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The Balance in Performance Management Systems

A Case Study of Sparbanken Enköping

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ABSTRACT

As a result of prior research different pressures have been found to affect the balance between financial and non-financial focus in Performance Management Systems (PMS). By conducting a case study this thesis explores the balance in PMS in an empirical setting of a Swedish savings bank. In specific, we examine how pressures prevailing in a savings bank setting affect the balance in PMS in terms of the three pillars: measures, standards and rewards as defined by Anthony et al. (2014). Our findings draw from interviews with eight individuals at different levels of the organisation. The study indicates that two distinct characteristics of the case company acted as pressures affecting the balance between financial and non-financial focus in the PMS. First, an inability to raise funds pressured top management to prioritize financial performance measures, standards and rewards. Second, middle-level managers were pressured by the local focus resulting in a prioritization of non-financial measures, standards and rewards.

Keywords: Performance Management Systems, PMS in Savings Banks, Balance in PMS

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1. Introduction

1.1 Background

Performance management systems (PMS) involve a set of practices that support processes of strategic decision making, planning and control (Busco et al., 2008). These processes provide management with a common language consisting of accounting information stemming from the different parts of the organization. The PMS can be divided into three pillars, namely: 1) defining important measures, 2) setting standards, and 3) structuring reward systems for employees and managers of the company (Anthony et al., 2014). Common for these three pillars are that they should all contribute to the overarching goals of the organization and thus ensure goal congruence, that is, that all employees take actions that are in the best interest of the organization. There are numerous ways to employ the pillars of PMS in order to achieve goal congruent behavior and the research on this area is solid (Anthony et al., 2014; Kaplan & Norton, 1992, 1996; Ferreira & Otley, 2009).

In general, the literature on PMS seems to advocate that companies should aim for a balanced use of financial and non-financial measures when constructing their PMS. Prominent researchers argue that relying solely on financial measures is inadequate and can be dysfunctional for numerous reasons (Fisher, 1995; Brancato, 1995). For example, it may encourage managers to take short-term actions that do not benefit the long term interests of the company. Hence, theory advocates the use of both outcome measures and driver measures to mitigate potential dysfunctional results. Outcome measures are so-called lagging indicators that inform management what has happened, while driver measures are leading indicators, informing management about what is happening (Anthony et al., 2014).

Over the last three decades organizations have invested extensive capital, time and effort in developing and implementing frameworks for PMS (Anthony et al., 2014; Kaplan & Norton, 1992; Ferreira & Otley, 2009). A reputable framework on how to balance between financial and non-financial focus is the Balanced Scorecard (BSC) developed by Kaplan and Norton (Kaplan & Norton, 1992, 1996, 2006). The BSC helps managers, for instance, to understand which measures contribute to the strategy of the organization and which do not. This is done by dividing financial and non-financial measures into four perspectives: financial, customer, internal business and innovation and learning perspective. Managers are encouraged to consider not only financial measures such as return on investment and earnings per share, but

also non-financial measures such as customer satisfaction which makes visible whether improvements in one area are made at the expense of another. In this sense, the BSC provides managers with a holistic overview of different parts of the organization, as well as a balanced outlook with regards to the history, present and future.

Although theory advocates a balance between financial and non-financial focus, case studies show that even those organizations that have adopted the BSC or similar frameworks do not always comply with theory (Kraus & Lind, 2010). In Sweden, research has been conducted on the use of the BSC in companies listed on the Swedish stock exchange. In practice, a majority of these companies have been found not to have a balance between financial and non-financial focus. Instead, companies were found to be biased towards a financial focus. One explanation for this phenomenon was the capital market pressure that these companies face from investors and analysts. This constant pressure affects managers to strive for using measures, standards and rewards mainly with a financial focus, thus leaving out the non-financial perspective. Hence, pressures do affect how companies construct their PMS.

Prior research on the balance within companies' PMS and the pressures that affect the balance has predominantly targeted companies listed on the stock exchange, hence exposed to the previously mentioned capital market pressure (Kraus & Lind, 2010). As a large portion of companies are not listed on a stock exchange the capital market pressure does not apply for such companies. Companies that are not listed on the stock exchange might face different pressures that affect the balance between the financial and non-financial focus. In the banking sector an odd bird is the savings bank. Such banks possess a set of characteristics that differ in many aspects from traditional companies. For example, savings banks are not exclusively profit oriented, are absent of shareholders and have a close relationship with the local community through an overall mission of promoting thrift (Elliot, 2018). These banks are not neglectable, however, as they in fact stand for about 5% of the total lending in the Swedish banking sector (FI, 2020). Nonetheless, a relatively small portion of the literature seems to be devoted to how savings banks choose to construct their PMS. A question that seems unanswered is how savings banks are affected by different pressures in the context of the characteristics these banks possess. Of particular interest for our thesis is how the balance between financial and non-financial focus is affected by such pressures.

1.2 Purpose and research question

This study aims to contribute to a deeper understanding of the balance in PMS. More specifically, by providing insights on *how* and *why* the PMS is structured in a more or less balanced way in terms of having a financial and non-financial focus. To study the domain of the balance in PMS the three pillars of PMS by Anthony et al (2014) will be used as a theoretical lens through which the empirics will be analyzed. The purpose of the study is to examine whether there is a balance between financial and non-financial focus in the context of a savings bank, and if not, whether the imbalance to some extent can be explained by the prevalence of pressures (Kraus & Lind, 2010). The thesis will be conducted in the form of a qualitative, abductive single case study where managers and employees of a savings bank will be interviewed in depth. The case study will be conducted on Sparbanken Enköping. Through interviews we will dig deeper into how the savings bank has structured its PMS and whether the construct has been affected by any form of pressure.

We propose that the distinct characteristics of Sparbanken Enköping potentially could constitute pressures that affect the balance between financial and non-financial focus, in terms of the three pillars of PMS. Absence of shareholders, and thus the inability to raise funds through traditional channels, potentially pressure the bank to prioritize financial measures, standards and rewards. However, having a social mission to promote thrift as well as a local orientation is also expected to induce more non-financial focus, as it could reduce the short term orientation in favor of a long term sustainable relationship with the local community.

Consequently, the research question we set out to answer is:

How do the characteristics of being a savings bank affect the PMS in terms of measures, standards and rewards, and what are the consequences for the balance between the financial and non-financial focus of the PMS?

2. Literature review

2.1 The three pillars of PMS

In the context of this thesis, Performance Management Systems (PMS) are defined in accordance with the definition used by Busco et al. (2008), namely “PMS are sets of practices that support processes of strategic decision making, planning and control”. Hence, this paper takes on a rather broad interpretation of PMS, not to be confused with Performance *Measurement* Systems as the latter instead is interpreted as limited to one of the basic pillars within this papers’ definition of PMS. To elaborate, Anthony et al. (2014) suggests that in the process of performance management three basic pillars could be distinguished:

1. defining important performance measures, connected to the company’s strategy
2. setting standards as the basis against which the performance will be evaluated
3. tying rewards to desirable outcomes in order to motivate and influence behavior

The remainder of this chapter will be devoted to exploring and reviewing the academic literature with regards to the three pillars of PMS: measures, standards and rewards.

2.2 Measures

A pivotal topic for managers is how well the company is performing, as a whole and the different units within it. A rather famous expression is “what gets measured gets done”, an expression that emphasizes the importance of having set in place appropriate performance measures. Accordingly, it is suggested by Anthony et al. (2014) that “... senior management should select measures that best represent the company’s strategy. These measures can be seen as current and future critical success factors; if they are improved, the company has implemented its strategy”. Thus, when selecting performance measures these should be connected to the strategy of the company. With respect to the nature of performance measures, the literature suggests it to be divided into leading and lagging indicators (Anthony et al., 2014). Lagging indicators are financial measures that describe what *has* happened, the history, of a company through reporting for instance last year’s revenue. Leading measures, on the other hand, are non-financial measures that describe what *is* happening, indicating future performance, through for instance current market share. About this, Anthony et al. (2014) emphasizes that both financial and non-financial measures should be represented and balanced in a PMS, in order for historic as well as short and long term information and horizons to be

covered. In order to accomplish such a balanced composition of both leading and lagging indicators, several frameworks have been developed in the literature (Kaplan & Norton, 1992; Ferreira & Otley, 2009; Anthony et al., 2014).

A widely recognized framework in this regard is The Balanced Scorecard (BSC) developed by Robert Kaplan & David Norton in 1992. The framework was introduced to enable managers and executives to achieve a more balanced and holistic overview of not only financial but also non-financial measures. The BSC allows a holistic and comprehensive view over several seemingly separate elements of a company's competitive agenda, for example, having a customer orientation, reducing response time and new product launch times, improving quality, and ultimately enhancing management for the long term (Kaplan & Norton, 1992). Another useful feature of the BSC is that it safeguards against suboptimization. Through the BSC managers are forced to consider not only financial measures such as return on investment and earnings per share, but also operational measures such as customer satisfaction, which in turn, makes visible whether improvements in a certain area are made at the expense of another. In this sense, the BSC gives managers a holistic view of lagging indicators of what has already happened, which are complemented by operational measures that are drivers of future financial performance (Anthony et al., 2014). The BSC structures the elements of companies competitive agendas into the following four perspectives:

1. Customer perspective, regards how the customers see the company. The purpose of this perspective is to give managers an overview of customer-focused leading indicators, for example customer satisfaction, customer loyalty, and market share.
2. Internal business perspective, regards what the company must excel at in terms of core business processes. This perspective focuses on measures such as on-time delivery, cycle time and measures needed in order to effectively improve certain domains of the business.
3. Innovation and learning perspective, regards how the company can continue to improve and create value. Hence, this perspective focuses on leading indicators such as number of new products/services launched, number of development projects started, and employee retention index.

4. Financial perspective, regards how the company looks to shareholders. This perspective focuses on lagging indicators, such as return on investment and residual income, that is, traditional financial measures.

The purpose of the BSC is ultimately to allow managers to consider more perspectives than merely the financial perspective. However, the BSC is only one of many frameworks that contributes with this overview. The point with such frameworks, however, is not to abandon the financial perspective in favor of other perspectives. Rather, the frameworks suggest a nuanced approach to be able to capture the entirety of the business and to achieve a balance between financial and non-financial measures.

Henri (2006) argues that financial measures do have useful capacities such as the ability to present results of decisions in a comparable measurement component and to capture cost of trade-offs between resources and the cost of spare capacity. However, several prominent researchers have criticized organizations for relying too heavily on financial measures. It is argued that solely relying on financial measures is inadequate for the skills and competencies companies need to master in the modern business landscape (Anthony et al., 2014; Johnson & Kaplan, 1987; Hussein, 2005). Focusing merely on financial measures is associated with for example encouragement of short-term actions that do not please companies' long-term interests, as managers could be enticed to meet short-term profit levels, refrain from undertaking useful long-term actions, distort communication, and even manipulate data (Anthony et al., 2014; Henri, 2006).

Researchers have further discussed the shortcomings of traditional accounting methods in terms of invalidity, inaccuracy, inconsistency, misunderstandings and measuring the wrong variables (Kaplan, 1991; Scapens, 1997; Kaydos, 1991). In case studies conducted by Fisher (1995) and Brancato (1995), several perceived limitations of traditional accounting-based measures (i.e. financial measures) were found. According to Fisher and Brancato, financial measures are, in comparison with non-financial measures: 1) too historical and backward-looking, 2) lack predictive ability to explain future performance, 3) rewards short-term or incorrect behavior, 4) are not actionable, providing little information on root causes or solutions to problems, 5) do not capture key business changes until it is too late, 6) are too aggregated and summarized to guide managerial action, 7) reflect functions, not cross-functional processes, within a company, and 8) give inadequate consideration too difficult to quantify

intangible assets such as intellectual capital. Ultimately, the literature seems to advocate that companies should not only employ financial measures, but also non-financial measures.

It has been suggested by Kraus & Lind (2010) that despite what is advocated in the literature in terms of how to structure PMS there is still a tendency to favor financial measures in practice. Kraus & Lind's findings draw from interviews with senior managers of 15 of Sweden's largest multinational companies, all traded at the stock exchange. More specifically, 8 out of 15 of the companies were found to have adopted a Corporate Balanced Scorecard. However, it was found that the scorecard had limited impact on control at the corporate level. The empirical findings revealed that corporate control was financially focused in all 15 companies despite more than half instituting BSC at the corporate level (Kraus & Lind, 2010). The reason why corporate control was concluded to be financially focused was, for instance, due to the fact that standards were normally set only for financial measures and reward systems were predominantly based on financial measures. Both internal and external factors influenced the corporate control in this direction, and was reported through the opinions of the companies' top managers. With regards to internal influences, top managers expressed that 1) simplicity and comparability are the most important factors for effective corporate control, 2) financial measures are ideal for comparing business units and competitors, and 3) only a few measures should be used for corporate control. External influences, on the other hand, were summarized as: 1) tight pressure from the capital market, 2) analysts have a short term and financial accounting view of the firm, 3) analysts are only interested in financial accounting measures, and 4) analysts' financial expectations are considered important when they set targets. To conclude, Kraus and Lind found that the financially focused corporate control was due mainly to the following three factors: simplicity, comparability and capital market pressures.

Other pressures than capital market pressures can affect the construct of organizations' PMS. Research by Chenhall (1994) and Miles & Snow (1978) have found that managers who face a greater proportion of economic as well as environmental uncertainty tend to employ a greater proportion of financial information than non-financial. In other words, it has been found that greater economic uncertainty increases the importance of financial performance measures. Similarly, Morissette (1998) found that managers who are exposed to greater levels of external uncertainty employ more financial than non-financial information. Hussain (2003) conducted a case study on twelve banks, of which four were Swedish, where the researcher set out to explore the above findings in a banking setting. In the paper "The Impact of Economic

Condition on Management Accounting Performance Measures: Experience with Banks”, Hussain tested whether greater economic uncertainty increases pressure on banks to improve financial performance and, therefore, focus less on non-financial measures. Hussain found that uncertain and adverse economic conditions ultimately lead management of banks to focus on improving financial performance as a means to survive (Hussain, 2003). Thus, instead of establishing a strategy in which non-financial measures are focused on to be able to perform in the long-term, banks who face economic pressure choose to improve financial measures in order to survive. However, Hussain also found that when times are more certain and economically better banks focus more on long-term success. During such times, banks focus more on establishing a competitive strategy in which non-financial measures receive more focus.

In summary, the reviewed literature seems to advocate a balanced use of both financial and non-financial measures. Achieving such balance contributes to a more sustainable long term orientation of the company and helps mitigate short-term actions. Thus, when dealing with the first pillar of the PMS, namely defining important measures, companies should try to consider having a balance between leading and lagging indicators. In the following the second and third pillar of PMS will be examined in a similar manner.

2.3 Standards

After having derived and defined measures from the overall company strategy, the literature proposes that these measures should be connected to standards/targets (Anthony et al., 2014; Kaplan & Norton, 2005). The target setting is done in order to be able to judge whether the actual performance has been “good or bad”. In other words, it is proposed that the targets should serve as the basis for which a company evaluates its performance against. On this topic, the literature discusses two different types of standards, that is, predetermined standards and benchmarking (Anthony et al., 2014).

Predetermined standards are, as the name suggests, predetermined and include for instance the following approaches: negotiated (e.g. budgets), continuous improvements and model-based (e.g. theoretical) standards. Historically, the most prevalent predetermined standard has been of negotiated character, and is more commonly referred to as budgeting. There are several reasons as to why different types of budgets are popular. For instance, Anthony et al. (2014)

discuss purposes of budgeting that relate to motivation, communication and coordination. More specifically, budgeting can be said to have four different roles, namely: planning, accountability, process and ritual.

The planning role of the budget involves deciding what the organization should do, or try to do, during the period referred to. This involves, but is not limited to, defining which products, expenses and changes to prioritize during the period. The process role of the budget emphasizes the activities that are done as a consequence of making the budget. Examples of such activities are reflection and communication. The third role of the budget, ritual, is referring to a situation where the budget no longer has the same management control purpose but rather is done out of habit or because of legitimacy reasons. The last purpose is that of accountability, which comprises two significant purposes, namely: monitoring and motivation. In this context monitoring refers to superiors checking whether subordinates are sticking to the pre-set budget and the motivation purpose is mainly achieved through setting goals to strive for (Anthony et al., 2014).

However, there has been criticism directed at the budget as an evaluation standard. Bogsnes (2009) argues that as a consequence of a more dynamic and unpredictable present-day corporate environment "... budgeting has become more of a barrier than a support for great performance, something that instead prevents organizations from performing to their full potential". Bogsnes further suggests that budgets quickly get outdated, have weak links to strategy, are time-consuming both when made and followed up and that the decisions are made too far up in the organisation. Additionally, Bogsnes means that the decisions in the budget are made too early in time and hence result in the wrong things being done, simply because it was "in the budget", while the right things could be hidden from thought should they not be part of the budget. Other practitioners have expressed that budgets hamper the resource allocation within companies, encourages gaming and myopic decision-making (Wallander, 1999; Hope & Fraser, 2003). According to Anthony et al. (2014), myopia refers to sub-optimization and short-termism, that is, that managers and employees are mostly occupied with short-term performance and inclined to focus on what is favourable for their respective departments rather than the company as a whole.

In light of the critique against traditional budgeting, practitioners have proposed another approach to address the shortcomings of the traditional budget, namely that companies should move “Beyond Budgeting” (Hope & Fraser, 2003; Bogsnes, 2009). Two of the most prominent spokesmen for the beyond budgeting movement are Jeremy Hope and Robin Fraser, who have expressed that “Budgeting, as most corporations practice it, should be abolished” (Hope & Fraser, 2003). In order to mitigate the shortcomings and risks associated with traditional budgeting, Hope and Fraser instead suggest that companies should use relative targets and allocate resources on-demand. According to Anthony et al. (2014), such benchmarking has become a popular way of evaluating performance in a relative manner. The benchmarking approach involves evaluation through comparisons against either internal peers (e.g. similar responsibility centre) or external peers (e.g. competitors or industry peers). Benchmarking could also be conducted against historical performance of the unit referred to. Both Hope & Fraser and Anthony et al. further state that an effect of the benchmarking approach is that employees will not know until the period is over whether they have succeeded or not, which could be highly motivating. Furthermore, benchmarking requires no predetermined allocation of resources, rather the resource allocation is done on-demand and through the comparisons this approach incorporates changes in the macro-environment which the predetermined standards lack (Anthony et al., 2014).

To conclude, as regards the second pillar of PMS the literature acknowledges that both budgets and benchmarking have their respective strengths and weaknesses. However, as of lately the growing concerns regarding the shortcomings of traditional budgeting have led many companies to favor relative targets instead. In doing so companies seem to become better equipped and agile, which is needed in the modern day business environment.

2.4 Rewards

Having set in place appropriate measures, standards of performance tied to those measures, the next step according to Anthony et al. (2014) is to tie incentives to desirable performance outcomes. However, the structure of reward systems have been heavily debated and are far from settled in terms of how to motivate employees most effectively. In the debate there are two main camps, namely supporters of Agency Theory and supporters of Motivation Crowding Theory. In some areas the two theories have completely different views on what creates

motivation (Anthony et al., 2014). Thus, where a company lays its sympathy has implications for the reward system.

As early as in the 1960s the psychologist Douglas McGregor presented two utterly different perspectives on human beings – Theory X and Theory Y (McGregor, 1960). The former displays human beings as lazy, aversive towards work and hence need to be forced and controlled in order to work in a desirable manner. However, Theory Y depicts mankind as natural workers that can lead, control their own work and even desire responsibility should the purpose be important enough. Agency Theory and Motivation Crowding Theory are much related to McGregor’s two perspectives on mankind, although more focused on motivation and its relation to rewards (Anthony et al., 2014). More specifically, Agency Theory could be said to be much in line with Theory X and Motivation Crowding Theory is more related to Theory Y.

Agency Theory is a theory born out of the field of economics that could be said to be pro-incentives (Anthony et al., 2014). The theory assumes an agency-principal relationship. The agency relationship exists whenever a principal hires an agent to perform for his or her account, that is, delegating decision-making authority to another party (Shapiro, 2005). In the context of a company, the board of directors are principals to the CEO, while the CEO is the principal for the managers below him. A key element within the theory is the notion that principals and agents have divergent preferences (Jensen & Meckling, 1976). Further, the theory suggests that all individuals are perfectly rational creatures that maximize utility and are driven out of self-interests that ignore intrinsic motivation. The theory suggests using incentive contracts that include extrinsic rewards in order to align the interests of shareholders and employees. The principal can thus tie monetary incentives to performance measures in order to mitigate the divergent interests between the principal and the agent (Jensen & Meckling, 1976). The incentives of the agent are assumed to increase the more the agent’s reward depends on a performance measure (Epstein et al., 2018). Hence, there is an opportunity for the principal to choose performance measures that align with the interests of the principal, ultimately contributing to goal congruence (Anthony et al., 2014). Indeed, Agency Theory has been diligently practiced by management as a tool for aligning the interests of principals with those of agents (Ghoshal, 2005).

Although Agency theory has had great impact both on research and practice, much because of its compatibility with mathematical modeling, the theory has also been subject to extensive criticism. A part of the criticism has been centered around the basic assumption that the theory makes in that humans are perfectly rational. In this regard, it has been shown that human decision making is in fact irrational at times, contrary to what Agency Theory assumes (Kahneman & Twersky, 1981). Prominent researchers have also argued that Agency Theory has had significant negative influence on management practices as it is claimed to be amoral. The argument goes that the theory is used merely because of its suitability with mathematical modelling (Ghoshal, 2005). Research has further indicated that financial incentives are associated with manipulation of accounting data, that is, managers reporting earnings just in line with expectations in order to avoid disappointment and secure financial compensation (Cheng & Warfield, 2005).

Agency theory only acknowledges extrinsic rewards, which Anthony et al. (2014) defines as “...everything a person gains from carrying out a certain task; for example, monetary rewards”. Motivation Crowding Theory, on the other hand, introduces intrinsic motivation and emphasizes its significance for motivating employees. Intrinsic motivation regards the satisfaction of executing a certain task and reaching the target (Frey & Osterloh, 2002). Motivation Crowding Theory does not neglect extrinsic motivation, but rather considers both types of motivations and its relation to each other. More specifically, the Motivation Crowding Theory suggests that if one introduces extrinsic rewards this will likely increase the extrinsic motivation, however, it could crowd out the intrinsic motivation as a consequence. In turn, if the increase in extrinsic motivation is smaller than the drop in intrinsic motivation, there will be a decrease in the total motivation (Anthony et al., 2014). Hence, this has implications for reward systems as the Motivation Crowding Theory thus advises against extrinsic rewards for work that provide intrinsic motivation. This phenomenon of extrinsic motivation crowding out intrinsic motivation is referred to as the crowding out effect. Nonetheless, in a case where a certain task does not instill intrinsic motivation for the ones carrying it out, that is, no risk for the crowding out effect, the Motivation Crowding Theory recognises extrinsic rewards as useful (Frey & Osterloh, 2002). As previously mentioned, Agency Theory is still to a high extent applied in practice. Even though managers are aware of the weaknesses associated with Agency theory, it is perceived as a powerful tool in motivating managers and much in line with their experience (Anthony et al., 2014). According to Anthony et al. this is used as an argument against Motivation Crowding Theory.

To summarize, the literature agrees on the fact that motivation could be stimulated through the use of rewards. Although, in terms of how the rewards should be arranged the theory diverges. Both Agency Theory and Motivation Crowding Theory acknowledge extrinsic rewards as effective. However, the latter suggests that extrinsic rewards could crowd out intrinsic motivation, consequently leaving employees less motivated than before. Nevertheless, Agency Theory is still commonly used in practice. In conclusion, both theories have their respective strengths and weaknesses, and how companies should construct their reward systems is thus much up to themselves.

2.5 Addressing the gap

Reviewing the literature on PMS shows that researchers advocate having a balance between financial and non-financial focus in PMS. However, an examination of research on how organizations construct PMS indicates that the literature and practice diverge. In practice, organizations seem to have a financially biased focus. What seems to contribute to the imbalance between financial and non-financial focus in PMS are different pressures (Kraus & Lind, 2010; Hussain, 2003).

Previous research has examined an empirical setting where companies are listed on a stock exchange (Kraus & Lind, 2010). In such a setting the capital market was found to put pressure on companies resulting in a financially biased PMS. However, a large portion of companies are not listed on a stock exchange. Consequently, companies in other settings might face different pressures that are yet to be explored in detail. This raises the question of what happens with the three pillars of PMS in empirical settings that are prone to pressures different from those already studied. Such an empirical setting is that of savings banks that possess a set of characteristics that differ in many aspects from traditional companies. It is possible that the distinct characteristics of savings banks could constitute pressures that affect the construct of their PMS. Through an in-depth examination of a savings bank this study aims to contribute to a deeper understanding of how pressures affect the balance in PMS; in terms of measures, standards and rewards.

3. Research method

3.1 The characteristics of savings banks

In order to extend and enrich the understanding of how different pressures affect the balance in PMS, the empirical setting of savings banks is of interest due to the distinct characteristics possessed by such banks. A savings bank is a legal organizational form that differs in many aspects from traditional companies (Olsson, 2009). As opposed to traditional companies, savings banks neither have shares nor owners (Olsson, 2009). Instead, there is a trust with a committee consisting of local politicians and principals. This committee selects the board of directors of each savings bank, which in turn selects the CEO. Formally, the committee is responsible for several of the functions fulfilled by owners in traditional companies (Olsson, 2009). Amongst the more important functions are appointment of the board and the disposal of profits. Savings banks are also members of the Swedish Savings Banks Association (SSBA), which represents the member banks vis-à-vis authorities and organizations and is also a consultative body and negotiating party in matters of importance to its members (Olsson, 2009). In total, there are 58 savings banks that are members of the SSBA.

Furthermore, in the first paragraph of the Swedish Savings Banks Act (1987:619) it is stated that "... A savings bank's business shall primarily refer to a specific area of activity". That is, the operations of savings banks are often bound to a limited geographical area. Olsson (2009) explains that expansions outside the initial area of activity would be to interfere with the territory of another savings bank and thus considered an offensive move as it might upset cooperation on a national level. Another characteristic and a core idea that permeates savings banks is to maintain a close relationship with the local community through an overall mission of promoting thrift. This involves fostering savings, contributing to a development of the local economy, and to engage in social works in the region of operations (Lundberg, 2013). In practice, savings banks generally fulfill this mission by sponsoring and handing out scholarships to inhabitants and organizations within the local community (Hulten & Wijkström, 2008). Some of the most distinctive characteristics of savings banks are thus:

- The absence of shareholders entitled to profits
- The local focus
- The 'social mission' in promoting thrift

As seen above, according to the literature these characteristics are generally possessed by savings banks (Olsson, 2009; Elliot, 2018; Hulten & Wijkström, 2008). Hence, we have chosen to conduct our case study on Sparbanken Enköping as it possesses the aforementioned characteristics.

3.2 Research design and approach

With regards to the design of this thesis, it will take the form of a qualitative in-depth single-case study with an abductive approach. A qualitative case study approach allows the researchers to gain deep insight and a detailed understanding of certain empirical phenomena and their context (Dubois & Gadde, 2002). The nature of PMS is of complex, dynamic character and thus nuances and details have a chance of being detected through the qualitative approach.

Yin (1994) explains how the case study approach has not always been regarded as a proper scientific method, with the main argument that such studies provide little basis for scientific generalization. For instance, case studies have been criticized for being too situational-specific and thus not appropriate for generalization (Weick, 1969). However, as of lately the approach has gained recognition partly as a consequence of the growing insight that findings are unstable over time and hence “the interaction between a phenomenon and its context is best understood through in-depth case studies” (Dubois & Gadde, 2002). What was previously seen as a problem, learnings conditioned by environmental contexts, is now regarded as an opportunity that could strengthen the findings rather than weaken it (Dubois & Gadde, 2002).

Many textbooks that discuss research methodology tend to describe case studies as a linear process, similar to other methods that were developed for other purposes and studies in other contexts. Dubois & Gadde (2002) claim that these textbooks thus fail to account for the opportunities offered via the case study and the intertwined abductive research process that it enables. Dubois & Gadde further assert that the standardized conceptualization of the process of research as a series of subsequent “phases” fails to reflect the advantages and potential use of case research. The authors instead suggest that “by going back and forth”, between research activities as well as between theory and empirical observations, the researcher is able to bolster his theoretical and empirical understanding.

In summary, the purpose of our study and the nature of what is studied seems to be suitable for a qualitative, in-depth single-case study. However, we take a humble approach towards the disadvantages and shortcomings of such a course of action. For instance, as the primary data used in this study is generated through interviews, the success of this study lies partly in the ability to generate and interpret such data. For further limitations regarding the research method see section 6.2.

3.3 Data collection

Data is gathered from those who decide on, are affected by, and work within Sparbanken Enköping. Thus, interviews with eight people within the organization form our primary data. These interviews were all conducted via digital communication platforms. Furthermore, to supplement the primary data additional data was collected. Hence, annual reports and public information about the case company were gathered to strengthen the robustness of the data used in the study.

3.3.1 Primary data

To collect our primary data we used semi-structured interviews. This method involves having prepared questions guided by identified themes in a systematic and consistent manner, as well as probes designed to elicit more elaborate responses. In other words, the interviews are conducted using an interview guide that includes associated series of broad themes that should be processed during the interview in order to direct the conversation towards certain topics and issues of interest to the interviewers (Qu & Dumay, 2011). Thus, an interview guide was developed before conducting the interviews. Depending on whether it was top management or an employee who was going to be interviewed, the interview guide and the questions were adapted and tweaked to better suit the interviewee. For example, top management was assumed to have better knowledge about the design of PMS than employees. Hence, questions for employees were more focused on how they perceived the implemented PMS. To ensure the same thematic approach in all the interviews, questions were structured into three parts in accordance with the three pillars of PMS. The interview questions were formulated with inspiration from two frameworks on PMS, videlicet the Performance Management Systems Framework by Ferreira & Otley (2009) and the Balanced Scorecard by Kaplan & Norton (1992, 1996). Consequently, these questions worked as a starting point to direct the interviewee in the direction relevant for the study, and when needed the interviewee was asked to elaborate on

interesting topics. The semi-structured interview method is thus flexible, accessible and intelligible, and foremost it enables disclosure of important and sometimes hidden aspects of behavior (Kvale & Brinkmann, 2009). Ultimately, this method allowed us to identify interesting topics in more depth. See Appendix (Interview guide) for the questions asked.

As the focus of this thesis is how the PMS of a savings bank is shaped by different pressures, we wanted input from managers who participate in shaping the PMS as well as employees who are affected by it. Therefore, efforts were made to select managers in the management team and employees on different levels in the organization. Accordingly, interviews were held with the following people in the management team: CEO, Office Manager, Business Manager, Credit Manager, Head of Private Banking and General Counsel. Furthermore, interviews were held with employees “on the floor”, that is, one person in the Private Banking team and one in the Premium Advisory team. The interviews were conducted top to bottom, that is, starting with the CEO at the very top of the organization and ending with employees at the floor.

Conducting semi-structured interviews requires a lot of planning and preparation before, throughout and after the interviews (Qu & Dumay, 2011). To come prepared for the interviews the researchers put a lot of effort into formulating and structuring the questions. In order to mitigate confusion and interruptions, it was decided on who would take the role as interviewer and who to take notes. To foster a good mood between the researchers and the interviewees, interviews started by asking general questions about how long the interviewee had been working at Sparbanken Enköping and to describe his or her role. The interviews were all conducted in Swedish and later on transcribed into English.

3.3.2 Secondary data

In order to supplement the primary data a handful of secondary data was collected. Such data took the form of both textbooks and case studies which have been helpful mostly in terms of learning more about the savings bank as its own association form. Further, annual reports from the bank have been collected and used to understand the performance of the bank. Lastly, public information on the website of the bank and Swedish Savings Banks Association (SSBA) has also been of help to learn about the organization.

3.4 Data analysis

As previously mentioned, the study takes an abductive approach and hence our theoretical framework, empirical work and analysis are interdependent and evolve simultaneously. In other words, the theoretical framework remains dynamic throughout the whole process of the study. Consequently, we have adopted some of Strauss & Corbin's (1990) thoughts on how to approach the reading of literature in order not to become constrained by previous literature within the field. The authors stress that reviewing *all* of the literature beforehand is unnecessary and could potentially pose obstacles to the desired process. Furthermore, as a portion of the literature reviewed was dependent on the data received in the interviews it would have been impossible to read all literature beforehand. Nevertheless, in the beginning of the process extensive reading was conducted, albeit cautiously, to gain insights about the theoretical framework as well as to be prepared for the interviews. From the beginning we tried to discuss, in close connection to the completion of an interview, the data gathered and its relation to the dynamic theoretical framework. It should be emphasized that such discussions are vital for the gathering of further literature, development of the theoretical framework and preparation for forthcoming interviews. Likewise, the transcribing of the interviews was to the extent it was possible conducted in close connection to when the interviews were held.

After having conducted as well as transcribed every interview the process of coding began. Coding has been described as “naming segments of data with a label that simultaneously categorizes, summarizes, and accounts for each piece of data” (Charmaz, 2006). For this particular study, the structure of the interview guide was helpful for the coding process, since the broader questions were structured in accordance with the three pillars of PMS. Consequently, the relevant data could rather easily be sorted into these three broader categories which were derived from the theoretical framework. From these categories more detailed data could later be extracted. For instance, if an interviewee answered a question on which performance measures he or she was evaluated on, the answer would initially be sorted into a category of measures. In this way we could organize and prioritize among data and conclude which data was considered relevant for the study. Highly relevant data thus formed the empirics which were later on analyzed.

3.5 Quality of research

When conducting research of any nature the concept of validity is of great importance. This is true in particular for interpretive research, that is, research that revolves around the notion of reality as neither singular nor objective but rather a product of human experiences and context. Lukka & Modell (2010) claim that there is a “crisis of validity” within interpretive research as it cannot be validated with traditional validation methods and how it should be validated is still unclear.

The essence of validation is to convince readers of the authenticity of the findings and ensure that any explanations are deemed plausible (Lukka & Modell, 2010). Thus, Lukka and Modell’s suggestion on how to develop and validate explanations of interpretive research focuses on two central aspects of validation, namely authenticity and plausibility. More specifically, the authors write that “Whilst the former [authenticity] is largely a matter of preserving the emic qualities of research accounts, the latter [plausibility] is intimately linked to the process of abductive reasoning, whereby different theories are applied to advance thick explanations (Lukka & Modell, 2010). An example of how we have embraced Lukka & Modell’s suggestion on authenticity is that all transcribing and citations are done verbatim in order not to lose anything and assure the readers of the originality of the content. Consequently, we have also used citations thoroughly throughout the paper. The plausibility, on the other hand, relates to our abductive research approach. That is, we began with a broader research question that was later revised and concentrated during the process, through the simultaneous use of empirics and theory.

4. Empirics

4.1 The case company

The savings bank which this case study focuses on is located in Enköping. The bank has three offices: Enköping, Bålsta and Kungsängen. In terms of the organizational structure, the interviewees describe the bank as a decentralized organization that has about 100 employees in total, with a board of directors consisting of 13 people and a management team consisting of 12 managers from different parts of the organization. With regards to the size of the bank, Sparbanken Enköping is among the top ten largest savings banks in Sweden but is small in comparison to any other traditional bank. The bank was explained to perform well, having an operating income of 310 MSEK with a profit after taxes amounting to 85 MSEK during the last fiscal year (Annual report, 2020). Sparbanken Enköping was further described as different from other banks in several aspects. This was clearly communicated by employees and management but also via the website and annual reports. For instance, the following description can be found on Sparbanken Enköping's website:

“No one owns us. We are a different bank. The basic idea is a local long-term community involvement without profit distribution to individual owners. Instead of shareholders, we have democratically elected principals who represent the local community. The profits remain in the bank and do good for the municipalities of Enköping, Håbo and Upplands-Bro where we are located and where our customers live and work.” (sparbankenenkoping.se)

Through this statement several of the characteristics possessed by savings banks in general seem to emerge. For example, the absence of shareholders. This characteristic was congruently communicated during the interviews as a factor affecting the corporate governance of Sparbanken Enköping. The consequence of having no shareholders was a recurring subject amongst several managers and employees at the bank.

“We are more risk averse than the traditional banks. The large banks can go out on the market and raise money via the shareholders or via bond programs that they issue then. However, we can not do that.” (Credit Manager)

Having no shareholders to turn to for capital was described to affect the daily operation for managers at Sparbanken Enköping. It makes the bank more risk averse as raising funds via

shareholders is not an option. Thus, the bank needs to fend for itself by achieving a certain profit each fiscal year.

“What we focus on, really, is to survive. We have been around for 185 years, and want to continue existing for just as long. However, to be able to run our bank, we must have a profitability somewhere around 60-70 MSEK after taxes, depending on how much we lend out. If we achieve these levels we can keep our capital ratio fixed, given that we lend capital at our current rate. Of course I aim to surpass these levels in order to have some margin for periods with large credit losses.” (CEO)

Furthermore, during the interviews employees and managers consistently mentioned Sparbanken Enköping’s thrift promoting activities. These activities were explained to revolve around sponsoring local organizations as well as handing out scholarships to well deserved individuals in the local community. The associations receiving sponsoring were explained to almost exclusively engage in sports or youth activities. However, several interviewees described the activities as detached from the daily operations and the governance of the bank. It was explained that the thrift promoting activities were used as an argument when recruiting new customers. The CEO explained that handouts of scholarships usually amount to 400 TSEK each year whilst the sponsoring activities vary from year to year, however always exceeds 1000 TSEK per annum. The thrift promoting activities were further explained to be of utmost importance for Sparbanken Enköping and something employees and managers took pride in.

Moreover, during the interviews the local focus of Sparbanken Enköping was emphasized. Having a local focus was explained to be associated with a need to build strong relationships with customers. Hence, customer satisfaction was expressed to be highly important in order to keep customers for the long term.

“Important goals for the bank are to retain the customer base, and be a local party. (...) The bank is very concerned with being a local party and protecting its customers. Sparbanken Enköping also wants to be an actor that contributes to association life and cultural life in the form of scholarships. This is something that the bank cares about.” (Premium Advisor)

In the following, the empirical findings will be presented in accordance with the three pillars of PMS.

4.2 The three pillars of PMS

4.2.1 Measures

During the interviews it was explained that the process of performance measurement begins at the board level where the yearly company-wide goals and measures are set. The goals are then subject for the respective office manager to be responsible for and to break down into office specific measures that, in turn, the department managers are responsible for. By dividing up the responsibility throughout the organisation the company aims to achieve goal congruence within the organisation.

With regards to financial measures, all of the interviewees despite where in the organisation they were situated mentioned a measure that they refer to as “IC-measure”. This measure relates income to its associated costs. The IC-measure was explained to be used as a performance measure by top management when evaluating performance on organizational, office and department level. However, it was described that the IC-measure was never broken down on an individual level. One observation that was made was that the higher up in the hierarchy that the interviewee was, the more frequently the IC-measure was referred to. Even though the IC-measure was emphasized mostly by top management, it was still a recurring subject during most of the interviews and jointly portrayed as a measure that was of significance for Sparbanken Enköping. Furthermore, the CEO, Office Manager and Credit Manager emphasized the importance of liquidity and capital adequacy ratios. The interest and frequent examination of liquidity and capital measures was explained to be a consequence of the fact that Sparbanken Enköping lacks the ability to raise funds. In fact, a frequent examination of liquidity was declared to be a necessity to survive. Below are excerpts of descriptive quotes on financial measures:

“If we start from the top, we [the office] are measured on an IC-measure, meaning the relationship between income and costs. The control I have against me is thus an IC-measure control. In fact, that measure would be enough, because if I achieve it, I have achieved our goal for the office.” (Office Manager)

“The capital adequacy ratio is perhaps most important – how large is the equity in relation to the associated risks. We must comply with the hurdles, set up by FI [Financial Supervisory Authority]. Number two, is how much liquidity the bank has. We can not issue new shares. We must have liquidity to be able to lend money.

We have a hurdle there as well, both as a percentage of our lending but also in fixed numbers.” (CEO)

“We do not have our own bond program or anything like that, where we can go out on the market and raise money. We also do not have any shareholders who can put in the form of a new issue, but the only funding we have, so to speak, to lend, it is the borrowers’ funds, so it is super important that we keep track of liquidity, so that we have the opportunity to run the business at all I would like to say.” (Credit Manager)

“I look a lot at liquidity and capital measures. It is still compulsory. If we do not make a profit in a certain year, it is obviously sad, but it does not matter that much. If, on the other hand, we have problems with liquidity, we will have big problems. I follow it [liquidity] every day. It feels like it must not go wrong. We can not issue new shares. Maybe that is why we have a slightly greater focus on it than traditional banks. We have to solve it ourselves.” (CEO)

In general, financial measures were explained to be essential to the company and the importance per se was observed to intensify higher up in the hierarchy. As previously seen in the quotes above, the CEO examines the liquidity on a daily basis and controls the managers through the IC-measure. Moreover, the IC-measure was prioritized by the office managers as they are controlled and evaluated through that measure. Nonetheless, it was observed that the further down in the hierarchy the more frequently non-financial measures were mentioned and highlighted during the interviews. The Private Banking Manager shed light on how this is conducted with the following quote:

“At management and board level the IC-measure and capital adequacy requirements, and so on, are strictly followed and for this, there is a whole spreadsheet with things. But it is not the same as I measure out against staff. (...) What I follow is how active employees are towards the customer, how many suggestions they come with, how they handle the documentation and how active they are in customer events. Thus, non-monetary measures are measured more.” (Private Banking Manager)

It was stated by several interviewees that financial measures were presented to the employees on a group level and only once in a while. An example of such a presentation was described to

be during the annual conference or the presentation of the annual report. Some employees described the IC-measure as “a concern for management”. The measurement of employees lower down in the organization seemed instead non-financially focused. Examples of measures in use at this level of the organisation were customer satisfaction, number of customer meetings, number of approaches to new customers, usage of digital tools and Know Your Customer. In general, the non-financial measurement at Sparbanken Enköping was described as related to the priority of having strong relationships with the customers. The importance of sustaining healthy relationships with customers was described to be a consequence of the local focus of Sparbanken Enköping’s operation. Consequently, throughout the interviews customer satisfaction was portrayed as fundamental and something that is prioritized on a daily basis. Sparbanken Enköping measures customer satisfaction both through broader measurements such as SKI every third year (Swedish Quality Index) and also in connection to every customer meeting through customer surveys. Below are excerpts of descriptive quotes concerning Sparbanken Enköping’s non-financial measurement:

“When it comes to the soft parts, our way of running a bank is very much about our relationship with our customers. We measure a lot of customer satisfaction, staff satisfaction, and behaviors. When they [the employees] have had a meeting, we check with the customer if they are satisfied. And the values we get there the department managers measure carefully. (...) We do not get growth if we do not deliver a good customer meeting.” (Office Manager)

“For us as a local bank, in order for us to be able to compete, then it is important to have good soft numbers. We must have it.” (CEO)

“We want to be able to have personal relationships. Customer satisfaction is in our case everything. That is why I push so hard that employees are active towards the customer.” (Private Banking Manager)

To summarize in terms of non-financial measurement, it was described during the interviews that non-financial measures are of utmost importance for Sparbanken Enköping and in particular measures that are associated with customer relations. In total, the company-wide goals and measures are set jointly by the board and CEO at the beginning of every fiscal year and are then subject for the Office Managers and Department Managers to break down towards the employees. Even though the majority of the interviewees declare that they acknowledge the

importance of both financial and non-financial measures, often by claiming them as equally important, there seems to be a slight discrepancy between the focus of the measurement at the different levels of the organisation. Specifically, higher up in the organisation it was found to be a larger focus on financial measures and vice versa lower down in the organisation. This is underlined through the frequency by which the different levels of the organisation measure financial and non-financial measures.

4.2.2 Standards

As previously mentioned, company-wide targets are set together by the board of directors and CEO in the beginning of each fiscal year. Sparbanken Enköping divides its standards into long and short term targets. In terms of short term standards, set on a yearly basis, Sparbanken Enköping emphasizes the importance of financial targets concerning the relation between revenue and costs (IC-measure), liquidity and capital adequacy ratio. According to several managers, financial standards are by far the most important ones on a short term horizon.

“In the short-term, that is in a one-year horizon, we look at profitability and in particular the IC-measure. Further, we look at solvency and liquidity measures, which by far are the most important ones.” (CEO)

“In the short-term I thoroughly follow the numbers of the bank.” (Office Manager)

“We have a vision to be the only bank our customers need. We have a business idea that is to create long term value for our customers. Everything we do should reflect our vision and business idea. All our actions should contribute to reaching the IC-measure and thus achieving our vision and business idea”. (Private Banking Manager)

In terms of how Sparbanken Enköping evaluates its performance with regards to standards, both management and employees were unanimous that benchmarking and continuous improvements were superior to traditional budgeting. The reason why the interviewees were unwilling to use traditional budgeting was the fact that evaluation needs to be agile and adaptable. Hence, continuous improvements was used together with benchmarking. Continuous improvement is conducted by looking at previous years financial performance with the aim of improving it. In this regard, Sparbanken Enköping looks at its own performance in different departments and tries to continuously improve. In terms of benchmarking it was found

that Sparbanken Enköping mostly conducts external benchmarking. When conducting external benchmarking Sparbanken Enköping compares itself to similar savings banks of equal size. The bank then looks at sales, liquidity, profit per customer as well as capital base. These numbers were explained to be available through SSBA where members share their information with each other. The purpose of benchmarking other savings banks is to establish whether Sparbanken Enköping's performance is better or worse than its peers, and try to pinpoint what changes can be made in order to enhance its performance.

Furthermore, through the interviews tendencies were detected that Sparbanken Enköping also is interested in the performance of other banks than savings banks. The Office Manager expressed that Sparbanken Enköping compares themselves with traditional banks. However, the depth of such benchmarking remains unclear as there is not an official routine for benchmarking against traditional banks. However, a pattern was distinguished in terms of large banks as a recurring subject of discussion during the interviews, and the majority of the respondents accounted in detail for different activities and results of external banks.

With regards to long term standards it was emphasized that Sparbanken Enköping, unlike traditional banks, does not have a target in terms of an annual return. Thus, the bank does not set out to achieve a specific yearly return. Instead, the bank emphasizes the importance of merely earning enough for the bank to survive and grow. Hence, the bank does not have a profit maximizing strategy. The CEO describes the reasoning as follows:

“Sparbanken Enköping has no specific target in achieving a certain yearly return. The traditional banks do have such targets, but we don't. What we focus on, really, is to survive. We have been around for 185 years, and want to continue existing for just as long. However, to be able to run our bank, we must have a profitability somewhere around 60-70 MSEK after taxes, depending on how much we lend out. If we achieve these levels we can keep our capital ratio fixed, given that we lend capital at our current rate. Of course I aim to surpass these levels in order to have some margin for periods with large credit losses.” (CEO)

Furthermore, as concerns standards associated with promotion of thrift, the bank explained that they do not have yearly targets for how much they should hand out in scholarships. However, the handouts of scholarships usually amount to around 400 TSEK each year. Further, no targets

are set for how much sponsoring activities should be conducted. The amount of sponsoring is thus not the same every year, although it was explained that it usually surpasses 1000 TSEK per annum. How much the bank should devote to sponsoring local associations is decided by the office managers.

“It is true that our current scholarships are around SEK 400,000 per year. Our sponsorship has no fixed cost that is the same every year, but we can without blinking say that we always pass seven figures, thus well over a million in support each year. Our biggest sponsorship is directed at Ung Företagsamhet, followed by many (almost all) associations in mainly sports that focus on young people. We primarily want to contribute to a ‘meaningful and rewarding leisure time’ for many young people. When it comes to Ung Företagsamhet, sponsorship is mainly about giving young people the chance to develop”. (CEO)

In the context of long term standards it is evident that non-financial standards are central to Sparbanken Enköping as it was mentioned by all interviewees. The most commonly referred non-financial standard amongst the interviewees was customer satisfaction. This is measured using for example SKI and NPS (Net Promoter Score). The bank also conducts customer satisfaction evaluations in different departments of the bank. For example, by having private banking customers answering surveys after a counseling meeting. However, Sparbanken Enköping does not have yearly targets of reaching a certain level of customer satisfaction. Instead, they seek to continuously improve previous years’ satisfaction levels. Other non-financial targets that are considered by the bank are, for example, numbers of customer meetings, usage of digital tools and compliance with rules and regulations. In general, the non-financial targets are focused on mainly by employees lower down in the organisation as they are set mostly by department managers. More specifically, these targets are set up together with the employees’ closest manager. Thus, every employee is involved in the process of setting targets that apply for themselves, resulting in individual targets for every employee. These individual targets seem predominantly non-financially focused.

To conclude, the empirical findings regarding standards in Sparbanken Enköping reveal that the company mainly uses benchmarking and continuous improvements as the basis for evaluation. Other empirical findings were that top management are concerned with financial targets related to the IC-measure, liquidity and capital measures. This permeates the company-

wide goals that apply on an organizational and office level. Non-financial targets are more prevailing lower down in the organization at department level and the targets that apply on an individual level were found to be non-financially focused. Additionally, non-financial targets were to a high extent found to be associated with customer relations and customer interaction.

4.2.3 Rewards

Sparbanken Enköping has an established reward system in place that is referred to as “Guldeken”. The reward system is a collective profit sharing program that every employee and manager takes part of, except for the CEO. Via the profit sharing program a collective bonus is distributed that carries the same amount for every employee no matter title, experience or performance. In specific, Guldeken has the potential of distributing a maximum of 55 TSEK to each recipient. Of the total amount, 35 TSEK relates to revenue after credit losses and the remainder of 20 TSEK relates to targets associated with service and customer relations, for example numbers of customer meetings. A bias towards financial performance could thus be distinguished from the profit sharing program, as a larger part of the reward was attributable to financial targets. When Guldeken was discussed by interviewees divergent opinions emerged with regards to the effectiveness of Guldeken as an incentive system. A vast majority of the respondents claimed that it was a well constructed program and that they believed in the idea of collective rewards. However, the CEO claimed that the amount of 55 TSEK was not enough to motivate people merely by the bonus itself. Further, another employee expressed:

“I think that the collective bonus system is good, it encourages cooperation and sharing customers with each other throughout the bank. But I personally think that we can get a little more personal compensation”. (Premium Advisor)

Another incentive was explained to be the salary and especially the increase in salary which is determined on an individual basis. It was described that for regular employees, the department managers were ultimately responsible for deciding the increase. The individual salary increase is determined through every employees’ performance throughout the year and its relation to the individual targets set together with the department manager. These targets are typically non-financially focused. It was explained that what essentially determines whether an employee gets an increase in their salary or not, is the drive embodied by the employee to drive the bank forward.

“... [the salary increase] is about being driven, helping colleagues, coming up with new things. If you are driven you should get a little extra pay, while if you just follow the herd you may not get it the same way.” (Premium Advisor)

Furthermore, what also came up frequently during the interviews were the “very generous” benefits and non-monetary incentives. These included both traditional work benefits but also more spontaneous gifts and encouragement.

“We have our staff benefits. There we put down very, very much effort. For us, the employee benefits are incredibly important. It is about wellness, medical care, insurance, food allowance. It is quite broad. We are prepared to do everything that is allowed within the tax framework. It is a prioritized area. We can never have commission salaries. With regards to the soft stuff, we have very good staff benefits.” (CEO)

“The bank is probably not the highest in salary compared to other banks. However, we get other benefits, wellness for example. Appreciation via small acts, easter presents, biscuit chocolate on the desk, coffee, etc. Seeing the human being.” (Premium Advisor)

Overall, the nature of the rewards at Sparbanken Enköping was found to be both monetary and non-monetary. With regards to the bases for rewards they were diverse as well. The basis for the collective reward from Guldeken was financially biased, since the majority of the compensation was attributable to revenue after credit losses. However, the salaries were tied to non-financial targets that focused more on service and customer relations.

5. Analysis

5.1 Potential pressures

At this point the construct of PMS has been reviewed both from a theoretical and empirical standpoint. Literature on PMS seems to advocate a balance between financial and non-financial focus (Kaplan & Norton, 1996; Kraus & Lind, 2010; Hussain, 2003). Research further indicates that there is often a divergence between what is suggested in theory and how companies construct their PMS in practice (Kraus & Lind, 2010). Prior case studies suggest that pressures do affect the composition and balance in PMS (Kraus & Lind, 2010; Hussain, 2003). Kraus & Lind (2010) found the capital market pressure to cause prioritization of financial measures, standards being set only for financial measures and rewards being largely based on financial performance measures. However, companies in other settings potentially face different pressures that are yet to be explored in detail. This chapter thus analyzes the characteristics of savings banks that are likely to have the most effect on the construct of PMS and hence potentially could act as pressures. This is conducted by analyzing the empirical findings through the theoretical lens of the three pillars of PMS.

Divergences between what is advocated in the literature and how Sparbanken Enköping has chosen to construct its PMS can of course depend on multiple factors. However, based on the empirical findings we argue that divergences are more likely to be explained to a greater extent by certain factors. In specific, due to the distinct characteristics of Sparbanken Enköping we believe the following factors could affect the PMS:

- The inability to raise funds
- The local focus
- The social mission of promoting thrift

In the following, these characteristics are analyzed in terms of how each factor impacts the respective pillar of the PMS, namely; in terms of measures, standards and rewards.

5.2 The inability to raise funds

Being a savings bank Sparbanken Enköping lacks, through its basic form of association, any form of shares and shareholders which hence differs from traditional companies. In turn, the absence of shares thus could be thought to hamper the bank from common, traditional forms of raising funds, such as issuance of new shares and disposal of existing shares. During the interviews the inability to raise funds through issuance of new shares was brought up several times when answering why certain measures are more essential than others to the bank. More specifically, the CEO said “If, on the other hand, we have problems with liquidity, we will have big problems. I follow it [liquidity] every day. It feels like it must not go wrong. We can not issue new shares. Maybe that is why we have a slightly greater focus on it than traditional banks. We have to solve it ourselves”. In other words, it is implied by the CEO that the inability to raise funds through issuing new shares has implications for the prioritization of the different measures. The Credit Manager added further to the understanding of the bank’s prioritization when he expressed:

“We are more risk averse than the traditional banks. The large banks can go out on the market and raise money via the shareholders or via bond programs that they issue then. However, we can not do that.” (Credit Manager)

The empirical findings showed that the bank’s measures were financially biased and mirrored the expressed importance of keeping track of the bank’s liquidity and capital ratios. Even though there is a prevalence of non-financial measures at the bank, they are according to the empirical findings neither as many nor as closely followed by the top management as liquidity and capital measures. Instead, the most essential measure was described to be the IC-measure that the different offices are evaluated on and should deliver a certain level to the CEO each year. The IC-measure and the yearly results were described as severely important as it was necessary for the bank in order to survive. About this the CEO expressed:

“What we focus on, really, is to survive. We have been around for 185 years, and want to continue existing for just as long. However, to be able to run our bank, we must have a profitability somewhere around 60-70 MSEK after taxes, depending on how much we lend out. If we achieve these levels we can keep our capital ratio fixed, given that we lend capital at our current rate. Of course I aim to surpass these levels in order to have some margin for periods with large credit losses.” (CEO)

The standards also reflect the expressed importance of achieving financial stability. As seen above, the CEO stated that the bank must achieve a certain profit level every year in order to survive. This translates to the standard connected to the IC-measure that is distributed to the respective offices and in particular to the related Office Manager. As seen in the empirics, one of the Office Managers explained “the control I have against me is thus an IC-measure control. In fact, that measure would be enough, because if I achieve it, I have achieved our goal for the office”. What the Office Manager seems to imply is that the most important target for every office is to accomplish and deliver the ”IC-measure” (target). Another citation providing explanation as to why the IC-target is so important for Sparbanken Enköping is from the Credit Manager. He explained how the inability of raising funds had implications for the liquidity:

“We do not have our own bond program or anything like that, where we can go out on the market and raise money. We also do not have any shareholders who can put in the form of a new issue, but the only funding we have, so to speak, to lend, it is the borrowers’ funds, so it is super important that we keep track of liquidity, so that we have the opportunity to run the business at all I would like to say.” (Credit Manager)

A pattern is observed in terms of the top management at Sparbanken Enköping systematically prioritizes financial performance measures and standards, particularly associated with liquidity, capital adequacy ratio and the IC-measure. This is underlined by the interest in and proportion of financial measures and standards, as well as the frequency at which the financial measurement and evaluation is conducted, relative to non-financial such. What seems to provide explanation to the financially focused corporate control in our context, and hence a dimension that then affects the PMS of Sparbanken Enköping, is the pressure stemming from the inability to raise funds in a traditional manner. Not least according to management themselves. The pattern of a financially focused corporate control in this context thus seem to coincide with the findings of Kraus & Lind (2010), although the causes seem to be products of different pressures. Specifically, in our context it is not a capital market pressure that leads to a financial bias. Instead, our empirical findings indicate that Sparbanken Enköping’s inability to raise funds pressures management to become more financially focused.

With regards to the third pillar (rewards) the empirical findings conveyed that the basis for the collective reward from the profit sharing program was financially focused. In this regard it

seems as if the collective reward system mirrors the importance of performing financially, stemming from having to achieve a certain profit level every year in order to survive. In other words, the inability of raising funds seems to have affected how the bank has constructed its reward system as well. In turn, the bank has a majority of the collective reward linked to financial performance. Consequently, Sparbanken Enköping seems to tie incentives to desired performance outcomes. In doing so Sparbanken Enköping is to some extent adopting the essence of Agency Theory, namely using extrinsic rewards as a means to motivate employees and managers to act in congruence with the interest of the company (Anthony et al., 2014). However, the collective rewards system is also partly based on non-financial targets. Thus, the bank does not fully neglect the non-financial perspective. The part of the reward relating to non-financial targets is discussed below.

In summary, the empirics seem to indicate that the inability to raise funds constitutes a pressure that affects how Sparbanken Enköping constructs its PMS. More specifically, top management systematically prioritizes financial performance measures and standards associated with liquidity, capital adequacy ratio and the IC-measure. This is supported by the proportion of financial measures and standards as well as the frequency at which they are evaluated. Similarly, the rewards are predominately based on financial targets.

5.3 The local focus

The broader, company-wide measures and standards seem to be financially focused due to the inability to raise funds. However, empirical findings also reveal that customer relations and customer satisfaction still is of particular essence for Sparbanken Enköping. Employees and managers at the bank consistently referred to the importance of building and keeping strong relationships with their customers. These empirical findings seem, however, not to permeate the company-wide goals that are set by the board and CEO. Rather, the focus on customer relations and customer satisfaction came to light at another level in the organisation, namely at department level. One of the department managers expressed:

“At management and board level the IC-measure and capital adequacy requirements, and so on, are strictly followed and for this, there is a whole spreadsheet with things. But it is not the same as I measure out against staff. (...) What I follow is how active employees are towards the customer, how many suggestions they come with, how they handle the documentation and how active

they are in customer events. Thus, non-monetary measures are measured more.”

(Private Banking Manager)

In the first paragraph of the Swedish Savings Banks Act (1987:619) it is stated that “... A savings bank’s business shall primarily refer to a specific area of activity”. Thus, according to the law savings banks should focus their business primarily in the geographical area in which they operate. The local focus of Sparbanken Enköping was emphasized consistently during the interviews both by top management and employees. According to the interviewees the local focus of their operation meant that the bank needs to centre its attention on customers within the region. In turn, the bank has to do everything in its power to nurture its relations with its customers to ensure a high level of customer satisfaction in order to retain its customer base, rather than chasing new customers outside its region of operation. The bank further expressed that the local focus is used as a unique selling point as a way to compete. It might not be able to offer the lowest prices amongst banks, however, they can offer good relations where customers are taken care of to a higher extent than at other banks. Having good relationships with its customers thus seems to be of particular essence for Sparbanken Enköping, ultimately enhancing the importance of having customer orientated measures in their PMS.

“Important goals for the bank are to retain the customer base, and be a local party. (...) The bank is very concerned with being a local party and protecting its customers.” (Premium Advisor)

“We want to be able to have personal relationships. Customer satisfaction is in our case everything. That is why I push so hard that employees are active towards the customer.” (Private Banking Manager)

In this regard it should be noted that the intensity of the customer orientation varies in different levels of the organization. As the bank is of decentralized character, much responsibility is consequently left to the middle-level managers. These managers seem to be heavily interested in the relationship with the customers when assigning measures and setting standards towards the employees that they are responsible for. For example, at the private banking department and the premium advisory department, customer satisfaction surveys are sent out after each customer meeting. Furthermore, the focus on building strong and trustworthy relationships with customers seems also reflected in the bank’s service orientation. The bank expressed how it should only offer its customers products and services that are actually needed, instead of

simply trying to earn as much profit as possible. The bank also measures how active the workers are in nurturing the customers by, for example, measuring how many meetings they have with customers. Hence, the local focus seems to have influenced the choices of measures in a direction towards more leading indicators in order to ensure long term relations with the customers of the bank. The empirical findings thus to some extent seem to indicate that the local focus puts pressure on employees lower down in the bank, through the middle-level managers, to cherish its customers and build strong long term relationships. The local focus hence affects the PMS in an opposite direction than that of the inability to raise funds, however at different levels of the organisation.

Furthermore, the local focus seems to have affected the standards of Sparbanken Enköping in a similar manner as for the measures. That is, even though top management seems more focused on financial standards, the focus was different lower down in the organisation. Thus, Sparbanken Enköping seems to pursue non-financial targets relating to customer orientation lower down in the organisation. All employees in the bank have individual targets that are set by the respective department manager which are predominantly non-financially focused. For example, employees have targets regarding how many customer meetings he or she should conduct and how proactive the employee is towards customers in terms of providing relevant services and products. Thus, non-financial targets seem to be service oriented and customer focused.

In terms of rewards, the profit sharing program is partly related to the non-financial measures and targets. Of the total yearly 55 TSEK that can be distributed to the employees through the program 20 TSEK is devoted and linked to non-financial measures. These measures and targets are customer oriented and related to service. Such targets are, for example, numbers of counseling meetings with customers and connecting customers with relevant employees within Sparbanken Enköping. Hence, the focus on customers is present even in the rewards system. Although, these non-financial targets make up a smaller part of the rewards than the financial ones, as previously concluded.

To conclude, the empirics seem to indicate that the local focus puts pressure on managers lower down in the organization to prioritize measures and standards related to customers and the relationship to them. In terms of rewards, a similar effect prevails as the non-financial targets

in the profit sharing program are predominantly customer oriented. Thus, the local focus seems to affect the PMS to become more non-financially focused.

5.4 The social mission to promote thrift

One of the characteristics of savings banks is that they should promote thrift in the region of their operation. This task of promoting thrift has been described as something of a social mission (Elliot, 2018). During interviews with employees and managers at Sparbanken Enköping this was explained to be achieved mainly by handing out scholarships and sponsoring local associations. In this way the bank aims to contribute to the development of the local community, it was described. The thrift promoting activities were explained to be vital for Sparbanken Enköping and the organisation was portrayed as permeated by a spirit of contributing to the community. Rather than maximizing profits, promotion of thrift was explained to be one of the core purposes of Sparbanken Enköping. Companies listed on the stock exchange have been shown to face capital market pressure, consequently leading to a financial focus and short-term orientation (Kraus & Lind, 2010). Savings banks on the other hand, are spared from this specific pressure per se, as they are neither listed on a stock exchange nor have shareholders to care for. The focus could thus potentially be shifted from creating returns for shareholders to a focus on promoting local thrift. Sparbanken Enköping, for example, clearly states on its website and in interviews that they are a bank engaging in sponsorships and yearly handouts of scholarships to the local community. Hence, it is reasonable that the social mission of Sparbanken Enköping could induce a more long-term oriented focus and thus to a higher extent embrace a non-financial perspective.

However, the empirical findings do not seem to support the fact that the social mission influences Sparbanken Enköping to become more non-financially focused with regards to its measures. When management and employees were asked questions on this topic, the thrift promoting activities seemed not to be an area which received much attention in terms of measurement. In fact, the thrift promoting activities were described to be an area which is detached from the governance of the bank and thus not affecting how the performance measures of Sparbanken Enköping are set. The non-financial measurement that was conducted seems rather to be a product of Sparbanken Enköping's geographical constraint and thus connected to their need to nurture their customers in order to stay competitive, as previously discussed.

The bank further explained that it usually hands out scholarships of around 400 TSEK each year and around 1000 TSEK in sponsorships. No targets are set for how much thrift promoting activities should be conducted nor could be found to be connected to the other standards. Thus, with regards to the second pillar no standards were found to be associated with the thrift promotion. Rather, the standards of Sparbanken Enköping were found mainly to have connections to the need for the bank to ensure financial stability and also to some extent for the bank to retain its customers stemming from the local focus. Similarly, for the third and last pillar of PMS (rewards), neither the collective profit sharing program nor other incentives were connected to any thrift promoting activities.

What seemed to be a plausible pressure to affect the three pillars of Sparbanken Enköping's PMS had in fact no significant impact. A potential explanation for this finding could be that the total amount of sponsorships and scholarships is of a small magnitude. The thrift promoting activities amount to less than 2% of the profit after taxes during the fiscal year of 2020. Hence, it is possible that if the thrift promoting activities were of larger magnitude they could affect the PMS differently. Rather than affecting how the PMS is constructed, the thrift promoting activities seem to have more practical effects as a sales argument in the interaction with customers.

6. Conclusion

6.1 Contribution

The aim of this thesis was to extend and enrich the understanding of how the balance between financial and non-financial focus in PMS is affected by different pressures. The topic was inspired by prior research in empirical settings prone to certain pressures which had been found to affect the construct of PMS (Kraus & Lind, 2010). Hence, we found it interesting to investigate potential effects on the balance in PMS in an empirical setting prone to pressures different from those already known. To explore such an empirical setting a case study was conducted on a savings bank, as such banks possess a set of characteristics that distinguish them from traditional companies (Olsson, 2009; Elliot, 2018). In order to explore how the savings bank's construct of PMS was shaped by this empirical setting the three pillars of PMS were employed (Anthony et al., 2014). Consequently, the theoretical lens applied throughout the thesis was measures, standards and rewards.

Prior to conducting the case study, we proposed that the most distinct characteristics of savings banks could affect the balance in PMS and thus act as pressures. The most distinct characteristics were identified as: 1) the inability to raise funds, 2) the local focus, and 3) the social mission to promote thrift. With regards to the first characteristic it was proposed that the inability to raise funds could lead the bank to prioritize financial measures, standards and rewards. The reason for this proposition was that the bank would need to fend for itself financially due to its inability to secure funds from external sources. The second and third characteristics, however, were proposed to induce a greater non-financial focus in the PMS as a consequence of having to create long term relationships with customers and the local community.

As regards the first characteristic, our findings indicate that Sparbanken Enköping systematically prioritizes financial performance measures and standards, notably through the top management. The main reason for this prioritization seems to be the necessity to thoroughly keep track of the bank's relation between income and costs, liquidity and capital ratios in order to survive; as a consequence of not being able to raise funds when needed. The bank has also chosen to base its official reward system predominantly on financial targets linked to financial performance, hence incentivising behaviors in line with the interests of top management. Thus, our findings indicate that the inability to raise funds affects the balance in the PMS of Sparbanken Enköping. Further, our findings of a financially biased corporate control seem to coincide with the findings of Kraus & Lind (2010), although the pressures are of different nature.

In terms of the second characteristic, the findings indicate that middle-level managers prioritize measures and standards related to customers and the relationship to them. The main reason for this prioritization seems to be the importance for Sparbanken Enköping to nurture its customer base, as a consequence of having a constrained local and geographical focus which is stated in the Swedish Savings Banks Act. The local focus seems also to be reflected in the construct of the collective profit sharing program, as non-financial targets are predominantly focused on the customer perspective. Thus, our findings indicate that the local focus affects the balance in Sparbanken Enköping's PMS.

With regards to the third characteristic, the findings did not seem to support our initial proposition. More specifically, the empirical findings did not reveal any connections between the social mission to promote thrift and the three pillars of PMS.

In summary, the consequences with reference to the balance of Sparbanken Enköping's PMS can be summarized as follows. The focus at the top management level was financially biased in terms of measures, standards and rewards. However, lower down in the organisation the conditions were opposite, namely non-financially biased. Nevertheless, in total Sparbanken Enköping's PMS seems more financially than non-financially focused. This is underlined mainly by the proportion of financial measures and standards as well as the frequency of evaluation. Our findings indicate that different pressures stemming from characteristics of Sparbanken Enköping contribute to the imbalanced PMS in our empirical setting. Our study further contributes to and enriches prior research on the balance in PMS.

6.2 Limitations and future research

We acknowledge the limitations of our research design and hence suggest that the findings should be interpreted with care. Since our findings draw from one single-case study and interviews of eight individuals it is possible that aspects relevant to our case study were not covered. As we prioritized individuals that were part of the management team a consequence was that we were only able to cover two employees lower down in the organisation.

Furthermore, the case study approach has been criticized for providing little basis for generalization (Yin, 1994). Due to the scope of our research we were unable to conduct a multi-case study, which would have been preferable in the sense that findings in such a study could provide more robustness to potential findings. Thus, we do not claim that our findings are generalizable as they are conditioned by the empirical setting of the case company studied in this paper. The limitations of this study provides opportunities for future research. Thus, increasing the number of savings banks studied as well as the number of interviewees would hence be a possible way to further enhance this study.

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8. Appendix

8.1 Interview guide

Introductory Questions

- Can you tell us about yourself?
- How long have you worked here?
- What are your main responsibilities?

Organizational Questions

- Can you tell us about Sparbanken Enköping as an organization, that is, in terms of the organizational structure?
- Does Sparbanken Enköping, being a savings bank, possess any particular characteristics?
- Can you tell us about the trust with the committee of local politicians and principals?
- What is the Swedish Savings Banks Association and what is Sparbanken Enköping's relation to the association?

The First Pillar - Measures

- Can you tell us what measures you/the company use to measure performance? First in terms of financial measures and then in terms of non-financial measures.
- What is the reason(s) for having chosen these measures?
- Has your/Sparbanken Enköping's choice of measures been affected by the ownership structure or characteristics possessed by the bank?
- Would you say that the organizational structure/characteristics of Sparbanken Enköping limited you/Sparbanken Enköping when choosing measures in comparison to if the bank would have been a traditional company?
- How would you describe Sparbanken Enköping strategy and vision?
- Are, and if so, how are the chosen measures connected to Sparbanken Enköping's strategy and vision?
- Does Sparbanken Enköping employ a performance management system, that is, a framework or similar that considers measures, standards, and/or rewards?

The Second Pillar – Standards (targets)

- How do you/Sparbanken Enköping set standards?
- How does Sparbanken Enköping learn whether its performance has been good or bad?
- Does Sparbanken Enköping have a procedure for comparing its performance with other organizations?
- Does Sparbanken Enköping use budgets, continuous improvements, and/or benchmarking of any kind?
- What is the reasoning behind the way Sparbanken Enköping has chosen to compare its performance?
- Do you believe the standards represent and capture your/Sparbanken Enköping's performance?

The Third Pillar - Rewards

- Does Sparbanken Enköping have any reward/incentive system in place?
- Are the rewards based on financial and/or non-financial measures and targets?
- Does the reward/incentive system connect to the standards (targets) of Sparbanken Enköping? And/or to the overarching goals of Sparbanken Enköping?
- Does the reward system motivate you and other workers at the bank?
- Do you believe in rewarding workers with financial incentives and/or with non-financial incentives?
- Does Sparbanken Enköping have non-financial rewards?
- Do you believe in collective or individual rewards/incentives?