. In terms of rewards, we aim primarily at identifying the specifics of the bonus allocation process. The PMS(s) should then be nuanced by addressing their respective degrees of transparency and formality, as this is an important concept in understanding the systems' enabling and coercive characteristics (Dambrin & Robson, 2011). As we consider trust in a system to be a consequence of enabling characteristics, we also analyze managers trust in the established reward practices. By gathering data on these specific topics, we would be able to cover the decision-facilitating qualities of reward systems. What we find is that an informal, non-transparent, but highly important reward system may be perceived as enabling

because it is decoupled from incomplete performance measures, introducing the controversial notion that accounting numbers are not necessarily adequate to be used for enabling purposes due to their inherent incompleteness.

## 3. Research Method

### 3.1. Research Setting and Design

Our study is a single qualitative case study on a division within a bank. Henceforth, the case organization will be referred to as "CaseBank". We chose a single case study to reach the depth required for us to study our topic in sufficient detail (Eisenhardt, 1989). More specifically, we consider studying the aspect of management's perception of the *incompleteness* of performance measures to be favored by a qualitative research approach, as opposed to a quantitative one, as we suspect there is little usable quantitative data on the subject. While a comparative case study of several organizations would have been desirable in order to be able to generalize the results of the study to some extent, it was not deemed practical considering the time frame of the study and our access to data. However, a single in-depth case study allows us to recognize to dynamics of the issues that an organization faces (Dyer & Wilkins, 1991). In addition to this, as we are aiming at contributing to a line of research where single case studies have been the dominant form of research, choosing a similar research design enhances the comparability of our findings in relation other empirical settings in the field (Dambrin & Robson, 2011; Jordan & Messner, 2012; Lillis, 2002). Furthermore, by drawing upon Adler & Borys' (1996) framework, we aim at contributing to the applicability of the framework by applying it to a new context, namely that of reward systems. Our comparability is further enhanced by the choice of interview subjects. In line with previous studies, we focus on middle management in our case organization, as these employees are considered those who, to the greatest extent, both use and are exposed to the PMSs in place, which in turn enables us to extensively observe and analyze the effects of incompleteness on PMSs. In other words, we deliberately chose to focus on middle management as the highest and lowest levels of an organization are assumed to be either completely exposed by the issue of incompleteness (as on the lowest levels) or only marginally affected by the described problems of incompleteness (on the highest levels). Furthermore, middle management is believed to be able to most adequately reflect on the key topics of our analysis, namely the aspects of the importance of bonus allocation, organizational pressures, and transparency of the PMS.

Our selection of the banking industry was based on several considerations: Firstly, as indicated previously, it enables us to add a new set of empirics to this field of research as the majority of the literature on incompleteness focuses on a manufacturing setting (Briers & Chua, 2001; Hopwood, 1972; Jordan & Messner, 2012; Lillis, 2002; Wouters & Wilderom, 2008). Secondly, as we are interested in studying reward practices in detail, the banking industry was the natural choice as it is institutionalized around rewards in the form of bonus payments. Organizationally imperative reward systems have not been a principal point of interest in previous research, as for instance in Dambrin & Robson's (2011) pharmaceutical industry or Jordan & Messner's (2012) manufacturing industry. While sales bonuses do exist in the pharmaceutical industry, we hypothesize that bonus payments are the largest and most significant within sales and finance. With CaseBank, we are able to contribute with a perspective from employees within the financial industry whose roles include sales, as banking at a certain level of seniority is relationship intense and relatively sales-oriented. By combining the finance and sales setting, we thus contribute with an exceptionally reward-oriented empirical setting that has not yet been studied in the research field of incompleteness. In addition, CaseBank makes for an interesting case study because we hypothesize it to be characterized by a high degree of transparency in the PMS (Dambrin & Robson, 2011) as well as a high degree of vertical pressures (Jordan & Messner, 2012). In conclusion, the combination of being institutionalized around rewards and hypothetically displaying high degrees of transparency in the PMS as well as a high degree of vertical pressure makes CaseBank an ideal candidate to provide us with further insights that may help us in further understanding the perception of incompleteness from a managerial point of view.

### 3.2. Data Collection

In order to identify the topic of incompleteness in more depth, we chose semi-structured interviews as the main data collection method. This approach was selected as it gave us the flexibility necessary to explore topics of interest throughout the interview process, and to capitalize on the specific areas of interest or expertise of our interview subjects. As we begun the process on an exploratory basis, a rigid approach would not have allowed us to identify the relevant topics or the applicable literature as we went along. Three semi-structured interviews with our sponsor marked the starting point for our data collection. In order to be able to identify relevant topics along the way, the semi-structured interview questions for these more explorative interviews were designed on the basis of continuously reviewed literature.

After reviewing our notes of the explorative interviews (and consulting our sponsor at the bank) we decided to schedule interviews with employees that met three key criteria to ensure a high relevance for our case: (1) the interviewee's performance has to be subject to a PMS; (2) interview subjects must work in the Corporate & Institutions division of the bank, where variable compensation is a significant part of total compensation; (3) the employee should at least hold a senior position (Directors, Heads) meaning that they have managerial responsibility in the sense that they are not only subject to, but also users of, PMSs (specifically they have the authority to allocate bonuses). Further, to analyze the interdependencies between vertical pressure and incompleteness of performances measures, interviewees were prioritized according to hierarchical position. More specifically, we interviewed the different sub-divisional Heads first in order to observe the organization's issue with incompleteness from various angles before we complemented these initial interviews with interviews with managers one hierarchical level above and below. Lastly, interviews with one Country Head and one Global Head were conducted in order to ask more refined questions to interviewees with deeper insights into the underlying considerations of the PMS in place.

These criteria were then communicated with our point of contact at the bank, who then introduced us to relevant interviewees via e-mail. In total, we conducted 17 interviews, which lasted between 45-60 minutes each. Examples of interviewee's positions include (but are not limited to) Global Head, Product Head, Country Head, Division Head, Director, and Senior Banker.

The formulation and refinement of interview questions can be separated into three key phases. First, as mentioned, the interview questions for the three explorative interviews were based on the key themes of the reviewed literature. Second, after having identified relevant topics the questions were refined to surface key findings around the topics of transparency of the PMS (Dambrin & Robson, 2011) and vertical pressures (Jordan & Messner, 2012). Lastly, after having identified and collected key topics, a third round of interviews was scheduled to fill gaps that have either not been obvious at an earlier stage of the study or needed further clarification thereafter, i.e. considerations regarding employee retention and the degree of flexibility in using bonuses for it. Interviews conducted in the second and third interview phase have been recorded and transcribed. Finally, we reviewed internal as well as publicly available documents to improve our understanding of the organizational structure of the case company.

Ideally, we would have wanted to attend management meetings and performance appraisals in order to observe these processes firsthand. However, as neither of these took place during time-frame of our study, we could not partake in these. Despite this, we conclude by stating that both our method and data are adequate to the purpose of providing useful insights in order for us to sufficiently address our research question.

### 3.3. Data Analysis

In line with the reformulation and refinement of the interview questions, the analysis of the conducted interviews can be separated in three key phases. In the first phase of explorative interviews, we examined whether, in a number-driven organization such as CaseBank, performance measures were heavily relied on and perceived as complete by speaking to three senior managers. Surprising to us at the time, we observed the complete opposite, which led us to narrow down the reward allocation literature and focus on the aspects of incompleteness of performance measures. In a second step, a review of the notes and recordings of the explorative interviews led us to believe that our empirical setting is located in between those of Dambrin & Robson (2011) and Jordan & Messner (2012). As a result, the topics of vertical pressure and transparency were identified as relevant for further investigation. This in turn lead to a refinement of the interview questions which were then focused more on these key themes. Thirdly, eleven more standardized and guided interviews were conducted through which CaseBank's positioning in comparison to the empirical settings of previous research in the field could be further mapped out. In addition, Adler & Borys' (1996) framework of enabling and coercive forms of control was deemed to be valuable as it allowed us to maintain a distinction between both enabling and coercive *purposes* of control systems, but also between enabling and coercive *uses* of control systems when scrutinizing our data. By keeping this in mind, we were able to gain relevant insights to our research question "to what extent do managers perceive incompleteness to be an issue in the context of established reward systems and does the relationship between performance evaluation and reward allocation have any effect on the perception of the incompleteness of performance measures?".

## 4. Empirics

### 4.1. Empirical Background & Context

Our case organization, CaseBank, is the Swedish Corporates & Institutions (C&I) division within a northern European universal bank. The bank is a publicly listed company that has been operating

since the 19th century, employs around 20,000 people in over a dozen countries, and serves clients in a full range of banking services through different business units, including Personal Banking, Business Banking, C&I, and Wealth Management. The C&I division, CaseBank, is one of the four core business units of the bank, has close to 2000 customers and accounts for approximately 20% of a total income for the group (EUR 6,500 million). CaseBank is a wholesale unit which serves corporate and institutional clients mainly in its home country, but also across other regions depending on the needs of each client.[2] CaseBank itself consists of approximately 250 full time employees mainly based in Stockholm, Sweden. At the time of our study, CaseBank is trying to gain market share rapidly, as it is only the market leader in a few product areas. Consequently, CaseBank is setting aggressive targets and aims at attracting top performing talents. In addition to this, CaseBank is focused on increasing internal collaboration between different product units in order to present a more unified front towards customers. Products are often interrelated as clients rarely opt for only one banking service. For instance, it is not uncommon in the wider banking industry that a corporate loan client would also be interested in cash management services or in granting a corporate finance mandate. In extreme cases, one product unit may deliver a transaction to another product unit 'on a silver platter'. Some units act more as door-opening units than others, but collaboration between all units is required. Because of the growth strategy and the focus on internal collaboration, CaseBank has developed a unique performance culture, which will be further discussed below.

### 4.2. Performance Culture of CaseBank

CaseBank is characterized by a very strong performance culture in which most sub-units require their employees to work well beyond regular office hours. Although key performance indicators (KPIs) are not necessarily tracked on a daily basis, some are considered more important than others. We do, however, observe that the lack of daily updated KPIs does not imply a lack of performance pressure.

*"What we are trying to do is to build something and when you want to build something you want the best employees, then you need to pay more than everybody else. So, I keep really thorough track of how much competitors are paying somebody at any given level. And then, I try to be 10-30%*

[2] Product areas include, but are not limited to: Corporate Finance, Cash Management, Corporate Banking, Leveraged Finance, and Equity & Debt Capital Markets.

*above that level because we really need to have the best individuals. And that's what I have been telling senior management right from the start. If this is what we are looking for, then that is what we need to deliver." (Sub-divisional Head)*

*"I think the performance culture and pressure comes more from a competitive perspective, and I believe that [competitiveness and high performance] are simply traits of the type of people that end up at [CaseBank]." (Director)*

As illustrated by the two quotes above, people are recruited for being high performers and are expected to deliver. Even though employees do not deal with tracking KPIs on a daily basis, the one KPI (customer satisfaction) that is consistent throughout all sub-units can sometimes be overrepresented in daily work. The bank places great emphasis on the customer satisfaction KPI and the focus and pressure on this KPI is even considered beyond reasonable from time to time, causing some employees to sometimes go to extremes to get this specific KPI to work. The performance culture is not only characterized by the overall competitiveness of the staff and the relative importance of certain KPIs, however. Top management expects frequent collaboration between product units and relationship bankers. As we have previously mentioned, one of CaseBank's priorities is to make sure the bank shows a unified front towards customers. Collaboration between product units and divisions is constantly encouraged and the importance of it is emphasized frequently. One of the most common discussion topics for the management meetings of CaseBank is how to align sub-unit specific KPIs to incentivize more collaboration between product units. The discussions around aligned KPIs are primarily aimed at further emphasizing the importance of collaboration. In other words, not only is there an unwritten rule that people are expected to perform well, but also in a certain way (through collaboration), even if incentive structures are not always in place to support this type of behavior.

*"[Collaboration] is a crucial part of our strategy, but I can't really see the link between remuneration and that type of work. It all depends on what kind of individual you are. Sometimes I even believe that the incentive structures are counterproductive. If you take it to the extreme you could see it as every hour that I help the bank do something else is a lost hour for [my department]" (Director)*

Because the compensation is considered good regardless of how bonuses turn out, the bank expects certain performance and behavior from the employees.

*"Your fixed salary should already cover that you collaborate. I don't want people in my team who don't collaborate. To me it's more in the core of the culture and in the core of what you do in your daily work. You are already so well paid that I expect you to collaborate." (Divisional Head)*

The performance culture we identified has been developing over many years and in the eyes of our interview subjects, it has grown stronger over time. As the organization has been performing well for many years, expectations become harder to meet. Every year, although targets are exceeded, the new targets are based on achieved numbers rather than previous targets.

*"[Reaching targets] is getting harder and harder. The old year's reached target is the new standard. But we've been lucky enough to be part of a growing market. In 2009, for example, spreads were huge. The next year I got 50% less which was still very good. But nobody takes [that 2009 was extraordinary] into account" (Sub-divisional Head)*

In this sense, expectations, communicated through targets, rise exponentially. One interviewee mentions how she is often nervous in the beginning of a new fiscal year, because there is always a large discussion around what the new starting point should be if the unit outperformed the previous year. After a good year, a 10% increase in targets won't suffice because there is always a pressure to perform even better after a good year. Another employee discusses the increased difficulty of impacting targets over time. When he arrived at CaseBank, the 5-year strategic plan was based on establishing presence and improving the standing of the bank in the market. These, he considered, were relatively easy improvements to make. Once that had been achieved, however, the new 5-year plan included far more aggressive and hard-to-reach goals that were nonetheless expected of him.

### 4.2.1. The Importance of Variable Compensation

CaseBank is the division of the overall bank where variable compensation is significant in relation to fixed salaries. Although bonuses can be zero, theoretically they can also exceed fixed salaries. Some sub-units have a cap on bonus payments, while others have no explicit cap. This does not mean that bonuses can be limitless, however, but they tend to make up a large part of total compensation, going hand in hand with the prevalent performance culture as described above. Many competitors to CaseBank have set internal regulations to cap bonuses at any hierarchical level to 12 months' salary, while CaseBank allows for up to 24 months' salary, although bonuses

rarely reach these levels. The interviewees describe two different prevalent attitudes towards bonuses present within the organization.

*"There are two different egos in the bonus world. The first is the one who just wants massive amounts of money. That's one personality - the type that's doesn't care for anything but his or her number. Then there is the second: The socialist of finance. This personality doesn't necessarily want bonuses equally distributed, but fairly distributed. This person thinks each person should have a fair amount of bonus based on how well they perform." (Sub-divisional Head)*

Most interviewees describe themselves, each other, and their respective teams as the second type of 'bonus ego'. The absolute amount of money is not always considered important other than for the fact that it is the ultimate proof of poor, satisfactory or outstanding performance. According to one director, bonus payments within CaseBank, although important, drive the performance culture because they are a signal of success, not because people are greedy. This does not, however, mean that bonuses are not important.

*"Bonuses are important because they motivate people. People working in this environment are competitive, they have a 'hunting gene'. We need that 'hunting gene' to be intact and for our managers to be predatory out there." (Divisional Head)*

### 4.3. The Performance Measurement Systems in Place

#### 4.3.1. Evaluation PMS

***Sub-unit Specific Practices***

Although closely related, most sub-units use different performance indicators. Most KPIs tend to be highly subjective and phrased in such a way that they cover a wide range of aspects, but they are separately developed for each unit at the discretion of each unit's respective Head. One interviewee described that he had developed KPIs himself, and sought the approval of HR to use them. Two interviewees described how they do not necessarily enter performance data into the corporate-wide PMS, but rather attach their own performance indicators as files when they report. Not only do measures differ between units, but different measures are often used for different hierarchical levels even within sub-units. Within one of the sub-units, for instance, only one KPI is the same for two hierarchical levels and one head revealed that within his sub-unit, employees are given completely individual KPIs. It is not only the design and use of PMSs that has developed

differently within the sub-units of CaseBank, but also the PMSs intended purposes. While some units use measures for control purposes, most units use them in a more enabling manner. The intended enabling uses for PMSs are more evident in units where bonuses are relatively larger.

*"The main purpose of the PMS is to help my team to help themselves. A big advantage is that it also removes inefficiencies." (Sub-divisional Head)*

One senior manager also expressed how the use of these sub-unit specific KPIs has helped maintain flexibility and ability to react to changes in the market. From a control perspective, she might have preferred to align KPIs across units, but does not see the practical necessity of restructuring this, as the costs and resources of doing so are likely to end up costing more than the current system does.

***Subjectivity versus Objectivity***

Consensus within CaseBank is that individual performance for individual transactions or deals, for instance, is extremely hard to measure. As a consequence, the use of subjective KPIs is widespread and managers at CaseBank see the use of subjective KPIs as very natural. Although many of the KPIs within CaseBank are subjective in nature, the organization still uses a mix of hard numbers and softer measures. Subjective measures are, however, overrepresented in the organization. Managers are evaluated (and evaluate others) on a wide variety of KPIs including for instance customer satisfaction, deal generation, motivation, return on allocated capital, top line growth, fee generation, margins, market share of the unit, and even perceived contribution to the team. The interview subjects share the view that subjectivity is not only a natural but also an important aspect of performance evaluation. As we will describe further on, making the link between performance, evaluation and compensation is regarded a highly complex task. For this reason, managers are not only given managerial responsibilities but still work on product level and as a consequence, they do not need to control at a distance and feel that they are able to better assess the performance of employees, especially given the subjective nature of performance measures. This was highlighted by one manager, who described that he hardly sits in his corner office, but works among his team on the trading floor. Thereby, he states, he does not only serve a role-model function, but also gets a feeling for the individual performance of his team members, which he prioritizes over reported KPIs and 'box-ticking'.

*"You have to have a good knowledge of the environment you're making money in to be able to make a good assessment of performance." (Sub-divisional Head)*

***Transparency of KPIs***

As mentioned earlier, the KPIs used at CaseBank vary widely among the different sub-units. We do observe that KPIs are vertically transparent throughout the organization, while they are not horizontally transparent. All interviewees expressed a transparent communication from superiors and to subordinates, as illustrated by a senior banker in the corporate banking division, who stated that everyone in the organization knows what is expected of him or her, and that it is rather the connection to bonus allocation that no one is really certain about. Because employees know exactly what is expected of them and how to act in any given situation, they still deem the degree of transparency of the (evaluation) PMS to be high.

*"[The KPIs] are obvious to me. If they wouldn't be obvious to me I shouldn't have a senior position within [CaseBank]. It must be in your DNA, in your daily work and in how you approach different situations. If it is not clear there is either a problem with the manager or the employee. It should be obvious to everyone." (Director)*

Between divisions, however, the degree of transparency is fairly low which, given the historically high degree of autonomy of each respective unit within the organization, is considered natural. Specifically, one director gave an example of how an adjacent sub-unit introduced a KPI, which promoted collaborative work between the two sub-units. This KPI was, however, not clearly communicated and aligned with the KPIs in place in his sub-unit. As most evaluation takes place vertically, however, the horizontal transparency is not seen as much of an issue.

***Formalization of KPIs***

The evaluation PMS at CaseBank (or within the different sub-units) is, although measures can be highly subjective, very formalized. As mentioned above, the performance measures are intended to be enabling in the sense that they educate employees and as a result, they help remove inefficiencies in the organization. All measures are written down and formulated at the beginning of the year and performance evaluation reviews are held semi-annually. It is important that subjective measures are used "objectively":

*"It's very important that when you have this type of system [with mainly subjective measures] you can't let feelings control what you do. You have to be objective." (Sub-divisional Head)*

As we have illustrated above, even though KPIs may differ on an individual basis, everyone in the organization has a very clear sense of what these KPIs are and how to work in order to achieve them. In short, KPIs are formally communicated and transparent despite the wide variations of measures used.

### 4.3.2. Reward PMS

***Bonus Allocation***

Bonuses trickle top-down within CaseBank. The remuneration board first decides on the total bonus pool for Sweden, after which senior management decides how to allocate this bonus pool to managers below them. In turn, these managers allocate to the subsequent hierarchical level, who do the same thing until the bonus pool is fully allocated on an individual analyst level. Making the link between individual performance evaluation and monetary compensation (in terms of bonus) is considered impossible. Even if the financial KPIs are considered fairly 'measurable', no manager believes that KPIs, objective or not, fully capture the effort put into the work.

*"You can see how much income my deals generated out of total income. It is the hard truth, but it doesn't fully reflect the work done." (Director)*

One of the ways in which income, for instance, does not fully reflect the work done, and why there is no clear link between evaluation and rewards, is because a lot of the work done is aimed at investing into the future performance of the bank. Bonuses are paid on a yearly basis and many KPIs are lagging measures. Employees spend much of their time dealing with prospect clients and potential sources of revenue for the bank. It could take years before prospect clients start generating any profits for CaseBank. Consequently, financial measures are, as described previously, not relied on entirely. As our interview subjects all agreed that there is no traceable link between KPIs and bonus payments, factors other than KPIs are included as well.

One manager expressed the idea that the missing link between performance and rewards could be solved by introducing additional formal KPIs, as his department was, according to him, not experiencing the same complexity in trying to measure performance as many other departments were. He explained how from time to time he experienced the unclear link between evaluation and rewards as frustrating, but more so the amount of time and energy he invested in trying to figure

this out. In contrast to this, another manager stated how she has come to realize the impossibility of making this connection between performance and rewards work. In her field of work, there was no point in trying to actually measure individual performance. Instead, she simply highlighted the importance of having a manager around that can evaluate you subjectively. This in turn enabled her to stop worrying about solving the apparent disconnect.

The unclear link between evaluation and reward creates a situation in which the immediate manager is very important in evaluating individual performance and allocating bonuses. The significance of the manager brings us back to the use of subjective performance evaluation and how it is considered important that managers are active on a product level. The discretionary nature of the bonus allocation decision is widely known and accepted throughout all hierarchical levels of CaseBank. The bonus allocation decision is described as a fully discretionary black-boxed decision, meaning that the exact inputs and their use as well as the decision-making process is unknown. However, the outputs are taken for granted as they are simply communicated through the different hierarchical levels as the bonus pool trickles down the organization.

***Market Orientation***

Bonuses are not only used to reward what is perceived to be good performance in a given year, but even more so used for retention and signaling purposes.

*"Bonuses today are just salaries: They are retention, not 'bonuses'. When I sit and divide bonuses, especially in a year when the bonus pool goes down, I tend to see 'who can I not afford to lose in my team?' So, then I pinpoint a couple of individuals that are important for the team and the culture and I make sure that they are covered. Not so that they are necessarily happy, but so they don't leave. […] At the end of the day, bonus payments are just for retention purposes." (Divisional Head)*

In addition to being used to retain top performers, bonuses are also used for the opposite purposes. Some of the interviewees heading sizable sub-units of their own admit to having paid employees zero bonus to signal that CaseBank might not be the right place for them anymore. In other words, a bonus of zero is seen as a good way of getting people to leave 'willingly'. In this sense, managers end up paying people at what they describe as 'market value'. Being able to pay at 'market value' is seen as an efficient way of sustaining the performance culture that CaseBank wishes to uphold.

*"This is the only way we can have the culture of people that want to perform." (Sub-divisional Head)*

As illustrated above, bonus payments serve different purposes. The bonus at CaseBank can thus be said to reflect both an employee's skill set but also his or her market value.

*"To me, total compensation is two things: the production value of that employee [skill-set] and the resale value of the same employee [market value]. So, I look at fixed and variable compensation together and try to structure them so that the cost of their production value is minimized without paying anyone below their resale value." (Divisional Head)*

***Transparency of Bonus Allocation***

While the degree of transparency of the evaluation PMS in use as described previously is observed to be strong, the transparency between the KPIs in place and their effect on the year-end bonus lies on the other end of the spectrum.

*"I think the measures are transparent. But they are not transparent in the way that I know what sum of bonus I will receive in the end and what the total pool is. There is no connection there. But what I am expected to do is very transparent and we have a pretty good feeling if we have over- or underperformed." (Senior Banker)*

This employee's statement is deemed to be representative for the whole division of CaseBank. We observe a clear disconnect between the evaluation of performance and the allocation of bonuses. KPIs are communicated and used (vertically) in a clear and transparent manner, but they cannot be used to accurately calculate or predict the year-end bonus payment. The lack of an evident link between evaluation and compensation was described to have several underlying reasons. One of those reasons is the aforementioned difficulty in measuring individual contribution to transactions and deals.

*"The connection between what you do and what you get paid for should be as clear as possible. But so far, we haven't had that. We have no idea or any kind of insight in that process at all." (Director)*

Furthermore, strategic considerations made by the global heads of CaseBank were also a highlighted reason for the missing link between KPIs and bonus payments. Strategic considerations, such as growing a division more aggressively, often require a reallocation of funds,

which usually means taking funds from the bonus pool of one sub-unit to redirect them towards the pursuit of growing another sub-unit. One employee with global responsibilities at CaseBank specifically described how the newly formed departments needed reallocation of funds before they started generating revenues. This, in turn, meant that another department, which then had just recorded one of the best years ever, got their bonus pool cut to a degree that bonus payments of that department could hardly meet expectations. Strategic considerations of this kind are not always transparently communicated, and it is this lack of communication that is described as the reason for potential discontent among those bankers who are negatively affected by this reallocation of funds.

*"Last year I got the same bonus as the previous year and I didn't think it was fair because we had the best year ever. Based on my clients it felt like I couldn't have done more but I still didn't get anything for it. So, in the end it feels like it doesn't matter what you do, you don't get anything for it." (Director)*

Not only is there no evident link between performance evaluation and compensation when bonus payments stagnate, but also when they turn out to exceed those of most competitors.

*"From [our performance] perspective, the bank should really be able to pay us even more. Compared to what we are delivering we should probably getting even higher bonuses. They are paying good and better than anybody else. But we had done great, really, really great. So, the question is how much do you get for being really, really great?" (Sub-divisional Head)*

As discussed earlier, the importance of bonus payments in retaining key employees further impedes any attempt to directly link bonus payments to performance measures, adding complexity to the problem of adequately measuring performance in the first place. This notion was emphasized by every senior manager at CaseBank with bonus allocation responsibilities, by expressing how the requested bonus pool usually never suffices to pay each and every employee the adequate amount, so that the employee-retention considerations become paramount. Important to note is while respondents expressed the desire to have more transparency in regard to the bonus allocation, it became clear that this black-boxed bonus allocation process is a widely accepted practice and the consequence of a pragmatic solution to the whole process. When this topic was discussed with interviewees, adjusting the degree of transparency was acknowledged to have a limited effect on repairing the missing link between evaluation and rewards.

*"I think having complete transparency would mean total war. I think it is not doable." (Divisional Head)*

***Formalization of Bonus Allocation***

As illustrated by the retention and signaling purposes of the market-oriented approach of the bonus allocation decision, this mechanism is inherently informal. Not only are employees expressly forbidden from sharing their variable compensation figures, but also does no formal set of guidelines exist that prescribes how to assess the market value of employees. Throughout all sub-units of CaseBank the bonus decision is shared in a personal meeting between superiors and subordinates without the provision of a formal clarification of how the bonus was decided.

*"If someone is doing a great job and we get the feeling someone else is trying to hire them and back to the fact that we do pay different salaries and you have the feeling that we might be a bit low on this person. We might pay more to make him or her more motivated and stay […]" (Sub-divisional Head)*

### 4.3.3. Trust

During all conducted interviews, the topic of trust emerged in discussing how to overcome the missing link of performance evaluation and bonus allocation. Talking about trust, most employees referred to the reliance on subjective performance measures in combination with a non-transparent bonus allocation system. Trust was, however, observed to be crucial on different layers of the bank. In order to trust the necessity of reallocating bonus pools, interviewees stated that the long-term vision of CaseBank has to be 'right'. Further, team heads have to trust their divisional manager to fight for an adequate bonus pool, which is then allocated among the employees of that respective division. In addition to this, lower level employees without bonus allocation responsibilities have to trust their immediate manager that their individual performance is adequately rewarded. Ultimately, the problem of measuring each employee's individual contribution is further complicated when employees perform cross-divisional work or tasks whose outcomes will not impact the financial years results but that of the years thereafter. In conclusion, trust plays a significant role in the PMS of CaseBank, and is not specifically tied to the evaluation or reward practices

*It is impossible to measure who did what. You have to make sure people trust each other in the organization." (Sub-divisional Head)*

## 5. Discussion and Analysis

### 5.1. Comparing and Contrasting

In this first section of the analysis, we present our empirics in relation to previous research by comparing and contrasting CaseBank to other empirical settings such as the pharmaceutical industry (Dambrin & Robson, 2011) and LeanOrg (Jordan & Messner, 2012).

#### 5.1.1. Transparency

In the pharmaceutical industry, Dambrin & Robson (2011) find that drug reps are subject to a non-transparent PMS. Performance evaluation is directly linked to turnover figures through objective (hard) measures and furthermore, bonuses are directly linked to those performance figures. The system itself depends on self-reported inputs by the drug reps, managers' correction mechanisms, and bonus calculations based on algorithms and formulas, resulting in a high degree of *opacity* of the PMS or, in in other words, a lack of transparency. Hence, a lack of transparency permeates the entire performance measurement process, from evaluating performance to directly linking bonuses to the resulting performance figures. Dambrin & Robson (2011) argue that the lack of transparency enables the sales reps' belief in the rationality of the PMS, and thereby in the performativity of the system. In this sense, Dambrin & Robson (2011) suggest that incompleteness is not perceived as an issue when the degree of transparency in the PMS is low. In contrast, Jordan & Messner (2012) observe the transparency of the PMS at LeanOrg (their case organization) to lie at the opposite end of the spectrum. Here, managers are not only able to recognize narrow forms of incompleteness (internal transparency) such as definitional issues, but are also able to identify the link between the indicators and the organization's overall objectives and goals (global transparency).

In contrast to the single type of transparency addressed by Dambrin & Robson (2011) and Jordan & Messner (2012), transparency at CaseBank concerns not only that of the KPIs themselves (evaluation PMS) but also that of the bonus allocation process (reward PMS). In comparison to the findings of Dambrin & Robson's (2011) drug reps, employees of CaseBank are not only aware of the KPIs they are being evaluated on, but also understand the KPIs in use, rendering this aspect of transparency (evaluation PMS) high. On the other hand, the bonus allocation (reward PMS) at CaseBank is described as a *black-boxed* process with a lower degree of transparency. Employees, regardless of hierarchical level, can roughly estimate the expected bonus payment but as shown, even the best year does not necessarily guarantee an increasing year-end bonus payment.

It should be noted that the lack of transparency between the cases is due to different underlying drivers. In the pharmaceutical industry, it is the *complexity*, *lack of expertise*, and *trust in software* that drive the lack of transparency (Dambrin & Robson, 2011). We identify that the *disconnect* between evaluation processes and bonus allocation is what determines the degree of transparency at CaseBank. For instance, issues of global transparency such as strategic considerations by management, retention-based decisions, and the measurement of inter-departmental collaboration are the underlying reasons for a lack of transparency in CaseBank's reward PMS. Thus, the combination of apparent *internal transparency* (transparent and understandable KPIs) and the lack of *global transparency* (in the form of the bonus allocation processes) places our empirical findings in between those of Dambrin & Robson (2011) and Jordan & Messner (2012).

It should also be noted that transparency, as discussed by Dambrin & Robson (2011), refers to opacity of the evaluation system in the pharmaceutical industry. Calculations are neither transparent nor understood by subjects. In contrast, we find no opacity in the evaluation process and although the bonus process is non-transparent, we would not claim it to be opaque. Consequently, we argue that CaseBank displays an overall higher degree of transparency in the PMS(s) than the pharmaceutical industry.

### 5.1.2. Vertical Pressures

Building on the findings of Dambrin & Robson (2011), Jordan & Messner (2012) argue that it is not a high degree of transparency in itself, but rather the combination of a high degree of transparency with high organizational vertical pressures that renders the incompleteness of performance measures problematic for operational managers. Jordan & Messner (2012) describe how an increased managerial focus on 'management by the numbers' increases the vertical pressure at LeanOrg and how consequently, the incompleteness of performance measures changes from a mere accounting issue of limited practical importance to a real problem with concrete practical consequences.

As shown in the empirical section describing CaseBank's performance culture, employees of CaseBank work in a very high-pressure environment. In contrast to the setting of LeanOrg, in which performance indicators only have a small impact on bonus payments for higher level managers, variable compensation makes up a significant share of total compensation for all employees at CaseBank. Hence, they are not just implicitly measured against performance targets and expected

to do a good job, but constantly experience pressure to perform in order to receive substantial bonus payments (despite the fact that performance measures per se do not clearly link performance to rewards). Nevertheless, both case organizations are subject to vertical pressures, which also change over time, although at LeanOrg, employees experience a rather abrupt increase in vertical pressure, whereas the employees at CaseBank experience a similar change in a more gradual manner. Vertical pressures at LeanOrg emerge partially through the formulation of new targets, which were set extremely high. The new cycle efficiency target was raised to 25%, up from the initial 0.23%, (Jordan & Messner, 2012, p. 554), resulting in reduced managerial flexibility. At CaseBank, flexibility is reduced in the sense that senior management emphasize the importance of collaboration, although not necessarily to the extent that managers perceive the PMS as coercive. Nevertheless, the discussions taking place around aligned and common KPIs at CaseBank can be seen as a vertical directive that reduces managerial flexibility in designing and operating their own, sub-unit specific, practices. In other words, it is the requirement to collaborate that limits the discretion of managers at CaseBank, as they are usually given a high degree of discretion over the design and use of performance measures. As mentioned, at LeanOrg, operational managers' flexibility is instead limited through targets being, based on directives from upper management, formulated in a far more comprehensive way, leaving no room for managerial correction mechanisms. We also observe how it is not a lack of performance, but rather the opposite, that has created vertical pressure over time. By delivering one record year after the other, the targets at CaseBank have become more challenging as each previous year's results become the next years baseline.

Through our discussion on transparency and vertical pressures, we aim to highlight how CaseBank relates to two extremes of the pharmaceutical industry (Dambrin & Robson, 2011) and LeanOrg (Jordan & Messner, 2012). As mentioned in the previous section, the combination of high *internal transparency* and low *global transparency* distinguishes CaseBank from the pharmaceutical industry. Vertical pressure, resulting from over-performance rather than under-performance, exists in CaseBank in the form of increased expectations and collaboration demands, and not by the objectification of targets as in LeanOrg. Consequently, managers' experience of reduced flexibility differs between the cases.

### 5.1.3. Bonus Significance

The importance of variable compensation further highlights a key difference between the three empirical cases we have discussed. As mentioned, the importance of bonuses at LeanOrg is negligible, while in the pharmaceutical industry bonuses are described to be of high importance, making up to 36% of monthly salary on average for the drug reps (Dambrin & Robson, 2011). At CaseBank, bonuses average up to 50%, and we have also shown how in contrast to both cases of Dambrin & Robson (2011) and Jordan & Messner (2012), the decision-making process underlying the bonus allocation is decoupled from the performance evaluation process. Hence, we argue that, despite their high degree of comparability, the importance and decoupling of the reward system further distinguishes our empirical setting from the contexts of previous research. More importantly, the relative importance of bonuses (at CaseBank) highlights the significance of separately analyzing the reward system in assessing managers attitudes towards incompleteness.

## 5.2. The Disconnect Between Evaluation and Reward PMSs

Although Dambrin & Robson (2011) find that "imperfect numbers do not really connect the 'performance reference' (figure) with the 'performance object' (actor)" (Dambrin & Robson, 2011 p. 433), they still observe how bonuses are linked to objective performance measures. This is quite the opposite to the situation at CaseBank, where the disconnect between performance measures and rewards is far more evident. Consequently, we find that in contrast to our findings, managers in Dambrin & Robson's (2011) study keep evaluation and rewards linked, despite the absence of cause-and-effect relationships between actions and numbers. Instead, we have shown how the separation of performance measures for evaluation and the inputs for the bonus allocation decision at CaseBank are two completely different aspects and only vaguely related, indicating a strong and evident disconnect between the evaluation PMS and the reward PMS. Mouritsen et al. (2009) argue that the use of management accounting calculations in a case such as CaseBank is paradoxical because there is no clear link between calculations and supposedly related activities, which serves to prove the incompleteness of performance measures. In line with van Veen-Dirks (2010), we find that the reliance on performance measures is greater when *evaluating* performance than when *rewarding* performance. In fact, we fail to see any significant reliance on specific performance measures when it comes to rewarding. The relative importance attached to different types of performance measures at CaseBank does not, however, as in the case of van Veen-Dirks (2010),

seem to have led to any confusion or discontent regarding existing PMSs. On the contrary, we find that managers find it enabling to rely almost solely on aspects not driven by performance measures when allocating bonuses. Because they consider performance measures to be incomplete, they willingly replace the use of these measures with a market-oriented approach in regard to rewards, as will be elaborated on in a following section. In contrast to van Veen-Dirks (2010), we argue that the relative importance attached to different measures when evaluating and rewarding is perceived as enabling, rather than causing confusion and discontent (which are potential consequences of coercive characteristics). Being able to disregard incomplete measures for decisions as important and political as bonus allocation allows managers to more easily justify their actions, illustrating the facilitating characteristics of the reward system, despite its low degree of formalization.

In summary, by relating our findings to those of van Veen-Dirks (2010), we argue that when there is a strong decoupling between evaluation and rewards, the relative importance of relying on performance measures for rewarding (in contrast to when evaluating) is not a source of confusion. Instead, it is enabling. The opposite holds true for a weaker disconnect between evaluation and rewards. This reasoning implies that incompleteness is perceived as less of an issue in cases where this decoupling is stronger. As we have shown empirically, we observed how one manager perceived incompleteness to be an issue because he considered himself close to 'making the link' between evaluation and rewards for his team, illustrating how the decoupling was not as severe in his sub-unit as in many others. In contrast, the manager of a sub-unit where the decoupling was explicit admitted to rationally ignoring any attempts to 'make the link' as she considered it an impossible task. As illustrated by these two different perceptions of incompleteness, we thus find empirical evidence supporting our idea that incompleteness is perceived as less of an issue when the disconnect between evaluation and rewards is explicit.

As we will illustrate, CaseBank has developed a 'network of action' (Ahrens & Chapman, 2007; Busco & Quattrone, 2017; Chua, 1995; Mouritsen et al., 2009), which we label the 'Compensational Market', that serves to solve potential issues and tensions arising as the result of incompleteness. We argue that, because of the fact that there is a clear disconnect between systems for evaluation and rewards, managers do not perceive the incompleteness of performance measures to be an issue in practice. The managers' pragmatic solution to this disconnect (which is caused by incompleteness) leads to the emergence of a 'Compensational Market'.

### 5.3. The 'Compensational Market'

Traditional performance measurement aims at aligning strategy and operational performance (Ferreira & Otley, 2009). Theoretically, evaluating the performance of employees can be easily carried out in the absence of incompleteness and consequently, these employees can be compensated accordingly. In other words, assessing 'true' performance is possible and hence, no discretion for reward allocation decisions is needed. When performance measures are incomplete, the link between performance, evaluation, and compensation is broken and as a result, it is problematic to determine compensation for performance that is uncertain (Mouritsen et al., 2009). As shown, incompleteness has led to a clear disconnect between performance evaluation and rewards at CaseBank. Busco and Quattrone (2017), Chua (1995), and Mouritsen et al. (2009) have previously observed how incompleteness of performance indicators gives rise to 'networks of action' that serve different purposes in driving an organization in going forward and moving past struggling with perfecting incomplete performance measures. At CaseBank, managers with bonus allocation responsibility use limited input from the performance evaluation process when determining bonus pools and total compensation is viewed as the sum of 'production value' and 'resale value'. Managers ask themselves "how much must we compensate this person in order for him or her to stay with us?". If compensation is high enough, employees stay, and if not, then they simply resign. In this way, managers attempt to find a 'Compensational Market Equilibrium' by experimenting how market forces (in this case total compensation and job rotation) relate to each other. We argue that the emergence of this 'Compensational Market' has occurred because performance measures in place are not deemed adequate to purpose for allocating rewards. Instead of relying on incomplete measures, managers have adopted an alternative, market-oriented reward system to allocate bonuses. Similar to what previous research has shown, this 'network of action' within CaseBank can, to a very large extent, be argued to help organizational members plan for the future in the sense that it enables managers to legitimize the bonus allocation decision (Ahrens & Chapman, 2007). It also serves to create dialogue and mobilize actors (Mouritsen et al. 2009), tie different interests together (Chua, 1995), and produce productive tensions as the allocation process is a source of potential discontent and even conflict (Busco & Quattrone, 2017). Interestingly, these 'networks of action' seldom display a high degree of formalization, but are nonetheless often perceived as enabling as they emerge with the purpose and ability to facilitate what incomplete performance measures cannot. In our case, the 'Compensational Market' is a decision-facilitating

mechanism in terms of allocating rewards, while performance measures are not (insofar as they are incomplete).

We have shown how CaseBank has adopted a reward system as a consequence of the purpose inadequacy of performance measures in regard to allocating bonuses. The incomplete performance measures are hardly adequate to the purpose of evaluating performance. Bonuses are usually perceived as fair and act as an enabling motivator for many employees. Consequently, although the performance measures used at CaseBank are incomplete and seemingly inadequate to purpose in the sense that they are not able to link performance to rewards, their incompleteness leads to the development of the 'Compensational Market', which legitimizes and facilitates the bonus allocation decision. Thereby, these measures have served their purpose in terms of removing inefficiencies, or aligning strategy and operational performance (Ferreira & Otley, 2009): Not by directly linking performance to rewards, but by creating an alternative mechanism that enables managers to partially disregard this link. In other words, incompleteness has triggered the emergence of a, in our case, highly facilitating but informal 'network of action' (Busco & Quattrone, 2017) that successfully serves the purpose (of allocating rewards) that the incomplete performance measures fail to serve. Thus, we find evidence suggesting that incompleteness is a solution to itself. In conclusion, what we find is that a low-formality, non-transparent, but highly relevant reward system may be perceived as enabling because it is decoupled from incomplete performance measures, illustrating how accounting numbers are perhaps not adequate to be used for reward purposes.

### 5.4. Contextualizing: Professional Identity

In line with the recommendations of previous research, we devote this section to discussing several context-specific conditions to CaseBank that are prerequisites to our findings (Dambrin & Robson, 2011; Deville et al. 2014; Groen et. al., 2017; van Veen-Dirks, 2010). Specifically, we have found that professional identity plays a significant role in contributing to our observations. We define professional identity as "a shared understanding of what it means to be a professional, and that this professional identity directly influences [people's] behaviors and self-concepts." (Empson, 2004, p. 759). A psychological study from Stockholm University concluded that intrinsic motivation was the single most important factor to explain work-satisfaction, engagement, and self-perceived performance at CaseBank (Telander, 2016). We observe little discontent regarding the mixed use

(despite the mix being skewed toward subjective measures) of different types of performance measures (Kunz, 2015). We also argue that the relative high level of education required to enter the industry plays its part in shaping the professional identity of managers at CaseBank. Further, the overall banking industry's performance culture shapes the identity of managers. Opposite to what Dambrin & Robson (2011) argue about sales reps in the pharmaceutical industry, we claim that the educational and professional qualifications of bankers contribute to creating a professional self that equates their work with high-end investment banking (which is one sub-unit within CaseBank). In other words, they embrace their identity as bankers.

### 5.4.1. Pragmatism

As we have illustrated, managers use their own KPIs, which they attempt to translate into organizational-wide KPIs. Consequently, from a top management perspective, it may seem as if there is no coherent PMS in use (Wouters & Wilderom 2008). Top management does not seem concerned about the absence of an organizationally coherent PMS, however, as they seem to prefer the enabling aspect of rewarding performance based on a market model of compensation. Just as Jordan & Messner (2012) do, we identify a very pragmatic attitude towards incomplete performance measures. Managers at CaseBank have accepted incompleteness to be a nearly impossible to solve and time-consuming detail that, even if solved, may only marginally contribute to bringing the bank forward. This attitude, which is an example of what Power (2007) would describe as 'calculative pragmatism', is evident everywhere we look in the organization. The foremost example of this, however, is perhaps the 'Compensational Market', which can be seen as a pragmatic solution to dealing with incomplete performance measures. Rather than dealing directly with incomplete measures by aiming to repair them (Adler & Borys, 1996), the 'Compensational Market' provides an alternative, enabling, and pragmatic approach to rewarding employees, as it facilitates the bonus allocation decision. By overcoming this seemingly insolvable encumbrance, it legitimizes the decision, evoking trust in the managers and the system.

We would further like to highlight two contextual factors that enable this pragmatic mindset to exist at CaseBank. The first is the predominantly subjective nature of the performance measures used for evaluation, which we argue enhances the notion of calculative pragmatism. By relying mostly on subjective measures, managers on all levels communicate the opinion that objective calculations are limited in their ability to reflect reality. Secondly, the disconnect between

evaluation and rewards also serves as an enabling factor to the prevalent culture of pragmatism. Research has previously discussed how indicators (performance measures) "always need to be 'completed' in the world of action" (Jordan & Messner, 2012, p. 552) in order to become consequential. Because indicators are not consequential in the reward system at CaseBank, a relaxed attitude toward incompleteness is enabled (Jordan & Messner, 2012).

In conclusion, we observe a similar calculative pragmatism as Jordan & Messner (2012) do in their study before the implementation of the Lean Six Sigma project. What is interesting at CaseBank, however, is that pragmatism endures despite mounting vertical pressures. Just as in Jordan & Messner's (2012) case, increasing vertical pressures make the flexible use of indicators difficult, and therefore, managers are forced to pay attention to indicators despite their pragmatic attitudes towards calculations and their inability to represent reality. We would argue, however, that it is the professional identity of the bankers that enables pragmatism to endure even under high pressure.

### 5.4.2. Trust

Ultimately, we would like to argue that in the context of CaseBank, a high level of organizational trust is a prerequisite for the existence of the 'Compensational Market'. As we have argued previously, trust in itself is considered a consequence of enabling forms of control. We have identified that employees on all levels of the organization display high levels of organizational trust in the sense that they trust their immediate superior to reward them fairly and in line with how they expect to have performed, even though they are aware of that their evaluation is not necessarily linked to their bonus. We observe that the strength of the 'Compensational Market' is stronger where variable compensation (bonuses) constitute a larger part of total compensation. Total compensation becomes more volatile further up in the hierarchical structure of CaseBank, and as volatility increases, trust plays a greater role. In other words, the higher up the hierarchy we look, the more established this phenomenon seems to be. For instance, employees at CaseBank are likely to accept a low bonus payment without resigning if this serves the purpose of long term strategic considerations. This is mainly because they hope to be reimbursed at a later stage, as the image of their performance builds up over time and they trust the organization to recognize this. Although not explicitly related, our findings contradict those of Hartmann & Slapničar (2009) who argue that trust (intra-organizational trust, in their case) is contingent on the measurability of outcomes and on the formal use of PMSs. As we find that trust in reward systems can be high as a result of

professional identity, despite little formal use of measures, we rather argue that trust (at CaseBank) is contingent on the enabling characteristics of the PMSs in place. Again, we feel the need to highlight the disconnect between evaluation and rewards. There is formal use of performance measures in evaluation, but not in reward processes.

## 6. Conclusion

The aim of our case study is to further investigate managers' perception of incompleteness as a problem by specifically addressing the uses of performance measures for rewarding employees. By scrutinizing the reward system in a setting where rewards represent an integral (but decoupled) part of the PMS, we have been able to provide readers with insights into our research question: "To what extent do managers perceive incompleteness to be an issue in the context of established *reward* systems and does the relationship between performance evaluation and reward allocation have any effect on the perception of the incompleteness of performance measures?". Our findings illustrate how the incompleteness of performance measures terminates the link between evaluation and rewards and how the reward process is thereby decoupled from the evaluation process. The pragmatic solution to paying bonuses is the development of a 'Compensational Market', which acts to facilitate the bonus allocation decision of managers. As a result, the reward system is perceived as enabling and thus incompleteness not perceived as an issue in practice. Specifically, we have demonstrated how the degree of severity of this disconnect leads to different managerial perceptions of incompleteness. In cases where this disconnect is strong, managers' ability to make bonus decisions is facilitated and their pragmatic mindset towards incompleteness endures. Therefore, they perceive the reward system in place to be enabling and are not concerned with the incompleteness of performance measures. In the case of a weak decoupling between evaluation and rewards, managers pay more attention to the perceived incompleteness of performance indicators and devote considerable effort to seek out potential solutions, clearly perceiving it as an issue that must be addressed. In regard to the 'Compensational Market', we have demonstrated how an organization has adopted a reward system as a consequence of the inadequacy of performance measures to allocate rewards. Although not by directly linking performance evaluation to reward allocation, the incomplete measures are, through the creation of 'networks of action', able to indirectly serve the purpose of removing inefficiencies and aligning strategy and operational performance (a purpose they initially failed to serve). Because of its strong decoupling from the evaluation process, the 'Compensational Market's' facilitating characteristics, in regard

to the bonus allocation decision, lead managers to perceive it as enabling. Consequently, although they are highly context-specific, our findings controversially suggest that accounting numbers are not adequate to be used for reward purposes because of their inherent incompleteness. On the other hand, our findings also suggest that incomplete performance measures are 'solutions to themselves' because of the productive tensions they give rise to.

Our paper contributes with new and interesting empirics, institutionalized around rewards, to the literature of incompleteness. More importantly, we contribute to this line of research by highlighting the decoupling between performance evaluation and reward allocation, and illustrate how this decoupling affects the perception of incompleteness. By focusing on a reward setting, we highlight additional circumstances that affect how and when managers perceive the incompleteness of performance measures to be an issue in practice, namely the strength of the decoupling between evaluation and rewards. Furthermore, our findings suggest that professional identity plays a more significant role than previous research has indicated. Our final contribution to the domain of incompleteness is a tangible example of a 'network of action' (the 'Compensational Market') and how it serves to produce productive tensions that bring an organization forward as well as potentially act to solve the issues that may arise from incomplete performance measures. In addition to this, we provide a new application of Adler & Borys' (1996) framework of enabling and coercive control by using it to scrutinize reward systems.

Interestingly, our findings contradict the intuitive idea that incompleteness would be perceived as an issue in a setting where rewards are considerable and therefore important. Similarly, our research challenges the view that decoupling rewards from the underlying performance should be perceived as an issue in practice, as it challenges the controllability principle. Ultimately, we provide an interesting case that controversially suggests that incompleteness is a solution to itself through its stimulation of 'networks of action'.

As discussed, it should be noted that our findings are subject to several contextual factors and should therefore not be taken for granted to hold true in other settings. We would also like to point out that during the short amount of time we spent inside the studied organization neither performance reviews had been held nor bonus allocation decisions made. If our study had exceeded four months, we could have seen attitudes towards incompleteness change over time. Additionally, if our study had included first-hand performance reviews, we could have observed more extreme

reactions to incompleteness. Furthermore, our case organization has been performing well for several years before our study, and kept doing so at the time of our observations. Interviewees were asked to hypothetically discuss the same topics, assuming the bank had a downturn in profits. Although most of the answers remained the same (even for those who had been with the bank long enough to experience difficult times), we have not been able to observe how perceptions towards incompleteness would have changed in times when bonus payments were in fact displeasing.

We would recommend future research to consider an institutionalized reward setting with a longer time-frame in order to both validate our results as such but also to assess their validity over time. In addition, we would like to see further research on comparable empirical settings. Most studies in the field have focused on a single organization, often in a manufacturing setting, yet few conclusions can be said to hold true across different types of organizations (space) or periods of time.

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