



**EKONOMIHÖGSKOLAN**  
Lunds universitet

Master Thesis  
19<sup>th</sup> of January 2006

# **Performance Control in Multinational Corporations**

## **-A case study of SCA Packaging**

Authors:

Caroline Johansson

Joanna Svensson

Advisor:

Thomas Kalling

# Abstract

<b>Title:</b>	Performance Control in Multinational Corporations - A Case study of SCA Packaging
<b>Seminar date:</b>	January 16 <sup>th</sup> 2006
<b>Course:</b>	Master thesis in business administration, 10 Swedish Credits (15 ECTS)
<b>Authors:</b>	Caroline Johansson and Joanna Svensson
<b>Advisor:</b>	Thomas Kalling
<b>Key words:</b>	Performance control, Key Performance Indicators, multinational corporations, measurement methods, mature industry
<b>Purpose:</b>	The purpose of this thesis is to increase the understanding of issues that affect performance control and its development concerning alternative measurement methods in multinational corporations operating in today's mature markets.
<b>Methodology:</b>	The purpose of the thesis is of a descriptive art and the method has an abductive approach. The gathering of data consists of qualitative interviews.
<b>Theoretical perspectives:</b>	Performance control in general in relation to performance control in multinational corporations, and a presentation of traditional and new metrics. We have a model of Anthony & Govindarajan as a starting point, which we use to create a theoretical framework.
<b>Empirical foundation:</b>	We have conducted interviews with 17 persons at different levels and in different positions within our case company SCA Packaging. These persons are located in Sweden, Germany, Great Britain, and at the headquarters in Brussels.
<b>Conclusions:</b>	We observe that some factors concerning performance control in MNCs, which are not emphasised in the theories, seem to be of importance, at least in SCAP. We find seven differences and with these we develop the theoretical framework into a new one. The most important factors are corporate culture, information, and implementation.

# Sammanfattning

<b>Uppsatsens titel:</b>	Ekonomistyrning i multinationella företag - en fallstudie av SCA Packaging
<b>Seminariedatum:</b>	16 januari 2006
<b>Ämne/kurs:</b>	FEK 591 Magisterseminarium, 10 poäng (15 ECTS)
<b>Författare:</b>	Caroline Johansson och Joanna Svensson
<b>Handledare:</b>	Thomas Kalling
<b>Nyckelord:</b>	Ekonomistyrning, nyckeltal, multinationella företag, mätmetoder, mogen marknad.
<b>Syfte:</b>	Syftet är att öka förståelsen för aspekter inom ekonomistyrning och dess utveckling gällande alternativa mätmetoder i multinationella företag på dagens mogna marknader.
<b>Metod:</b>	Studiens syfte är deskriptivt och utgår från en abduktiv ansats. Datainsamlingen grundar sig på kvalitativa intervjuer.
<b>Teoretiska perspektiv:</b>	Ekonomistyrning i allmänhet relaterat till ekonomistyrning i multinationella företag samt presentation av traditionella och nya mätmetoder. Vi utgår från en modell av Anthony & Govindarajan, vilken vi sedan utvecklar till ett teoretiskt ramverk.
<b>Empiri:</b>	Vi har gjort intervjuer med 17 personer på olika nivåer och i olika positioner inom vårt fallföretag SCA Packaging. Dessa personer har befunnit sig i Sverige, Tyskland, Storbritannien och på huvudkontoret i Bryssel.
<b>Slutsatser:</b>	Vi observerar att några faktorer gällande ekonomistyrning i multinationella företag som inte framhävs i teorierna, verkar vara av vikt, åtminstone för SCAP. Vi hittar sju skillnader och med dessa utvecklar vi det teoretiska ramverket till ett nytt. De viktigaste faktorerna är företagskultur, information och implementering.

## **Acknowledgements**

We would like to thank all of our interviewees at SCA Packaging across Europe, who have taken their time to answer our questions about performance control. Without their help this study would not have been possible to conduct.

A special thank we would like to direct to Dick Sanders at SCA Packaging's head office, who initiated this project, and also to Maria Wieloch at the Nordic Region, who helped us to get this thesis started.

Finally we would like to thank our advisor Thomas Kalling for his support and strong engagement in our work during the whole process.

Lund, January 19<sup>th</sup>, 2006

Caroline Johansson  
and  
Joanna Svensson

# Table of contents

<b>1</b>	<b>INTRODUCTION .....</b>	<b>8</b>
1.1	<i>BACKGROUND.....</i>	8
1.2	<i>DISCUSSION OF THE PROBLEMS .....</i>	10
1.3	<i>PURPOSE.....</i>	11
1.4	<i>RESEARCH QUESTIONS.....</i>	12
1.5	<i>DESCRIPTION OF THE CASE.....</i>	12
1.6	<i>DISPOSITION OF THE THESIS.....</i>	13
<b>2</b>	<b>THEORY.....</b>	<b>14</b>
2.1	<i>INTRODUCTION.....</i>	14
2.2	<i>CONTROL MECHANISMS.....</i>	15
2.3	<i>PERFORMANCE CONTROL.....</i>	15
2.3.1	Recent changes in performance control.....	16
2.3.2	The role of performance control.....	17
2.3.3	A model of performance control .....	17
2.3.4	Performance control in multinational corporations.....	18
2.4	<i>THE LINK BETWEEN ORGANISATIONAL STRUCTURE AND PERFORMANCE CONTROL.....</i>	21
2.4.1	Decentralisation.....	22
2.4.2	Profit centres as business units.....	23
2.4.3	Coordination and integration of units.....	24
2.5	<i>THE LINK BETWEEN STRATEGY AND PERFORMANCE CONTROL.....</i>	25
2.6	<i>THE LINK BETWEEN CULTURE AND PERFORMANCE CONTROL .....</i>	26
2.7	<i>THE IMPLICATION OF BEING IN A MATURE INDUSTRY.....</i>	27
2.8	<i>THE DEVELOPMENT OF PERFORMANCE MEASUREMENT.....</i>	28
2.9	<i>TRADITIONAL METRICS FOR PERFORMANCE CONTROL.....</i>	29
2.9.1	EBIT and EBITDA.....	29
2.9.2	Working capital.....	31
2.9.3	Return on Capital Employed .....	33
2.10	<i>ALTERNATIVE METRICS FOR PERFORMANCE CONTROL .....</i>	33
2.10.1	Economic Value Added (EVA).....	35
2.10.2	Activity-Based Costing (ABC).....	36
2.10.3	Integrating ABC and EVA.....	39
2.10.4	Balanced Scorecard (BSC).....	40
2.11	<i>THEORETICAL FRAMEWORK.....</i>	43
2.11.1	Explanation to the theoretical framework.....	43
2.11.2	Interview questions based on the framework.....	45
2.11.3	Example of interview questions.....	46
<b>3</b>	<b>METHODOLOGY .....</b>	<b>47</b>
3.1	<i>CHOICES AND CONSEQUENCES .....</i>	47
3.1.1	Choice of purpose and problems .....	47
3.1.2	Choice of methodology .....	47
3.1.3	Choice of theory.....	48
3.1.4	Choice of data sources.....	49
3.1.5	Choice of analytical method.....	50
3.2	<i>INTERVIEWS.....</i>	50
3.3	<i>VALIDITY AND RELIABILITY .....</i>	52
3.3.1	Validity.....	52
3.3.2	Reliability.....	53
3.4	<i>CRITICISM OF THE SOURCES .....</i>	54

3.5	<i>THEORETICAL GENERALISATION</i> .....	55
<b>4</b>	<b>EMPIRICAL FINDINGS</b> .....	<b>56</b>
4.1	<i>INTRODUCTION TO SCA PACKAGING</i> .....	56
4.1.1	Presentation of the interviewees.....	58
4.2	<i>THE STRUCTURE OF THE EMPIRICAL FINDINGS</i> .....	60
4.3	<i>DECENTRALISATION AND PROFIT CENTRES</i> .....	61
4.3.1	Opinions on the degree of decentralisation .....	62
4.4	<i>STRATEGY</i> .....	62
4.4.1	The lack of strategy in SCAP.....	63
4.4.2	Aligning strategy and performance measurement.....	65
4.5	<i>DIFFERENT KEY PERFORMANCE INDICATORS (KPIs) FOR DIFFERENT LEVELS</i> .....	65
4.5.1	Headquarters KPIs.....	66
4.5.2	Region level KPIs.....	67
4.5.3	Plant level KPIs.....	69
4.5.4	EBITDA.....	71
4.5.5	Working capital.....	71
4.5.6	Return on operating capital.....	72
4.5.7	Cash surplus Value Added.....	72
4.5.8	Nonfinancial measures.....	74
4.6	<i>GOALS FOR THE KPIs</i> .....	75
4.6.1	Opinions on the goals.....	75
4.7	<i>THE FUNCTION OF THE PERFORMANCE CONTROL SYSTEM</i> .....	77
4.8	<i>THE LINK BETWEEN PERFORMANCE CONTROL AND PERFORMANCE</i> .....	78
4.9	<i>INFORMATION</i> .....	78
4.9.1	Information systems.....	79
4.9.2	Opinions on the amount of information.....	81
4.10	<i>COMMUNICATION OF PERFORMANCE MEASUREMENT TO LOWER LEVELS</i> .....	82
4.11	<i>IMPLEMENTATION</i> .....	83
4.12	<i>ASPECTS OF CORPORATE CULTURE</i> .....	84
<b>5</b>	<b>ANALYSIS</b> .....	<b>85</b>
5.1	<i>INTRODUCTION</i> .....	85
5.2	<i>STRATEGY</i> .....	85
5.3	<i>ORGANISATIONAL STRUCTURE LINKED TO PERFORMANCE CONTROL</i> .....	87
5.4	<i>CULTURE LINKED TO PERFORMANCE CONTROL</i> .....	89
5.5	<i>MEASUREMENT METHODS OF TODAY</i> .....	90
5.6	<i>ALTERNATIVE MEASUREMENT METHODS THAT COULD BE USED</i> .....	92
5.6.1	EVA.....	93
5.6.2	ABC.....	94
5.6.3	BSC.....	96
5.7	<i>INFORMATION</i> .....	96
5.8	<i>COMMUNICATION</i> .....	98
5.9	<i>COORDINATION</i> .....	98
5.10	<i>IMPLEMENTATION</i> .....	100
5.11	<i>DISTINCTION BETWEEN TOP AND UNIT PERFORMANCE CONTROL</i> .....	102
5.12	<i>PERFORMANCE</i> .....	103
5.13	<i>DRIVING FORCES TO CHANGES IN PERFORMANCE CONTROL</i> .....	103
5.14	<i>SUMMARY</i> .....	105
<b>6</b>	<b>RESULTS</b> .....	<b>106</b>
6.1	<i>A NEW DEVELOPED FRAMEWORK</i> .....	106
6.2	<i>ALTERNATIVE METHODS OF PERFORMANCE CONTROL</i> .....	107
6.3	<i>CONCLUSIONS</i> .....	108
6.4	<i>CONTRIBUTION AND VALIDITY</i> .....	110
6.5	<i>FUTURE RESEARCH</i> .....	111

<b>SOURCES.....</b>	<b>112</b>
<i>PUBLISHED SOURCES.....</i>	<i>112</i>
Books.....	112
Articles .....	113
<i>ANNUAL REPORTS.....</i>	<i>115</i>
<i>ELECTRONIC SOURCES.....</i>	<i>115</i>
<i>VERBAL SOURCES.....</i>	<i>116</i>
<b>APPENDIX 1 – INTERVIEW GUIDE .....</b>	<b>117</b>
<b>APPENDIX 2 – KPI CASCADE.....</b>	<b>118</b>
<b>APPENDIX 3 – TARGET FOR DIVISION DISPLAY NORRKÖPING .....</b>	<b>119</b>

# 1 Introduction

---

*In this first chapter the background will be presented. This is followed by a discussion concerning multinational corporations and performance control, which leads to the purpose of the thesis. We then formulate a few research questions based on the purpose. After this we describe the case and finally, the disposition of the thesis will be presented.*

---

## 1.1 Background

In the international business environment of today, corporate strategies, according to Buckley & Casson (1998), have to be flexible to be able to respond to the continuing changes since competition is increasing, economics are changing and new technologies are emerging. These rapid changes force companies to try to understand their strengths and weaknesses better. The key to this is to make information an essential part of the business. This also makes it important to align control and performance measurement systems with strategic goals (Buckley & Casson, 1998).

That, in combination with the fact that strategy over the past decade has become more and more focused on the creation of shareholder value has in turn made financial goals, financial measures, and budgeting more closely integrated with strategy formulation. This has created a shift in emphasis from strategic to financial planning, which has made performance control an increasing concern of all businesses. If profitability is the primary goal of a company, it is inevitable that financial systems are the primary mechanism for performance control by top management (Grant, 1998).

For business organisations at least, management accounting systems are of major importance because they represent one of the few integrative mechanisms capable of summarising the effect of an organisation's actions in quantitative terms (Emmanuel,



1990). These systems provide the company with information about the performance of the business and are therefore of considerable importance in today's business environment.

Since the 1990s some changes in approaches to performance measurements have taken place. Two main streams can be identified. One that focuses on developing better tools, with more explanatory power, that can overcome the limitations of traditional metrics. In this approach the most popular method is Economic Value Added (EVA). The other stream emphasises the importance of nonfinancial measures. This is done by integrating nonfinancial and financial measures with a process approach and thereby directing focus towards forward looking measures such as customer satisfaction, employee satisfaction and defect rates. Among the most popular methods within this category are the Balanced Scorecard and the Skandia navigator (Yeniyurt, 2003).

For any corporation, what really matters in the end is profitability measured by for example Earnings Before Interest and Taxes (EBIT), Return on Equity (ROE), and Return on Capital Employed (RoCE). To get to this the starting point is the performance of the activities in terms of quality and productivity, and later on also price and cost per unit. This can be measured with an Activity-Based Costing (ABC) system. This is then linked to a company's Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA), and its cash flow. To get the whole picture a Balanced Scorecard (BSC), which combines financial and nonfinancial information and shows what drives profitability, can be used. In the end the profitability of the company can be measured by for example EVA.

Current research from the UK and the USA has shown that finance directors are not satisfied with the area of performance control as it is today, thus reflecting a growing importance of this topic in multinational corporations, continuously referred to as MNCs (Haq, 1995). According to Haq (1995), business is increasingly aggressive and with the market pressure of today, it is no wonder that companies are interested in measuring performance. National markets are so saturated that to gain market share it has to be taken from others and the increasing globalisation does not make things easier either (Haq, 1995).

## **1.2 Discussion of the problems**

Performance control should be linked to the company strategy and structure (Anthony & Govindarajan, 2001). According to Grant (1998), “the internal structure and systems of the firm are not simply a matter of “strategy implementation”, which can be separated from the hard analytics of strategy formulation. Not only is strategy implementation inseparable from strategy formulation, but issues of structure and systems are central to the fundamental issues of competitive advantage and strategy choice – the profile of organisational capabilities in particular” (Grant, 1998, p. 169).

This thesis has its starting point in looking at performance control in MNCs at today’s mature markets, where performance control is an essential topic. A MNC is divided into several business units which have to be controlled by a higher level of the organisation. These units therefore have to be measured in an appropriate way and performance control in MNCs is thus an accurate and relevant problem. We believe that performance control is also important for companies operating in mature markets because of two reasons. Since they are acting on a non growth market they have to keep careful track of their resource utilisation and to do this it is essential to have the right measurement methods. The other reason is that mature companies are accommodated to a stable environment and tend to become very stuck in the way they do things. This implies that they will probably not focus very much on metrics believing that they know their business and have good knowledge about the development of it. With this comes a risk that they become very vulnerable when changes do occur and therefore they need to have knowledge of and insight in performance measurement.

The changes in strategic thinking indicate that financial criteria such as profit may no longer be the only appropriate performance measure. It is not enough with financial yardsticks as measures. It has become increasingly important for organisations to develop performance measurement systems that reflect the growing complexity of the business environment (Haq, 1995).

We find it relevant to do this study since a lot of the writings on the subject are about how things are supposed to be done, i.e. normative theories, and not about how they actually are done. Therefore we are going to look into performance control systems from a descriptive point of view, to map how a MNC manage its performance control and how this has developed. Looking at the research done so far you find that there is always a gap between theory and practice when it comes to how a company is managed (Ax et al., 2005), this, because of the normative character of the theories. By taking a descriptive approach we hope to contribute to filling this gap.

To do our study we have chosen to look closely into one case because this gives us the opportunity to understand the problem in depth with all its complexity concerning strategy, structure, culture, practice, ambitions, traditions etc. The corporation we have chosen as our case company is SCA Packaging. We have found that they suit our purpose well since it is a multinational corporation operating in a mature market.

Given the empirical and theoretical discussions above concerning performance control in MNCs on mature markets we reach the following purpose.

### **1.3 Purpose**

The purpose of this thesis is to increase the understanding of issues that affect performance control and its development concerning alternative measurement methods in multinational corporations operating in today's mature markets.

## **1.4 Research questions**

The research questions, which constitute the basis for this thesis, are as follows:

- Which are the characteristics of the performance control system in MNCs?
- Which are the major challenges in the performance control system in MNCs?
- Which role do alternative metrics play?

The findings of the qualitative study will then be compared to relevant theories on the subject to form a new framework for performance control in multinational corporations.

## **1.5 Description of the case**

Our case company is SCA Packaging, a division of the SCA group. SCA Packaging is one of the largest European suppliers of corrugated paper packaging with a sales turnover of around 4 Billion Euros per annum. It has more than 200 plants across Europe, in Southeast Asia and in the USA, adding up to a total of 31 countries. Thus, it is clearly a multinational corporation.

The corrugated board sector, has had an increase in total shipments between 1995 and 2004 from 29 055 to 39 182, in 10 Millions of m<sup>2</sup> (FEFCO, 2004). This represents an increase per annum equal to 3 % which is just in line with the GDP. Thus, there is no real growth in this business area, which is an indicator that SCA Packaging acts on a mature market.

## **1.6 *Disposition of the thesis***

Chapter 2: This is the theory chapter where we present and go through theories that we find relevant for our study. In the end of this chapter we combine these theories to develop our own theoretical framework which will constitute the basis for our study.

Chapter 3: In the methodology chapter the methodological considerations and approaches for our study are presented. The reasons for the choices we have made are highlighted, thus facilitating the understanding of our study.

Chapter 4: In this chapter, called “Empirical findings” we present what we have learned by conducting interviews and collecting other empirical information. This chapter is structured according to the findings that we have discovered to be the most important ones.

Chapter 5: The analysis is presented in this chapter. Here we compare our empirical findings with our theoretical framework by doing a so called pattern matching. Similarities and differences are highlighted and discussed.

Chapter 6: In our final chapter the results of our thesis are presented, which consists of a new, developed framework. Whilst taking a more detailed view in the analysis chapter, here we try to find the common denominator for our findings.

## 2 Theory

---

*In this chapter we present theories concerning MNCs and performance control. These make up the building blocks of our theoretical framework that is presented in the end of this chapter.*

---

### **2.1 Introduction**

In our theory chapter we start with giving an introduction to control mechanisms and also a definition of performance control. That leads us into the description of performance control in general related to performance control in MNCs concerning organisation, strategy, culture, and implications of being in a mature industry. Later on we bring up theories about different specific measurement methods. We then finalise our theory chapter with a presentation of our theoretical framework.

Given the purpose of the thesis we have limited it to be about performance control in multinational organisations and we only discuss profit centres as business units. This choice we have made because SCA Packaging is a multinational corporation that is divided into regions, which are divided into management areas, which in turn include several profit centres.

One part of this thesis is to see if there is a need to develop and complement the performance control system of today with other types of measures. As this is a limited thesis we will not be able to look into all the possible complementary methods available. Because of this we have chosen to present only Economic Value Added, Activity Based Costing, and Balanced Scorecard in this chapter, to see what these methods could contribute with.

## **2.2 Control mechanisms**

To ensure the efficiency of an organisation different control mechanisms are used. The main control mechanisms are (Samuelsson red, 2001):

- A formal control system which decides and follows up strategies and plans with the company mission as a starting point.
- The choice of organisational structure for the company and the employment of competent people.
- An incentive system that creates the right motivation for the employees.
- Less formalised areas like education and the strive for getting a certain spirit or culture in the organisation.

These control mechanisms have various importances in different companies and over time. Most important is the connection between the organisation and the formal control system. Since the different responsibility levels are shown in the formal control system this has to change according to the organisation (Samuelsson red, 2001).

## **2.3 Performance control**

As defined by Anthony & Govindarajan (2001), management control is the process by which managers influence other members of the organisation to implement its strategies. This process involves a variety of activities: Planning, coordinating, communicating, evaluating, deciding, and influencing. Further on, management control systems encompass both financial and nonfinancial performance measures and these measures should be *goal congruent*, that is, consistent with the goals of the organisation itself. What kind of management control systems to use is dependent on the goals of the organisation. This process and these systems described by Anthony & Govindarajan (2001), are what we continuously are going to refer to as performance control and performance control systems.

### **2.3.1 Recent changes in performance control**

There has been a shift in a lot of corporations from performance control to strategic performance control which among other things includes Activity-Based Costing and Balanced Scorecard (Ax et al., 2005). There is no unitary definition of strategic performance control but some common characteristics are (Ax et al., 2005):

- Performance control tasks are broadened to also comprise identification and strengthening of competitive advantages, formulation and communication of strategy and strategic control.
- Traditional focus is complemented with an external focus that includes aspects of the company's competitors and customers.
- Some new and important elements are to seek and take advantage of possibilities for cost reduction and differentiation by exploiting links in the company's value chain, working actively with strategic cost drivers and focusing on nonfinancial but strategically important aspects of the business.
- The shape and use of the performance control shall be explicitly adjusted to the strategic direction of the company, i.e. conformity between the company's strategic direction and its performance control.

The emergence of strategic performance control implies that management accountants are going to play an increasingly important and clear role in strategic decisions, especially diversification decisions according to Emmanuel et al. (1998). With this follows requirements for market oriented information to use in decision making. Strategic performance control can be the answer to MNCs' need of more information that is differently focused, but then a strategic and dynamic perspective must be adopted by accountants. The new task for the accountant is thus to deliver information that is market oriented for the purpose of strategy formulation, strategic decision making, and the monitoring of strategies (Emmanuel et al., 1998).



### **2.3.2 The role of performance control**

Top management's responsibility is to develop the strategy and to articulate core financial performance targets. These targets must then be cascaded to the operating level in order to achieve strategic success (Barsky & Bremser, 1999). To make a performance measurement system work successfully in an organisation, it is necessary to understand the underlying factors which have an impact on the system and therefore need to be taken into consideration (www.cimaglobal.com, 2002, 051201):

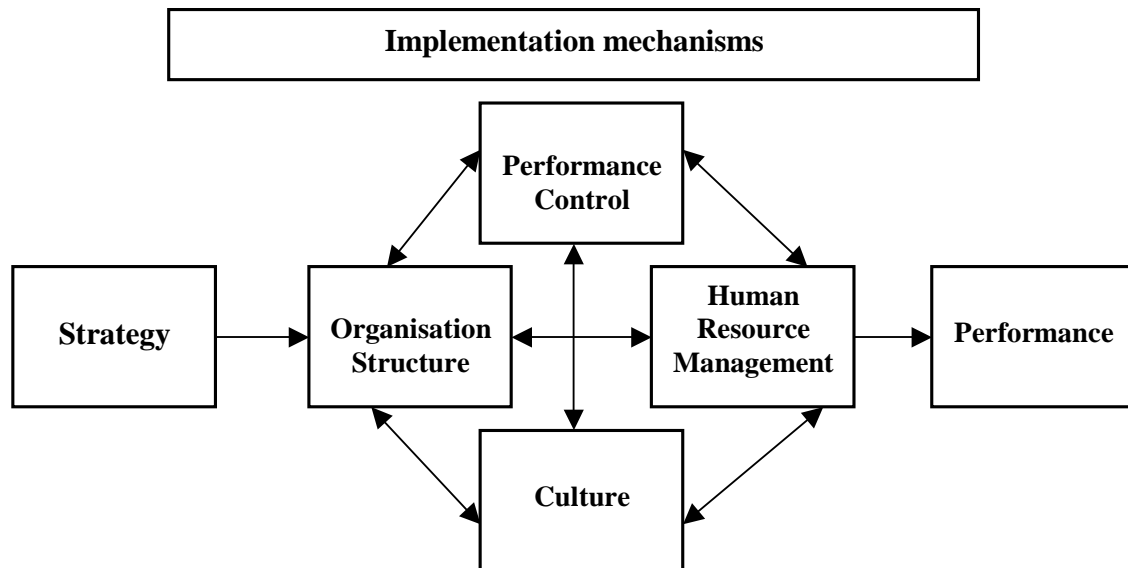
- The performance measurement system must be integrated with the overall company strategy.
- A system of feedback and review must be in place
- The performance measurement system must be easy to understand, simple, and clear
- The system must be implemented throughout the whole organisation
- The metrics used must be fair and achievable

Performance control has no end and no value in itself. Its main purpose is to help in the work of achieving strategic goals, in other words it is an aid for strategy implementation. The economic goals as well as the activities that are being performed within the frame of the control are dependent on the strategy of the company (Ax et al., 2005). The primary role of performance control is to ensure the execution of chosen strategies. In industries that are subject to rapid environmental changes, however, performance control information, especially of a nonfinancial nature, can also provide the basis for considering new strategies.

### **2.3.3 A model of performance control**

Below we present a model of the connection between company strategy, organisational structure, performance control, and performance (Anthony & Govindarajan, 2001). We will

use this model as a starting point and complement it with other theories that we find important for performance control in MNCs, when developing our theoretical framework.



(Anthony & Govindarajan, 2001)

### 2.3.4 Performance control in multinational corporations

*A multinational corporation (MNC) is a company engaged in producing and selling goods and services in more than one country. It ordinarily consists of a parent company located in the home country and at least five or six foreign subsidiaries, typically with a high degree of strategic interaction among the unit (Shapiro, 2005; p. 3).*

In international performance control, emphasis is, according to Emmanuel et al. (1998), placed on strategic, organisational, and cultural dimensions that have an impact on management accounting and control systems. Thus these three critical contextual factors in international performance control, strategy, organisational structure, and culture are similar to the ones in non multinationals. In MNCs the need for a fit between strategy and structure is as a precondition for survival, profitability, and growth (Rugman & Verbeke, 2004).

### ***Differences between general performance control and international performance control***

International management accounting and control include the similar issues as performance control in general does. However, it also comprises the context of different countries and recognises the unique practices of MNCs (Emmanuel et al., 1998). The significant size of a MNC is another feature that has an impact on its control. With the size comes a structure that is more complex and because of this complexity it is more difficult to develop aggregated measures for the strategic level than in domestic companies (Yeniyurt, 2003).

According to Emmanuel et al. (1998), the trade-off between having a uniform evaluation system and gaining subsidiary management commitment in MNCs is an important question. These considerations can also be found in domestic situations, but they are much more complex in an international setting because different norms concerning performance metrics and evaluation exist there and because motivations are differently based (Emmanuel et al. 1998).

Because of the range and differences of MNCs' operations, there is one thing which management accountants probably always will be asked to do, namely scorecard keeping. Regular financial reports allow comparison of managerial effectiveness in subsidiaries and units that are geographically dispersed. Traditional performance metrics like operating profit, controllable residual income, contribution and return on investments, are utilised commonly by MNCs. In the international context it is of greater interest whether the MNC employ one or several financial performance metrics and/or supplementary nonfinancial metrics (Emmanuel et al, 1998).

In studying individual MNCs significant differences in the design and operation of performance control systems in different countries have been revealed (Emmanuel et al., 1998). In some cases this has led to the application of geocentric or non uniform systems within the same enterprise. Because of the complex structure of a MNC, this differentiation also ought to occur between units operating in the same country.

According to Buckley & Casson (1998), MNCs have to recognise new dimensions of strategy. It is essential to have an efficient information collecting and processing system to be able to handle the increasing complexity of decision-making caused by the high degree of uncertainty. Forecasts can be improved by diagnosing underlying long-term trends through information on the present and the recent past. This has an essential impact on the organisational structure of MNCs, and on the motivation of their managers (Buckley & Casson, 1998).

Thus, we can see that an efficient and effective utilisation of performance control systems in MNCs requires both an adaptation to and a development of the intraorganisational models of performance evaluation. This is also stressed by Noerrekliit & Schoenfeld (2000).

### ***Influences on control in MNCs***

Research made on MNCs has stated the determinants of different forms of control within organisations. Different contingent features such as size, age, sector, and role of the subsidiary that influence the type of control used, are discussed by Baliga and Jaeger (1984). According to Bartlett and Ghoshal (1989), subsidiaries need different coordination mechanisms depending both on their level of resources and on the strategic importance of the local environment. In consequence “implementer” subsidiaries, that have a limited role in environments that are not strategic, will probably be managed by formal systems, whereas “strategic leader” subsidiaries will rather be coordinated using socialisation than applying bureaucratic controls.

Ferner (2000) means that just because a formal system exists it does not mean that it will be implemented in practice. There is a possibility that the system either is ineffective or not utilised anymore. In order to activate formal systems sources must be deployed. The power of local units to resist or subvert the operation of formal systems has to be confronted by the power of the centre to make things happen. The fact that national business systems varies is a factor that complicates the practice of control in MNCs more than in a complex national company. The implication of this for the manager is that he or she must pay attention to the invisible and informal support structures that make formal systems work,

especially when cultural and geographical distance weaken the planned impact of these systems (Ferner, 2000).

## ***2.4 The link between organisational structure and performance control***

Within the area of organisational structure it is the type of organisation, the delegation of responsibility, and the incentive system that have the strongest connection with the area of performance control (Ax et al., 2005). Organisational structure specifies the roles, reporting relationships, and division of responsibilities that shape decision-making within an organisation. An effective management control system should be designed to fit the particular structure (Anthony & Govindarajan, 2001).

According to Emmanuel et al. (1990), a firm's strategy has a major influence on its structure and the type of structure, in turn, influences the design of the organisation's performance control systems. Central to the use of organisational structure as a control device is the delegation of responsibilities to company employees and the evaluation of their achievement of specific tasks or objectives. Emmanuel et al. (1990) argue that organisational structure is an effective form of control since a great deal of the employees' behaviour can be influenced and even predicted, by placing them in a defined system of authority and responsibility.

In MNCs the degree to which the management's attitudes can be aligned with organisational structure and the influence that organisational structure has on performance control systems is of interest. The development of an organisation's international operations, its organisational history, and the values, norms and practices of its management, provide keys and constraints to the control system. Changes are occurring in MNCs and that leads to changes for management accountants too. This implies that corporations must be able to implement the desired changes. Managerial accounting is

therefore heading towards the design and implementation of organisation systems (Emmanuel et al., 1998).

### **2.4.1 Decentralisation**

According to Emmanuel et al. (1990), decentralisation refers to the extent to which decisions are taken by subordinate managers rather than senior managers. Decentralisation can therefore be defined as the delegation of responsibilities throughout the organisation, making parts of the organisation more independent of the central function.

The degree to which decision making is decentralised is an important element in organisational structure. A small organisation can operate effectively in a highly centralised manner. In larger organisations, centralised decision-making can lead to inefficiencies in both the timeliness and quality of decisions and the control actions (Emmanuel et al., 1990).

Any form of decentralisation creates considerable problems of integration and coordination, but there are also advantages with decentralisation. For example, local managers are better informed than central managers. By being closer to the situation they are able to make better decisions and to make them more speedily, in contrast to central managers who have limitations on their information processing ability (Emmanuel et al., 1990). Another advantage with decentralisation could be that the feeling of a local ownership creates motivation and incentives for the employees.

According to Emmanuel et al. (1990), joint activities that require cooperation and coordination between divisions may be jeopardised as divisions see themselves as quasi-independent companies in competition with each other. There may also be expensive duplication of staff and some facilities that are provided in several divisions instead of centrally. Divisionalisation also requires a different and more extensive formal information system (Emmanuel et al., 1990).

## 2.4.2 Profit centres as business units

According to Anthony & Govindarajan (2001), business units are responsible for all the functions involved in producing and marketing a specified product line. They are almost as their own companies but the headquarters have influence over certain matters. A *profit centre* is a responsibility centre in which financial performance is measured in terms of profit (Anthony & Govindarajan, 2001).

Two conditions should exist before it is appropriate to delegate trade-off decisions regarding expenses and revenues to a lower level manager. The manager should have access to the relevant information needed for making such a decision and there should be some way to measure the effectiveness of the trade-offs the manager has made (Anthony & Govindarajan, 2001). Thus it should be important to have the right metrics and to measure in a correct manner in order to achieve this.

According to Anthony and Govindarajan (2001), there are several advantages with profit centres:

- Decisions are being made by managers closest to the point of decision, so the quality of what is decided may improve.
- The speed of operating decisions may be increased since they do not have to be referred to corporate headquarters.
- Headquarters management can focus on bigger issues, concerning the whole corporation, such as strategic questions.
- Managers are freer to use their imagination and initiative, which creates motivation.
- Profit centres provide an excellent training ground for general management.
- Profit consciousness is enhanced since managers who are responsible for profits will constantly seek ways to increase them.
- Top management is provided with ready-made information on the profitability of the company's individual components.

- Profit centres are particularly responsive to pressures to improve their competitive performance since their output is so readily measured.

Anthony and Govindarajan (2001) also argue that there are some difficulties with profit centres:

- Top management has to rely more on performance control reports than on personal knowledge of an operation, entailing some loss of control.
- The quality of decisions made at the unit level may be reduced, if the headquarters management is more capable or better informed than the average profit centre manager.
- Friction may increase concerning joint issues between different profit centres.
- Competition may occur between the units.
- Additional costs may occur because of duplication of functions and tasks.
- There may be too much emphasis on short-term profitability at the expense of long term profitability.
- There is no completely satisfactory system for ensuring that optimising the profits of each individual profit centre will optimise the profits of the company as a whole.

Another difficulty with profit centres is, according to Prahalad & Hamel (1990), that the units are too separated and have a great degree of autonomy. This, for example does not make the distribution of resources effective and the constraint can be a reason that some business units have satisfactory effectiveness while the achievement for the corporation as a whole is low. Prahalad & Hamel (1990) refers to this problem as “the tyranny of Strategic Business Units”.

### **2.4.3 Coordination and integration of units**

As companies get larger they tend to differentiate in the way that various parts of the organisation differ on the dimensions of time horizons, goals, interpersonal orientation, and



the formality of their structures (Lawrence and Lorsch, 1967). This implies that the coordination and integration of the different units become a very important problem that top management need to handle (Mintzberg, 1979). In the case of MNCs these problems are even more important since these corporations are geographically scattered and operate in environments of varying degrees of complexity, heterogeneity, stability, and hostility. Several coordinating mechanisms are used, together with control and decision-making systems, in order to integrate the units. Therefore an understanding of these mechanisms is crucial for managers in MNCs (Baliga & Jaeger, 1984).

## ***2.5 The link between strategy and performance control***

Performance measurement is an important strategic analysis tool to give stakeholders a better indication of an organisation's strategy. This, because the stakeholders get a better understanding of the strategy from observing what the company measures and does, than from its declared goals or what it says it does (www.cimaglobal.com, 2002, 051201).

According to Anthony and Govindarajan (2001), the goal of performance measurement systems is to implement strategy. In setting up such systems, senior management should select measures that best represent the company's strategy. These measures can be seen as current and future critical success factors and if they are improved, the company has implemented its strategy.

The logic for linking controls to strategy is based on the following line of thinking (Anthony & Govindarajan, 2001):

- Different organisations generally operate in different strategic contexts.
- Different strategies require different task priorities, key success factors, skills, perspectives, and behaviours for effective execution.
- Control systems are measurement systems that influence the behaviour.

- Thus, a continuing concern in the design of control systems should be whether the behaviour induced by the system is consistent with the strategy or not.

Corporate strategy is a continuum with “single industry” strategy at one end and “unrelated diversification” at the other end. A company’s location on this continuum depends on the extent and type of its diversification. Different strategies imply different structures of organisations and, in turn, different control mechanisms. At the single industry end, the company tends to be functionally organised. In contrast, every unrelated diversified company is organised into relatively autonomous business units. At the single industry end of corporate strategy, senior managers are likely to be extremely familiar with the industry in which the firm competes and many of them tend to have expertise in research and development, manufacturing, and marketing. In contrast, at the unrelated diversified end, many senior managers tend to be experts in finance (Anthony & Govindarajan, 2001).

In terms of performance control this should imply that single industry companies are more centrally controlled with a narrower range of metrics, while unrelated diversified companies have a more differentiated performance control system.

## ***2.6 The link between culture and performance control***

When studying performance control systems in MNCs, the influence of national culture on managerial values, i.e. behaviour, must be considered. The evolution and maintenance of institutions in society which comprises family patterns, social class structures, the political system, the financial system, and the nature of business ownership etc., are influenced by cultural values at the societal or national level. Changes in these values occur slowly and are produced by external forces such as international trade and investment, and the growth of MNCs (Emmanuel et al., 1998).

At the national level culture is expressed through organisational and managerial subcultures. Thus, Emmanuel et al. (1998), mean that societal values will probably

influence and reinforce accounting systems and practices. This gives an understanding of the reasons for differences between national accounting systems. With that in mind culture is fundamental when studying performance control systems in MNCs. The norms and values of these control systems and the behaviour of individuals operating within the systems, are affected by culture (Emmanuel et al., 1998).

## ***2.7 The implication of being in a mature industry***

Our main focus of this thesis is performance control in MNCs. However it is not just the fact that a company is multinational that affects its strategy, structure, and culture and thereby its performance measurements. The phase of the industry also has an impact on the strategy in particular, thus influencing in turn the metrics used by the corporation.

Maturity has two principal implications for competitive advantage (Grant, 1998):

- It reduces the number of opportunities for establishing competitive advantage
- It shifts these opportunities from differentiation-based factors to cost-based factors

This, in turn, should have an impact on the performance measurement system. When competing on cost based factors, it ought to become essential to know your costs well. Thus, it is no longer enough just to measure your performance in terms of results, i.e. profitability, but it should become important to know the details of the cost structure that makes up these results.

During the early 1990s the most profitable companies in mature industries tended to be those that had achieved the most substantial reduces in overhead costs. One way to turn around business and become more profitable is by focusing on the segments that are the most profitable (Grant, 1998). In order to do this the enterprise, of course, needs to be aware of which segments or customers who are the most profitable ones.

Another implication of being in a mature industry is that there is a need for change, but this is difficult since executives tend to be trapped in conventional thinking (Grant, 1998).

## **2.8 The development of performance measurement**

As organisations evolve, their performance measurement systems also need to go through various stages of evolution. European research reports ([www.cimaglobal.com](http://www.cimaglobal.com), 2002, 051201), discovered that nearly three quarters of the companies investigated had changed their performance measurement systems during the previous three years and they anticipate that they will continue to change them in the future.

In the 1990s, a lot of companies had difficulties with the implementation of measurement systems and were also concerned about measuring too much. Many of the issues from the 1990s are still relevant today, e.g. what to measure, how to access data and whether to align rewards to the performance measurements ([www.cimaglobal.com](http://www.cimaglobal.com), 2002, 051201).

A survey made by the American Institute of Certified Public Accountants (AICPA) ([www.cimaglobal.com](http://www.cimaglobal.com), 2002, 051201), underlined the circumstances that cause a company to consider modifying its performance measures. Below, the drivers of change are listed in order of importance:

- Decreasing profitability
- Changed strategy
- Enhanced shareholder value
- Redesigning of business processes
- New technology
- New competition
- Attract and retain people

However, a lot of companies still utilise the traditional accounting measures instead of any of the new performance measurements. When asked for the reason for this, the companies presented three main reasons (www.cimaglobal.com, 2002, 051201):

1. The measures were thought to be perfectly suitable for the needs of the performance control.
2. The metrics used were adequate for the company's major stakeholders and sufficient for the measuring of their performance.
3. Introduction of new measures is not promoted by the organisational culture and even after thorough investigation there is a lack of support for the implementation of new metrics.

## **2.9 Traditional metrics for performance control**

An important part of the control process is to measure actual performance, so that it can be compared to what is expected of the company or unit that is being measured (Emmanuel et al., 1995). These metrics are commonly defined as Key Performance Indicators (KPIs). As mentioned in the first chapter, when introducing the thesis, there are causal relations in the process of performance control. It was there stated that in the end everything always ends up with measuring a company's or unit's profitability. Some common measurement methods for this are to look at the Earnings Before Interest and Taxes (EBIT), to see how the working capital is managed, and to investigate how much is being Returned on the Capital Employed (RoCE).

### **2.9.1 EBIT and EBITDA**

EBIT is an indicator of a company's financial performance and it is calculated as revenue minus expenses, excluding taxes and interests. It is also referred to as operating earnings.

Another definition is that it includes all profit, operating and non operating, before deducting interest and income taxes (www.investopedia.com, 051204).

EBITDA is a widely accepted indicator of a company's financial performance. It stands for earnings before interest, taxes, depreciation, and amortisation (McDonnell, 2001).

In the leveraged buyout mania of the 1980s, when many companies paid more than fair market value for assets, EBITDA became widely used by leveraged buy out sponsors and their lenders, to measure a company's cash flow and thus its ability to service debt. Over time though, EBITDA came to be a measurement tool for cash flow at companies near bankruptcy. Later it was used to measure companies with long lived assets. Today, it is used by companies in all industries (McDonnell, 2001).

According to McDonnell (2001), the use of EBITDA unfortunately has evolved from its position as a valid tool at the extreme bottom of the business cycle to a new position as an analytical tool for companies still in their untroubled days

The greater the percentage of EBIT in EBITDA, the stronger the cash flow generally is. The higher the percentage of depreciation and amortisation in a company's EBITDA, the more important it is that the company spends an amount equal to the depreciation value to keep its equipment current (McDonnell, 2001).

According to Hamilton (2003), EBITDA is a rough measure of how well a company is managing expenses and revenues over time. It is an important metric that should not be discarded.

EBITDA is a good measure when analysing the profitability between companies and industries since it eliminates the effects of financing and accounting decisions. It is a relatively good comparison method which can be used to find companies that are the most efficient operators in an industry. Since it removes the impact of financing large capital investments and depreciation from the analysis, it can also be used to evaluate different

industry trends over time. For example heavy industries can be compared with high tech companies (Wayman, 2002). This is, however, a non GAAP measure and therefore it allows discretion to a higher degree about what is included in the calculation and what is not. This also means that a company can change the terms of the calculation from one reporting to another (www.investopedia.com, 051204).

Because EBITDA is easy to calculate it is often used as a headline metric in discussing a company's results and as a key measure for making investment decisions. This could misrepresent the true investment potential of a company though, because EBITDA does not accurately reflect the ability of the company to generate cash (Wayman, 2002).

This metric is used by lenders, investors, management and other interested parties as a key measure of financial health. That can motivate companies to attempt to represent it in the most positive light, which is a temptation that will also be greater when a company is in trouble. It is important that decision makers understand what is being measured and what is not (Calabrese & Rafferty, 2003). There are some considerations in particular that EBITDA neglects. It does not take into account variations in accounting methods, cash required for working capital, debt payment and other fixed expenses, and capital expenditures (www.investopedia.com, 051204).

## **2.9.2 Working capital**

The definition of net working capital is a company's current assets minus its current liabilities. This measure is considered a good measure of both a company's efficiency and its financial health. The working capital ratio measures how well a company is able to repay its creditors and it is calculated as current assets divided by current liabilities. The operational efficiency is also shown in the working capital by comparing it from one period of time to another. Money that customers still owe to the company or that is tied up in inventory can not be used to pay off any of the company's obligations, so slow collection

may illustrate an underlying problem in a company's operations (www.investopedia.com, 051208).

Another definition of working capital is: The cash a business requires for day to day operations or for financing the way from raw materials to finished goods which is thereafter sold for money. Levels of inventory, accounts receivable, and accounts payable are among the most important items of working capital. These items are what the analysts look at when evaluating a company's efficiency and financial strength. A company needs to borrow less, the better it manages its working capital. Even if a company has cash surpluses they need to manage working capital to ensure that the cash surpluses are invested properly to generate returns for investors (McClure, 2003).

It is important to keep in mind, when looking at working capital of different companies, that all companies do not have the same prerequisites. Some are inherently in a better place than others. Manufacturing companies, for example, have a high degree of costs for material and labour before they get paid for the goods manufactured. In contrast retailer companies do not have to worry much about their accounts receivable since customers pay on the spot. Their biggest problem is instead the inventories (McClure, 2003).

When fund raising is harder than ever (McClure, 2003) and companies are finding it difficult to access traditional sources of operating capital (Payne, 2001), cash is king (McClure, 2003). For many companies the solution is to generate as much cash as they can internally. To better manage the working capital is one of the best and fastest ways to do that. Working capital management is a topic that is more than a game with numbers. It concerns revenue management, expenditure management and supply chain management. It also offers other things such as, greater operating efficiency and improved customer service. Therefore working capital optimisation programs often generate bigger rewards than what companies implementing them have expected. In the end, working capital management is not only a driver of balance sheet data but also a profit and loss statement driver, a cash flow driver, and ultimately a driver of growth (Payne, 2002).



### **2.9.3 Return on Capital Employed**

The ratio Return on Capital Employed (RoCE) indicates the efficiency and profitability of a company's capital investments. It is calculated by dividing EBIT with total assets less current liabilities. This metric should always be higher than the rate at which the company borrows. If it is not, then any increase in borrowing will reduce shareholders' earnings (www.investopedia.com, 051216).

In other words, "RoCE is a measured relationship between the profit made by an organisation in a specific time period and the funds utilized in generating that profit" (Jarvis & Skidmore, 1978; p. 1). This measure can be seen as the primary indicator of a company's profitability. The use of it can have an influence on the exercise of managerial tasks in such areas as planning, control, and decision making (Jarvis & Skidmore, 1978).

RoCE can be used to measure the performance of divisions or subsidiaries in a group and to compare one of them with another. Managerial effectiveness can also be measured with this metric as well as it can be used for determining investment policies. (Bentley, 1977) When using RoCE as a metric to compare divisional activities there are two main problems. First, for planning and performance appraisal purposes it is important to know whether the target for RoCE is expected return on utilised assets or on the assets available. The other thing is that accounting conventions also can lead to problems in the measurement of the base for the capital employed (Jarvis & Skidmore, 1978).

### **2.10 Alternative metrics for performance control**

The many and quick changes in the environment forces companies to understand their strengths and weaknesses better and to improve their current capabilities. Traditional metrics can not offer a complete understanding of the situation since they are outcome focused instead of process oriented. Because of this, new types of performance measurement systems are needed (Yeniyurt, 2003).

The major inadequacies of traditional metrics are that they:

- are inadequate for strategic decisions (Kaplan & Norton, 1992)
- are too historical and backward looking (Ittner & Larcker, 1998)
- lack predictive ability to explain future performance (Ittner & Larcker, 1998)
- provide little information on root causes (Ittner & Larcker, 1998)
- do not link the nonfinancial metrics to financial numbers (Kaplan & Norton, 1992)
- do not measure the value created (Lehn & Makhija, 1996)
- do not aggregate from an operational level to a strategic level (Kaplan & Norton, 1992)

Relying solely on financial measures is inadequate and can, in fact, be dysfunctional for several reasons. In sum, Anthony & Govindarajan (2001) mean, that relying on financial measures alone is insufficient to ensure that the company strategy will be executed successfully. The solution is to measure and evaluate business unit managers using multiple measures, financial as well as nonfinancial.

It is common to use nonfinancial measures at lower levels in an organisation and financial at higher levels for management control. A blend of nonfinancial and financial measurements is needed at all levels in the organisation. It is also important for senior executives to track not only financial measures, which indicate the results of past decisions, but also nonfinancial measures, which are leading indicators of future performance. Similarly, employees at lower levels need to understand the financial impact of their operating decisions (Anthony & Govindarajan, 2001).

According to Samuelsson red. (2001), there has also been a trend of coming up with new financial metrics for performance control. Some financial alternatives to using traditional profitability measures that recently have come up often include a requirement for return and concentrate more than the traditional measures on cash flow. Three of these alternative metrics are Economic Value Added, Market Value Added, and Cash Value Added (Samuelsson red., 2001).

## 2.10.1 Economic Value Added (EVA)

EVA stands for Economic Value Added and is a registered trademark of Stern Stewart & Co. The use of EVA for financial decision making was first suggested by Stewart in 1991. He recommended that instead of trying to maximise profits, managers should aim for maximising EVA. He also meant that the measure should be used for other things such as setting goals, evaluating performance, determining bonuses, communicating with investors, and for capital budgeting and valuations of all sorts (de Villiers, 1997).

EVA is a performance measure that differs from most others since it includes a charge for the capital a company employs (Ehrbar, 1998).

$$\text{EVA} = \text{NOPAT} - \text{C}\%(\text{TC})$$

NOPAT is net operating profits after taxes, C% is the percentage cost of capital, and TC is total capital (Ehrbar, 1998).

The cost of capital is a so called opportunity cost which corresponds to what investors expect to get when they put their money in a portfolio of other stocks and bonds of comparable risk. This can be seen as profit measured by shareholders. A company has to return a profit that is greater than its cost of capital otherwise it is operating on loss (Ehrbar, 1998).

This measure is what economists refer to as residual income, but Stern Stewart & Co modified this measure, made it somewhat more complicated and named it EVA. When calculating EVA several decisions must be made regarding how to define and adjust operating profits, how to measure capital, and how to determine the cost of capital (Ehrbar, 1998).

According to Ehrbar (1998), a new lens through which managers view a corporation is provided with the EVA framework. It gives a better perception of a company's underlying economics and helps managers to make better decisions (Ehrbar, 1998).

### ***EVA in relation to MVA***

Economic Value Added has a strong positive correlation with Market Value Added, MVA, which is a company's market value minus the capital contributed by investors (www.investopedia.com, 051213). A company with a high EVA tends to show a high MVA, i.e. a high profit for the shareholders. Along with this come several synergies such as that the company can easier get cheap capital from the capital market to grow even more. A high MVA also decreases the risk of being bought by a competitor and it contributes to a stronger negotiation position towards suppliers and customers (Anthony & Govindarajan, 2001).

### ***Disadvantages with EVA***

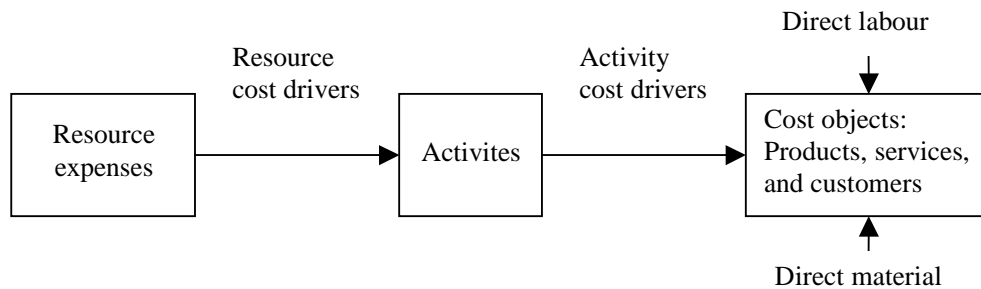
The problem with EVA is that if it is going to work as a comparing measure, the capital cost rate must be set centrally. To set the interest rate centrally for all the divisions is not a simple issue since the different divisions' capital can be financed in different ways and there can be differences in how capital intense they are. This leads to that centrally set interest rates can have a different impact on different divisions (Anthony & Govindarajan, 2001).

Another disadvantage is that EVA is based on accounting profits and it is well known that accounting profit often is a poor representative for economic profit. There is a discrepancy between these two, which is exacerbated by inflation, and it has been shown by de Villiers (1997) that EVA is distorted by this and can not be used under inflation to estimate actual profitability.

## **2.10.2 Activity-Based Costing (ABC)**

The Activity-Based Costing (ABC) system was developed to deliver correct information about the costs of resources used by individual products, services, customers, and channels (Kaplan & Cooper, 1998). The starting point for ABC is that expenses should be distributed

according to the utilisation of the organisation's different activities by the product (Gerdin, 1995). An ABC system allows indirect and support expenses, to be driven, first to activities and processes, and then to products, services, and customers. The system provides managers with a better picture of the economic situation of their operations (Kaplan & Cooper, 1998).



Schematic picture over the ABC system, developed by Joanna & Caroline from, Gerdin (1995) and Kaplan & Cooper (1998)

The ABC model can be seen as an economic map of an organisation's operations that reveals the current and forecasted expenses of activities and business processes. This, in turn, gives the organisation insight in the cost and profitability of individual products, services, customers, and operating units (Kaplan & Cooper, 1998).

An ABC system expands the traditional costing systems by allocating resource costs not just on the basis of the physical volume produced but also in relation to orders and to the variation and complexity of products produced (Gerdin, 1995). The development of an ABC system can be described in four sequential steps (Kaplan & Cooper, 1998):

**Step 1.** Develop an activity dictionary.

Identify and describe the activities performed within the corporation with verbs and associated objects, e.g. move materials, buy materials, respond to customers etc.

**Step 2.** Establish how much the company spends on each activity.

Here a mapping from resource expenses to activities is done by using resource cost drivers. These cost drivers link expenses to the activities performed. After tracing resource costs to activities, critical attributes of the activities should be identified. One of the most important

attributes is to classify manufacturing activities according to their cost-hierarchy, i.e. unit, batch, product, customer, and facility sustaining.

Unit level activities are those that have to be done for every unit of a product or service that is produced. Traditional costing systems rely only on unit level costing drivers. Thus, one of the biggest differences when comparing traditional and Activity-Based Costing systems is the use of nonunit cost drivers, e.g. batch, for allocating resource costs to products and customers.

Batch level activities are those that have to be performed for each setup or batch, e.g. processing a customer order or setting up a machine for a new product. Product sustaining activities are those that are carried out to enable the production of individual products, e.g. special testing and tooling for individual products.

**Step 3.** Identify the company's products, services, and customers.

While step 1 and 2 are about identifying activities performed and their costs the third step is about establishing whether these activities should be performed at all. Are they profitable? To be able to answer this question the costs must be linked to products, services, and customers, which are the ultimate beneficiaries of the corporation's activities.

**Step 4.** Choose activity cost drivers that link activity costs to those products, services, and customers.

The activity costs drivers provide the link between the organisation's activities and cost objects. It is the quantitative measure of an activity's output. An example of this is that if the activity is "set up machines", then the activity cost driver is setups or setup hours. To choose activity cost drivers is a subjective trade-off between accuracy and the cost of measurement. This implies that two questions must be taken into consideration (Gerdin, 1995):

- How many activity cost drivers are needed?
- Which type of activity cost drivers should be chosen?

Kaplan & Cooper (1998) presents three different types of activity cost drivers to choose from. These are transaction drivers, that count how often an activity is performed e.g. number of setups, duration drivers that measures the amount of time needed to perform an activity e.g. setup hours, and intensity drivers that directly measure the resources used every time an activity is performed. This last category of drivers is the most accurate one, but also the most expensive to implement, hence the trade-off question mentioned above becomes important (Kaplan & Cooper, 1998).

### **2.10.3 Integrating ABC and EVA**

When an organisation has great variation in production, an integrated ABC and EVA system can reduce distortions in production costs more effective than a total cost approach or a standard ABC system (Roztocki & LaScola Needy, 2000). According to Roztocki & LaScola Needy (1999), an integrated ABC and EVA system does not only include the rate of consumption of resources in the cost of activities but also capital demand. This system can therefore generate complete, reliable, and real time cost estimates (Roztocki & LaScola Needy, 2000).

While the ABC system can be very helpful in reducing costs, it must be kept in mind that even the most impressive cost reduction, do not automatically result in an improved value creation. Instead the shareholder value often remains unchanged or even becomes reduced. The reason for this is that the ABC system, while good at calculating operating costs, does not fully consider the handling of full capital costs since the interest charges for capital invested in an organisation are not taken into account (Roztocki & LaScola Needy, 1999). This negligence of the correct allocation of capital cost may lead to distortions in product cost and thus bad decisions made by management (Roztocki & LaScola Needy, 2000). According to Roztocki & LaScola Needy (1999), this problem will be solved by combining the ABC system with a value-based performance measure like EVA that focuses on capital cost and shareholder value.

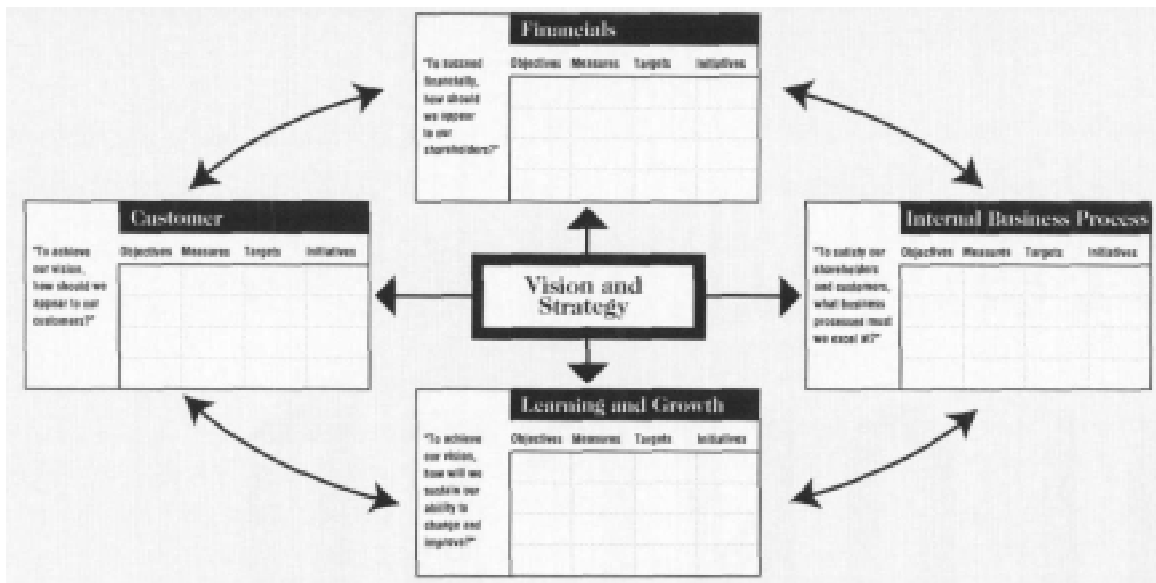
The expenses and effort required for implementing an integrated ABC and EVA system will in most cases be outweighed by the gains (Roztocki & LaScola Needy, 2000). The system can be used as an engineering management tool to avoid that management makes short-term decisions only based on profit, which may over the long term destroy economic value. It must be kept in mind though, that it is not the system itself that will make the improvements, but instead provide the necessary information to direct improvement efforts (Roztocki & LaScola Needy, 1999).

#### **2.10.4 Balanced Scorecard (BSC)**

A Balanced Scorecard is a strategic management metric used to identify and improve a company's internal functions and their external outcomes. This metric measures and provides feedback to organisations in order to assist in implementing strategies and objectives (www.investopedia.com, 051201).

The BSC provides a framework for a strategic measurement and management system through translating the mission and strategy of an organisation into a set of performance measures. It measures the performance of an organisation across four linked perspectives which are; the financial perspective, the customer perspective, the perspective of internal business processes, and the learning and growth perspective. This design makes it possible for companies to track their short-term financial result at the same time as they monitor their progress in areas that generate growth for future financial performance (Kaplan & Norton, 1996).

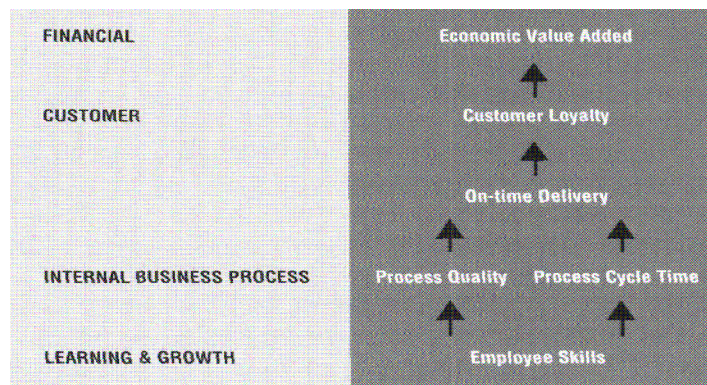




(Kaplan & Norton, 1996)

In this way the BSC also allows managers to look at the business from four important perspectives: How do we look to shareholders? How do customers see us? What must we excel at? Can we continue to improve and create value? By limiting the numbers used the company is also able to minimise information overload (Kaplan & Norton, 1992).

A BSC helps a company to specify the critical elements for its growth strategies (Kaplan & Norton, 2001). A strategy in a company is a set of hypotheses about cause and effect. The chain of cause and effect should spread through all four perspectives of a BSC. For example, if EVA is chosen as a scorecard measure in the financial perspective the performance driver of this measure could be repeated and expanded sales from existing customers. Therefore, customer loyalty should be included in the customer perspective since it is a driver of EVA. That leads to the question of what creates customer loyalty. It could be on time deliveries, which then also should be included in the customer perspective. To achieve on time delivery the company might have to improve the process quality and decrease the process cycle time, this in turn can be done by educating the employees which then will be included in the learning and growth perspective (Kaplan & Norton, 1996).



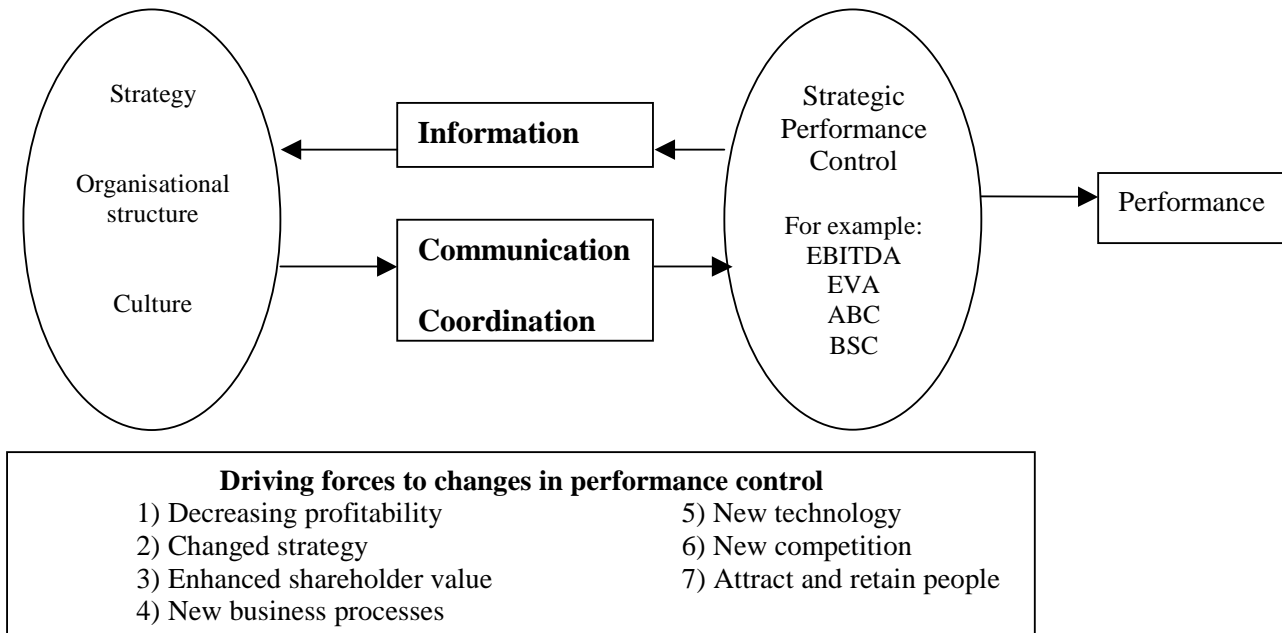
(Kaplan & Norton, 1996)

A good BSC should contain both outcome measures, such as on time delivery, and performance drivers, such as cycle times, otherwise it is not communicated how the outcomes are to be achieved and an early indication about whether the strategy is successfully implemented is not provided (Kaplan & Norton, 1996).

A successful BSC program should be a project of change and not a project of metrics. It should be used to communicate a vision that is better than the present and every part of the organisation should be linked to the scorecard. The traditional processes like budgeting and compensation should be linked to the scorecard that describes the company strategy (Kaplan & Norton, 2001). Many companies, however, make the mistake to continue to plan, allocate resources, and make budgets etc. as they have done in the past, even after implementing the BSC (Kaplan & Norton, 2005).

There are four common mistakes that organisations make when trying to use nonfinancial measures. The companies tend not to link the measures to their strategy, not to validate the links of cause and effect, not to set the right performance targets, and they also tend to do the measuring incorrectly. If these types of measurement systems are not implemented in their whole they do not do any good to the organisation (Ittner & Larcker, 2003).

## 2.11 Theoretical framework



### 2.11.1 Explanation to the theoretical framework

Based on the model by Anthony & Govindarajan (2001) which we presented in the beginning of our theory chapter, and the other theories presented in this chapter we have developed a theoretical framework for performance control in MNCs. We have kept the three contextual factors, strategy, organisational structure and culture, but excluded human resource management since this factor has not been highlighted in the theories about performance control in MNCs.

Furthermore, we have rearranged the order of these factors, putting organisation and culture on the same “level” as strategy, letting them all lead to performance control. However, they are not put in direct contact with performance control, but instead we want to emphasise what we think plays a significant role in connecting these contextual factors with performance control, namely, communication and coordination. In the concept of

communication we also include information in the sense of informing employees about important issues. We find these factors essential to performance control in MNCs because of the great complexity of these corporations caused by the context of different countries and their significant size. We also find communication and coordination to be of importance since the existence of a formal system does not mean that it will be implemented in practice, especially when cultural and geographical distance weaken the planned impact of these systems. The many dispersed units created by the decentralisation of large MNCs thus lead to a need for increased communication and coordination.

Another factor that we have included in our framework is information. This is the kind of information that is constituted by the gathering of data. This type of information is important in MNCs because, as stressed in the theories, efficient information collection and processing is crucial to cope with the increase in the complexity of decision making in MNCs.

We have changed performance control to strategic performance control, which includes all the alternative types of performance metrics such as ABC, EVA, and BSC. We believe that a performance control system should be aligned with the company strategy, structure, and culture. This link becomes much stronger when having a strategic performance control system. Strategic performance control can also be a solution to the need of information in MNCs.

Since the purpose of the thesis includes the development of performance control, concerning alternative measurement methods, we have included a factor that helps explaining why the performance control system needs to change. This factor is “driving forces to changes in performance control”. This box is placed under the framework to show that it affects the whole framework and not just an individual part of it. These driving forces are complementing the three contextual factors when trying to increase the understanding of performance control and its development. The factor shows that it is essential that the performance control methods evolve as the prerequisites for the company change. When taking on new kinds of business and entering new business segments there is

also a need for new performance measurements. We think that this change is important in MNCs because of the various contingent factors that influence the type of control used. If MNCs are operating in mature markets and are old and traditional companies that are stuck in traditional ways of thinking, they seldom try new things. These types of MNCs are thus in need of new ways to approach performance control.

This theoretical framework helps to understand those issues that have an impact on the performance control in MNCs operating on mature markets, instead of only showing the connection between the company strategy, organisational structure, performance control, and performance in general as is shown in the model of Anthony & Govindarajan (2001) in the beginning of our theory chapter. Thereby the framework provides the basis for answering our purpose of increasing the understanding of some issues that affects performance control and its development in terms of alternative metrics.

### **2.11.2 Interview questions based on the framework**

Even though we have the intention to do unstructured interviews we feel that to have some kind of questionnaire prepared can facilitate the process of gathering empirical data. Our theoretical framework has been the starting point for making this questionnaire. We have started our interviews with open questions concerning performance control in general. What it is for them, which factors they feel are the most important, how it is today etc. We have also asked questions about the goals of the performance metrics.

We have then asked questions concerning all three contextual factors, i.e. strategy, structure, and culture. Since these factors vary in their degree of visibility the types of questions have been of different characters though, with the ones concerning strategy being the most explicit ones and the ones focusing on culture being more open. Questions leading in to the subject of information, communication, and coordination were not addressed directly, but were present throughout the whole interviews. Finally, the question concerning

new and alternative performance control methods have been addressed, discussing the general awareness of these methods as well as their potential and possibilities within the corporation. All our interview questions are compiled in appendix 1.

### **2.11.3 Example of interview questions**

Below we present some of the questions we have asked during our interviews:

- What is performance control for you?
- What is the function of the control system?
- Which Key Performance Indicators do you use?
- How much is being reported to higher levels?
- Do you see a link between the performance control system and the company strategy?
- Do you see a link between the performance control system and the company structure?
- Have there been any changes over time in the performance control system in SCAP?
- Which are your opinions about the measurement methods EVA, ABC, and BSC?

## **3 Methodology**

---

*In this chapter the methodological considerations and approaches for the study will be presented.*

---

### **3.1 Choices and consequences**

First we present the different choices that we have made and the consequences of these choices.

#### **3.1.1 Choice of purpose and problems**

A descriptive or explanatory purpose gives a picture of the actual situation (Holme & Solvang, 1997). The purpose of our thesis is of a descriptive character, since we are going to describe how multinational corporations manage their performance control.

This study is relevant because little research has been done regarding the implications of the development of performance measurement systems for MNCs (Yeniyurt, 2003) and because the existing literature on the subject mainly has a normative purpose.

#### **3.1.2 Choice of methodology**

A method can be either deductive or inductive. With the deductive method something is to be proved and with the inductive method something is to be explored (Holme & Solvang, 1997). If iteration between these two methods is being used, it is called an abductive method. We have chosen an abductive approach, which means an alternation between

theory and empirical findings during the process of the thesis, to interpret the information over and over again, along the way (Alvesson & Sköldbberg, 1994). This approach was well suited for our thesis since we tried to gain understanding and develop new knowledge (Holme & Solvang, 1997) about performance control in multinational corporations and the abductive approach allowed us to see the shortcomings of the existing theories.

A method can be quantitative or qualitative and the main difference between these two methods is that quantitative methods convert information to numbers and quantities, while it is the understanding of the researcher and hers or his interpretations that matters in the qualitative methods (Holme & Solvang, 1997). Our thesis is based upon a qualitative case study of SCA Packaging. We have done interviews to gain deeper understanding of how the company is handling the topic of performance control. A qualitative method has a primary purpose of understanding. We are not set to try if the method has a general validity. The most important is instead, through different ways of gathering information, to gain a deeper understanding of the problem area we study and to describe the whole of the context that contains the problem area (Holme & Solvang, 1997). A qualitative method creates possibilities to give a rich description and shows sensitiveness for the ideas of the interviewees (Alvesson & Deetz, 2000).

Since we are conducting a case study where the purpose is to gain a deeper understanding of our case company, we have not engaged in doing any quantitative research, such as a questionnaire.

### **3.1.3 Choice of theory**

As stated in the introduction to our theory chapter we have first chosen to present theories about performance control in general and to define what performance control is about. In this part we also presented a model that our theoretical framework is partly built upon. To complement the framework we then presented theories about performance control in MNCs



and finally we presented some common measurement methods and some alternative methods that could be used in performance control.

The limitations we have made in our theory chapter, however, do not imply that we will ignore the factors that we have excluded from this chapter, if they are empirically evident, when analysing our empirical findings.

The theories chosen have of course had an impact on the results of the study. Since this is a limited thesis we have not been able to discuss all existing theories about our topic. There are probably other theories about performance control in MNCs that we have not looked in to. These might have given us another perspective of which factors that are the most important. Therefore, if we would have discussed other theories our results might have had another outcome. However we think that we have chosen theories that are relevant according to our purpose.

### **3.1.4 Choice of data sources**

Our primary data sources are personal interviews with employees at SCA Packaging in Europe. Since the interviewees are close to the problem area the interviews have helped us to gain a greater understanding of the performance control methods being used and to what extent they are being used. This gave the study deeper facts about performance control in a multinational corporation. Another primary data source we have used is printed material from SCA Packaging concerning the topic of the thesis.

The secondary data sources we have used are the annual report, and the company home page to gain greater understanding of the company.

### **3.1.5 Choice of analytical method**

For a case study analysis, according to Yin (1994), one of the most desirable strategies is to use pattern matching. This is a logic that compares an empirically based pattern with a predicted one (Yin, 1994). Our predicted pattern consisted of the theories presented about performance control in general, performance control in MNCs and the new methods of performance control. This, we compared with our empirical findings from the interviews with SCA Packaging employees. We mapped those factors in the empirical findings that corresponded with the theories and those that did not. On the basis of this we formed a new framework for the thesis, to cover the facts that were not predicted from the beginning.

## **3.2 Interviews**

The practical procedure consisted, as stated in “Choice of methodology”, of interviews conducted with employees at our case company, SCA Packaging. To get in touch with the interviewees we have had help from our contact person in SCA Packaging, Dick Sanders. He has suggested who we should talk to and supplied us with contact information to these people. Since our study concerned SCA Packaging Europe we have done interviews with people at the headquarters in Brussels and also in three different regions. These regions are the Nordic region, Middle Europe, and UK/Ireland. To be able to do personal interviews with the people who in our thesis represent the different regions we have travelled to Värnamo, Gothenburg, Nördlingen, and to Brussels twice to meet people from the headquarters and also the UK/Ireland representative.

When doing a qualitative study, interviewees should be chosen who can give increased understanding for and better insight in the problem area of the study (Backman, 1998). We have interviewed people in different positions and at different levels in the finance area in SCA Packaging and the information from these people constitute the empirical findings of our thesis.

We have also interviewed some employees who are not working directly with finance and economic questions. These interviewees contributed to our study with insights in the organisation in general, which gave us a greater understanding of SCA Packaging in its whole.

For studies that are carried out in a formal but unstructured context there are in particular three different ways of gathering information. These are systematic observations, questionnaires with open answers, and interviews with open answers (Holme & Solvang, 1997). An observation study was not possible in our case and since we had the possibility to meet our interviewees, we have chosen to conduct interviews with open answers.

The greatest advantage with interviews is the flexibility in this strategy. According to Bell (2000), the interviewee can, dependent on the interviewer, have the possibility to show motives and emotions, which is not possible in a questionnaire. How the answer is given can give further information, for example by the tone in the interviewee's voice, which is not the case with a written answer. In an interview there is also the possibility to ask follow up questions to get further information about answers already given (Bell, 2000).

We have done unstructured interviews with the employees we have met. This means that the conversation is freer and the interviewee is able to talk about what spontaneously is occurring to her or him. The disadvantage of this is that it is hard for the interviewer to know if all the important information is gathered (Andersson, 1994). To overcome this disadvantage we have had some kind of questionnaire prepared, which we have discussed in the part where the theoretical framework is presented. We have not followed it strictly though, but instead been using it in the end of the interviews to check if some of our questions had not been answered. We have also asked different questions depending on who we have interviewed, but we have had the same focus on the questions, to get as much information as possible about performance control issues in SCA Packaging.

We did not discuss with our interviewees if they wanted us to keep them anonymous in our thesis. However, we have decided to make a presentation of our interviewees without their

names. We have also chosen to compile the interviews in a way that does not make it possible to see who said what. The names of the persons we have interviewed are then presented as verbal sources in the end of the thesis.

Not to have a certain interview structure can make it harder to analyse the information gathered (Bell, 2000). To make this easier we have along the way thought about certain issues or problems that we find relevant in the information to form an analyse model for our empirical findings.

### **3.3 *Validity and reliability***

The method chosen to gather information must always be critically reviewed to make the results of the study valid and reliable (Bell, 2000).

#### **3.3.1 *Validity***

We took an abductive approach and thereby we could see the shortcomings of the theories and how these could be developed by the empirical findings in our study. Below we discuss the validity of this method.

According to Yin (1994), validity in case studies can be divided into internal and external validity. The internal validity is about establishing a causal relationship where it is shown that certain conditions lead to other conditions, i.e. if the different parts of our framework are coherent. Since our starting point is a well established model created by Anthony & Govindarajan (2001) which then has been extended with elements that are described in several theories we believe that there is a causal relationship and thus we have internal validity.

Because our study was of a descriptive nature the discussion of external validity is important for us. The external validity establishes to which extent the findings of the study can be generalised. Since it is a case study, the external validity should, in terms of generalisability, be measured towards existing theory and not towards a population of cases (Yin, 1994). There are two different aspects of external validity when looking at it like this, relevance and the degree of explanatory power (Glaser, 1978). Relevance concerns the possibility for the results of the study to generate ideas and causal linkages that can be useful in a practical way in the theoretical or empirical context of the study. To determine the degree of explanatory power it is compared to the explanatory power of related theories.

### **3.3.2 Reliability**

According to Yin (1994), reliability is about assuring that a later investigator, that follows the same procedure as described by the earlier investigator and makes the same study of a case once again, would come to the same findings and conclusions. Something that could make the reliability lower in our study is that we, as mentioned where we described our practical procedure, did unstructured interviews and it could be difficult to repeat the exact same questions again. The empirical findings and their sources are documented in the thesis though and the complete materials from the interviews are saved by us. Other data that we have been using during our study is also saved.

It is to minimise the errors and biases in a study that is the goal of reliability (Yin, 1994). To get as high reliability as possible in our study we have both been present during the interviews. Most of the interviews have been recorded and the information has been compiled by both of us together, to minimise any misunderstandings.

To make sure that the information that we have got from our interviewees is as correct as possible we have interviewed a lot of people in different positions and locations within SCA Packaging Europe. This should increase the ability to determine that the information we get is true and not contradictory. To get the information we wanted from our

interviewees we have given them some information about our thesis before we met them. In this way they have been prepared for the topic of the interviews.

### **3.4 Criticism of the sources**

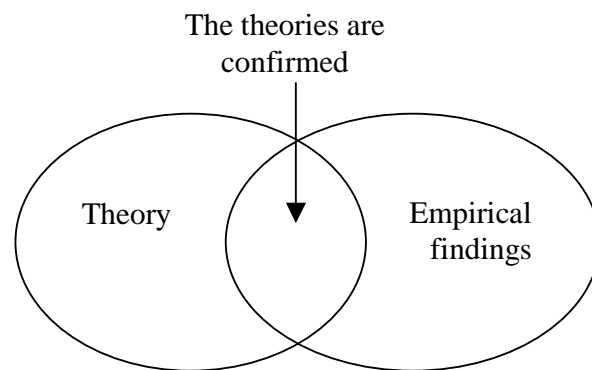
Since the subject of our study is to investigate and thereby find deficiencies in a specific area, there is a possibility that this is seen as sensitive for those working within this area. They might experience that their work is being questioned and criticised. This might therefore have affected their answers.

The questions during the interviews can unconsciously have been affected by prejudices and expected answers. Furthermore, there is a possibility that the questions asked have failed to cover all the important parts of the subject being studied.

During the collection of empirical material a critical approach to the collected data has been taken. The scientific criteria for criticism of sources; contemporary demand, tendency criticism, and dependency criticism, have been utilised to judge the accuracy in the conclusions. The first criterion, the contemporary demand, has as a purpose to assess the actuality in the collected information. By conducting interviews with people close to the subject of the thesis this criteria has been filled. Since the questions in some cases can be perceived as sensitive there is a risk that the interviewees have an interest in not answering in a completely truthful way, which can imply that the tendency criterion is not completely filled. Since the interviewees has answered questions concerning their own opinion about the area and questions about strategy within their own area, the credibility in the conclusions ought not to be affected by dependency criticism (Eriksson & Wiedersheim-Paul, 1997).

### **3.5 Theoretical generalisation**

In order to theoretically generalise the framework that will constitute the result of our thesis there are two steps to perform. The first step is the analysis conducted as a pattern matching which, as stated in part 3.1.5, is about comparing the theoretical framework with the empirical findings (Yin, 1994). This can be illustrated as shown in the figure below:



The result of the pattern matching is thus, that some of the theories are confirmed by the empirical findings, while some are not to be found, and what is even more important that some empirical findings do not exist in the theories. It is these new findings that constitute the basis for the new framework, which in turn constitutes the final result of the pattern matching (Yin, 1994).

After developing a new framework the second step in a theoretical generalisation is to position the framework (Yin, 1994). In order to do this external validity and thus the degree of explanatory power and relevance are important factors that have to be discussed (Glaser, 1978). This discussion will be made in chapter 6, after the presentation of our new framework.

## 4 Empirical findings

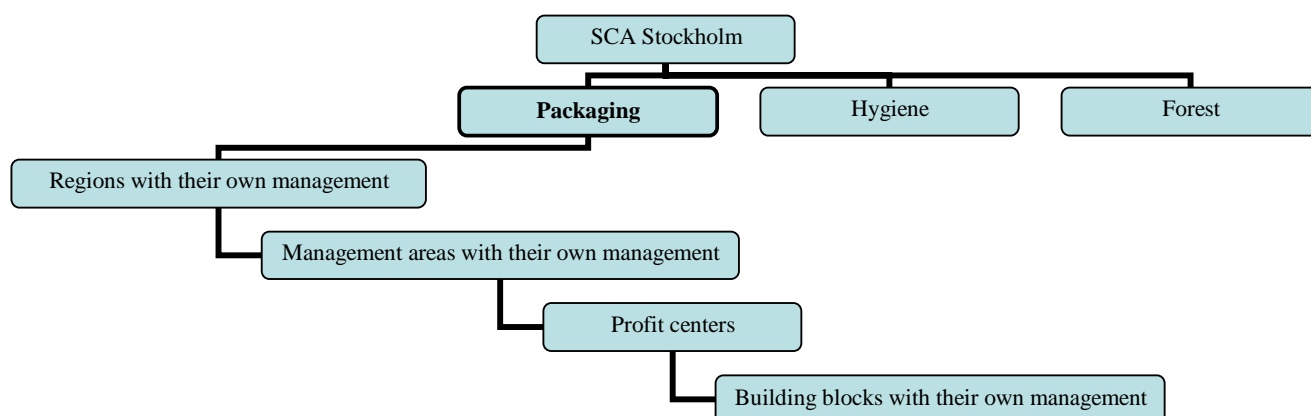
---

*In this chapter the empirical material will be presented. We start with presenting our case company, SCA Packaging. After this the findings from our interviews with employees within the company will be compiled.*

---

### 4.1 Introduction to SCA Packaging

SCA was founded in 1929 by Ivar Krüger. In 2004, SCA had about 53,000 employees in some 50 countries and the net sales amounted to SEK 90 billion, approximately EUR 10 billion (Annual report, 2004). SCA is represented in Europe, North America, South America, and Asia. SCA consists of three business areas, hygiene products that stands for 53% of the operating profit, packaging that stands for 26% of the operating profit, and forest products that stands for 21% of the operating profit (Annual report, 2004).



SCA Packaging is a total supplier of packaging solutions and the company is represented in Europe and in the USA. As a member of the Swedish SCA Group, SCA Packaging Europe



is Europe's largest producer of corrugated board and a leading producer of containerboard paper used for the manufacturing of corrugated board. SCAP is also a leading supplier of customer specific packaging solutions. In addition to conventional transport packaging, the product portfolio increasingly includes consumer and display packaging, customised protective packaging, packaging with advanced printing, heavy duty and industrial packaging. SCA Packaging Europe employs 18,300 people at more than 200 production units in 25 European countries. The company has the capacity to produce 2.7 million tons of containerboard in 10 mills, situated in seven European countries (Annual report, 2004).

SCAP is divided into five regions, Nordic (N), Western Europe (WE), Southern Europe (SE), Middle Europe (ME), and United Kingdom / Ireland (UK/Ireland).

During the past year the European packaging market was characterised by price pressure combined with a continued weak demand in several European countries. Sales by the packaging business area rose by 5% to SEK 31,501 M and the operating profit declined by 9% to SEK 2,268 M. In 2004, a major efficiency enhancement program commenced in Europe. The main features are increased integration between corrugated board and containerboard, reduction in the complexity of the offering, a higher degree of standardisation of the products used and produced, as well as reduced administration costs. The program is expected to have full effect during 2006 (Annual report, 2004).

The packaging market can be divided into primary packaging and secondary packaging (transport packaging). Primary packaging in the form of cartons, corrugated board, glass jars, and PET bottles, for example, is marketed and sold in combination with the end product. Transport packaging is intended for the shipment and protection of goods and products and comprises mostly corrugated board, plastic, wood, and cartons. There is increasingly less distinction between primary and secondary packaging since transport packaging is more and more being displayed and marketed directly in stores and, consequently, fulfilling the function of primary packaging. In the past five years, the transport packaging market has grown by an average of 1–3% each year, depending on the country (Annual report, 2004).

### **4.1.1 Presentation of the interviewees**

Below we present the persons who we have interviewed within SCA Packaging. They are categorised according to their geographical location.

#### ***Headquarters***

*Research Director* who has worked for SCAP in this position for six years.

*Vice-President Supply Chain & Operations Development*. He has had his current position at the headquarters in Brussels for one year and eight months and has worked for SCA for 13 years. His former positions within SCA are Project Manager, Product develop Manager, and R&D Director at consumer products, and also Vice President Sourcing and Vice President R&D Tissue at SCA Hygiene.

*Supply Chain Development Director for Supply Chain and Operations*. He has worked for SCA for 13,5 years. This position he has had for three and a half years. Before this he has worked as CBS Manager for Great Britain.

*Group Financial Controller* who has had this position for four years. He has worked for SCA for a total of nine years. Other positions that he has had within the company are Regional Finance Director Scotland, and Projects Finance Director UK.

*Financial Analyst* who has been working for SCA at this position for two years. He has not previously had any other positions within the company.

*Business Intelligence Manager*

#### ***Nordic region***

*Finance Director* for the Nordic region. He has worked for SCA for 16 years. He has had his current position for four years and before that he has had different controller positions

and he has been financial manager at the headquarters in Brussels, finance director in Germany, and project leader for SCAPs implementation of SAP.

*Controller* for the Nordic region. She has worked for SCA for two years and has not had any previous positions within the company.

### **SCAP Sweden, Värnamo**

*Financial Director* for Sweden at the Swedish headquarters in Värnamo. He has had this position for one and a half years and has not previously worked for SCA.

*System Administrator* and *Controller* at the Swedish headquarters in Värnamo. This he has done for one year and previously he worked 100 % as system administrator. He has worked for SCA for three and a half years.

*Controller* for Värnamo. He has had this position for two months and before he worked with accounts payable ledger. He has worked for SCA for one year at the headquarters in Värnamo.

### **Middle Europe, Germany**

*Lean Supply Chain Director* for Middle Europe. He has worked for SCA for 33 years, but only in this position for 2 years. His former positions within the company are Plant Manager, and Central Coordination Manager.

*Plant manager* in Nördlingen. He has worked for SCA for 30 years. This current position he has had for 15 years. Previous positions that he has had within SCA are Head of Central Assets Accounting, Staff Internal Auditing, and Head of Finance and Controlling Germany.

*Financial Manager and Supply Chain Manager*. He has worked for SCA for 21 years and in his current position for 12 years. Before that he has worked as a controller at the headquarters in Brussels, and in a European acquisition team.

*Sales director* at the plant in Nördlingen. He has worked for SCA for ten years. The current position he has had for nine years. He is responsible for the sales force, the internal sales, the development department, and the export to Austria. The first year he was only responsible for the sales force.

### ***UK & Ireland***

*Finance and Information Systems Director* for UK / Ireland, UK Central Office. He has been working for SCA for 12 years. This current position he has had for six months and before he has worked as operational auditor, finance director in Wigan, and finance director for North East.

### ***Other***

*Associated professor* at Lund Institute of Economic Research and former employee at SCAP headquarters in Brussels.

## ***4.2 The structure of the empirical findings***

Our empirical findings, which will be presented below are structured according to the ten findings that we have discovered to be the most important ones in our interviews. We have extracted the factors that many of our interviewees have put emphasis on and the factors that we have found ourselves to be of importance after gathering all of our empirical material. This structure has been chosen because we feel that it gives a clear and comprehensible picture of our empirical research and an understandable view of what we want to highlight in this chapter.

The ten findings will be presented as follows:

- Decentralisation and profit centres
- Strategy

- Different KPIs for different levels
- Goals for the KPIs
- The function of the performance control system
- The link between performance control and performance
- Information
- Communication of performance measurement to lower levels
- Implementation
- Aspects of corporate culture

### **4.3 *Decentralisation and profit centres***

As seen on the organisation chart in the beginning of this chapter, SCAP is very decentralised, but even though the units are called profit centres, this is really not the case since they do not get to keep their profits and they have to ask for permission to do new investments. In SCAP there is an acceptance of not getting to keep the profits in the units though and there has been a culture of giving back a lot to the units that are producing with profit. This means that the units get incentives anyway in terms of that profitable units get to invest more.

Two main problems with the profit centres in SCAP are that they are competing with each other and that they think too much short-term. The decentralisation in the organisation is deep and the control mechanisms are poor.

Another problem with profit centres is the duplication of functions. There is a need for cutting costs in SCAP and they are therefore looking for a way to cluster the subsidiaries. The units need to cooperate more because the customers do not care which plant made what since they see SCAP as one company.

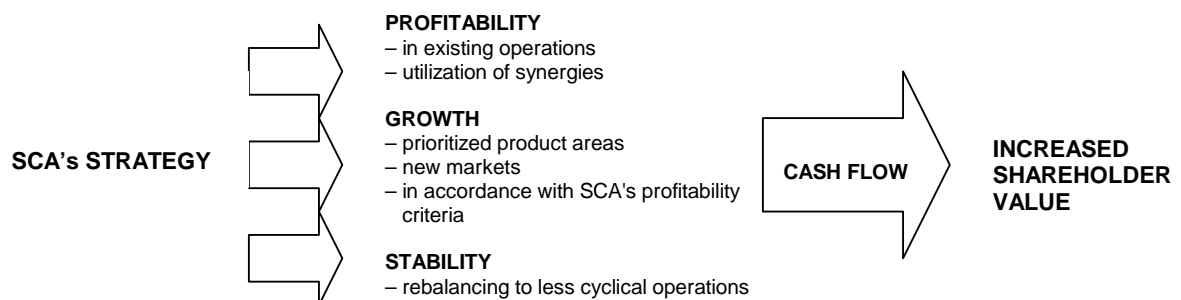
### 4.3.1 Opinions on the degree of decentralisation

One of our interviewees at the headquarters thinks that the company should be more centralised and a region level interviewee also says that it is clear that centralised administration is easier because it is not so activity sensitive and it also gives a cost advantage. He also thinks that they could centralise their sales force, but this is more sensitive to take away from the local ownership because then they would not have profit centres anymore. He also says that the development is going towards centralisation but it has to be taken slow.

SCA wants to be more like one company and there are several synergies that are not being used today. However, consolidation of the company would not have an impact on which Key Performance Indicators that will be used.

## 4.4 Strategy

SCA's strategy according to their annual report is as follows:



(SCA Annual report, 2004)

SCA's overall strategy is to create shareholder value. In the company there is a belief that shareholder value hopefully is created by creating profit and probably cash flows. SCAP

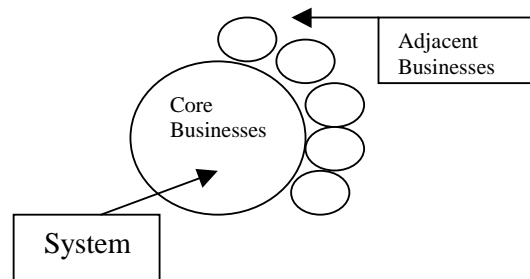
manages its working capital, its cash flow extent, its profits, and try to deliver the targets. By doing those three things they are ultimately delivering shareholder value and thus fulfilling the strategy. It is believed that “if you deliver on expectations from the headquarters and the market, then you automatically create shareholder value”.

#### **4.4.1 The lack of strategy in SCAP**

SCAP’s strategy is according to the annual report of 2004 to provide customised packaging solutions. To offer complete packaging solutions involves operating along the entire value chain, which means not only selling packaging, but also, on the basis of the customer’s requirements, offering such features as advanced design, local service, product packing and optimised logistics. SCA has a global network with capabilities in Europe, Asia, and North America, enabling it to offer service to customers throughout the world. This is an advantage because SCAP’s customers are becoming increasingly global (SCA Annual report 2004).

According to our interviewees, SCAP has lately not had any clearly spoken strategy besides to grow a lot through acquisitions. SCAP are, and have been, buying on growth markets like for example South America. However, in the latest five years the company has not done so well, which has led to a turnaround plan as a part of a new strategy. Focus has thus changed somewhat and they are now going to try to grow more in an organic way. When it comes to achieving strategies the organisation is so heterogenic that there are people that know exactly what is done and others that do not know this at all.

Core business, i.e. corrugated, has experienced lower marginal since the price on paper has gone down. This has led to decreased profitability. To become better SCAP wants to be able to offer total customer solutions. Adjacent businesses are therefore created around the core business. These businesses are also referred to as nonconventional.



### ***UK strategy***

The strategy tends to be defined in the forecast or the budget, at least in the UK. The UK strategy, i.e. budget for the next year, is as follows:

- Nonconventional businesses: Strategy is to grow by cutting costs and increasing profitability. In 2004 the profitability went down.
- Conventional business: This business is in decline and therefore they are restructuring and attacking the margins. They see a continuing cost pressure because it is a highly competitive market with overcapacity and a lot of their customers have moved to “low-wage countries”

In the UK they think that people have a fairly good understanding of where they fit in the company strategy. For example when the turnaround plan was presented for the UK team they saw what was expected of them, and they then were told that they had to work up their budgets that year based on those premises.

### ***Nördlingen strategy***

A current strategy in Nördlingen, Germany, is to change from push to pull production and thereby get lower stock. They now have 20 days lead time with their push production. If they could create a pull production instead, lead time would go down to 7 days. Another strategy in Nördlingen is, as for the company as a whole, the turnaround plan. Here people development is part of the plan too. They try to develop new young people to become line managers in the future.



#### **4.4.2 Aligning strategy and performance measurement**

An interviewee at the headquarters feels that the financial performance measurements are in line with the strategy. He believes that it is a traditional business and that the traditional methods of measuring therefore work. A region level interviewee also thinks that the performance control is linked to the strategy and highlights this with an example concerning the turnaround strategy. “If a plan might be to shut down a factory, that would involve an investment in closure cost in the form of redundancy and other closure costs and then there would be benefits coming through in future years. Then the thing that is relevant is to track all the costs coming along the plant to find out how well they are actually delivering on it. There might be costs of £ 8 million of closing the plant. SCA then want to make sure that they are not spending more than that.”

Another region level interviewee also sees a connection between the SCAP strategy and its performance control. According to him, SCAP is to a large extent financially managed with cash flow, as in operative cash flow. What then is important is to have an operating surplus as high as possible, a working capital as low as possible, and to be able to control your investments. These three components are actually what create the cash flow which they are managed by and this is the basis of, as it is now, management bonuses. Thus, there is a clear incentive to do this as good as possible and thereby achieve the strategic objectives through performance control.

#### **4.5 Different Key Performance Indicators (KPIs) for different levels**

“SCA’s goal is to distribute the company’s resources in a manner that yields the highest return to shareholders.” To achieve this goal the overall profitability in SCA is measured both in current operations and new investments based on a common model, cash flow. This is a good measure because it is not affected by depreciation, costs accruals or other

accounting related adjustments, which is the case for accounting based measures such as return on capital employed, return on shareholders equity etc. (SCA Annual report, 2004).

The internal profitability in current operations is evaluated in SCA by, among other methods, comparing the operating cash surplus to a return requirement based on the investment value of the assets adjusted for inflation, anticipated economic lifespan, and weighted capital costs (SCA Annual report, 2004).

This is the overall performance measurement system in SCAP. However, in our study of the company we have found a distinction between units, regions, and the headquarters KPIs.

#### **4.5.1 Headquarters KPIs**

In the SCAP headquarters they concentrate much on EBITDA, Return on Operating Capital (RoOC), and working capital / sales. These metrics are compared to what has been planned and the numbers of these measures have to be reported. Other measurements are up to the units themselves to decide whether to measure or not, which means that performance control in SCAP has got different levels. SCAP is a very traditional manufacturing company and there have been no bigger changes in the measuring system until 2 years ago when Cash surplus Value Added was implemented.

According to an employee at the headquarters the profit centres are not using the proper measurements. He thinks that they should use for example EVA which then must go further down in the organisation.

Another employee at the headquarters says “we manage what we measure” but also tells us that there has been a criticism of that the focus should not just be on growth but also on profitable growth. That is why it is not good to measure only square metres. Another

opinion on that is that they should work more with customer service goals and not only square metres.

There is, according to our interviewees, a need to know more about where the profits are and which customers who are profitable. There is also a lack of customer service related management. The nonfinancial measures that they talk about today are only safety and customer service.

The company is very open to the market and they have a high credibility because of the measurements used. But these measurements are only indicators that show if something is right or wrong. It should also be interesting to know what leads to these numbers and where in the business the profitability really is created.

An employee at the headquarters thinks that a big failure with financial measures is that they do not see what they could make and therefore the potential perspective is missing. “If you make money you are left alone, if you do not they are all over you”. He means that it is easier to make more money where they are already doing well. That is why he does not think that the financial measures are enough and that they need other performance measures as well.

One interviewee means that operating KPIs are used, but to bring the strategy about there is also a need for complementing KPIs. An interviewee at the headquarters thinks that the plants have their own KPIs internally and if this is the case he thinks it is good that they have KPIs that suit them.

## **4.5.2 Region level KPIs**

Many of our interviewees talk about the importance of EBITDA, RoCE, and working capital / sales. Lately there has been much more emphasis on the last one. These are metrics that the headquarters wants to have measured.

One interviewee, who has been working in SCAP for one and a half year, understood CsVA and RoOC to be the most important KPIs in the company when he started, but then he realised that CsVA is not commonly used in the company.

An interviewee at region level says that SCA Stockholm has measurement areas that they think are important and then SCAPs headquarters in Brussels add things to measure to that so when it comes down to his level they are already quite strained to deliver what the superiors want to have delivered. However, he still thinks that some things are missing and therefore he complements with other reporting demands which do not have to be reported to Brussels. This, the region does for its own sake and the measures are more project oriented. For example they work a lot with manufacturing and supply chain in the impact program. The interviewee thinks the most important things to measure and to understand are where they earn their money and also how large the margins are. So it is really the commercial perspective, “where do I have my earnings and how do they develop over time?” that is essential. From Brussels they get orders to report a closure every month and this closure today is bigger than a yearly closure was ten years ago. It contains everything and they have good help of the business system CBS, in which the units are reporting all their data

In the UK region there are two streams: The conventional with normal corrugated boxes, which is not so profitable, and the nonconventional that is more heavy duty, which is more profitable. These two have to be looked at and measured differently and this is also done. For the corrugated business detailed figures such as profit and loss, volume, selling price, and conversion costs are important. Volume is very relevant for the conventional business. The adjacent business is measured in another way. Volume and selling price/1000 m<sup>2</sup> are important factors as well as added value and super gross margin/1000 m<sup>2</sup> which are measured per week.

There is a central target with common goals for all of SCAP Sweden and every unit is supposed to reach these goals. The KPIs in this target are the same all over Sweden. They are: Safety and health, quality, safety of deliveries, profitable growth, new customers,

improvement programs, EBITDA, and cash flow. The controller in each unit reports the data to the head office in Värnamo where it is compiled and distributed.

### **4.5.3 Plant level KPIs**

A region level interviewee thinks that out on the plants in the region there are a lot more details measured such as number of complaints, manufacturing statistics, output statistics, waste statistics, and delivery performance etc. This data from the plants is reported into the Data Warehouse where it is collected.

An essential thing with KPIs is that they must come from reliable data and that they have to be easy to measure. Today there is no uniform system for reporting KPIs in SCAP. An example of this is: If three different people are told to present a KPI then they will probably use three different reports and come to three different results. One of our interviewees thinks that basic KPIs must be used by all the plants and they must come from a clear data source. This would also give the possibility to compare the units.

The financial KPIs are the master KPIs for one interviewee but then there are also business performance KPIs such as business integration, supply chain excellence and so on, that are important. He says that the KPIs help realise the requirements to drive or analyse the business. The plant in Nördlingen has a KPI cascade that shows how all the KPIs are linked in a network. (Appendix 2)

To measure the plant more in detail there are the machine time waterfall which shows how many hours the machines are producing and the waste waterfall which shows how much of what is produced that becomes waste. Waste is a very important KPI in the plant in Nördlingen. They have around 14-15% waste and they also measure the waste that they are able to affect.

The main purpose of KPIs is to review objects. Every plant has its goals and it is important to measure improvements over time. The improvement goals can be set with for example an evaluation system called Eurobest. The plant in Nördlingen has recently been trying to establish a continuing improvement culture with Six Sigma which is a tool to control processes not only in manufacturing but also in finance and administration. For example it is used to standardise and do better with payments. In this project they have discovered that a lot of time had been spent on tasks such as copying invoices for several hours thus costing a lot of money in terms of work hours. This has led to the insight that a lot of time and money consuming tasks are not recognised in this SCAP unit.

The main KPIs for a sales manager are turnover, volume, and contribution. These are measured for every plant, region, sales force, customer, and the product which is the bottom line. They are reported on a monthly basis and are being compared monthly and to budget. The sales manager has the possibility to look at the figures on a daily basis but normally only looks at them monthly. These main KPIs are, according to him, more or less centrally decided by the headquarters that wants the monthly reports but he also measures them because he thinks they are good to have.

There are also other KPIs, such as visits per week, which customers that are visited; new potential or old, and reason for the visit, that are important. Something that is not important, however, is how long time the visits take. These other KPIs are not reported, but only measured for the manager and the sales force and they are internally reported on a weekly basis. Sometimes they are also reported to higher levels but it is not demanded.

In Norrköping there are also local KPIs, for example they have customer KPIs like hit rate and profitability, process KPIs like complaints, employee KPIs like sick leave and safety, and financial KPIs like contribution margin and productivity. These KPIs constitutes a local target for the Norrköping plant. (Appendix 3)

#### **4.5.4 EBITDA**

According to people at the headquarters SCAP measures on profitability and the first indicator is EBITDA. In the more service concentrated business like co-packing, i.e. nonconventional, there is almost no difference between EBIT and EBITDA since they do not have any assets to write off. That, some of them say, might be a reason to measure this part of the business in another way.

One of the interviewees at region level talks about this and he thinks that the new business should be evaluated in a different way than the general business is evaluated. He thinks it should be more nuanced and that they should be careful with using the same measurement methods on all businesses. He means that it is possible to set goals in terms of EBITDA even here, but when they measure the aggregated business they have to be careful when observing how the business develops. This, because the part of the business that is not so capital intensive will also have a lower EBITDA margin.

SCAP has been criticised for having a top driven performance measurement system. People in the mills do not understand how they have an impact on EBITDA and some of them do not understand EBITDA at all. EBITDA is just a result measure and it does not say anything about why it is the way it is and where the money is earned.

#### **4.5.5 Working capital**

There has recently been more emphasis on managing the working capital. One opinion on that is, on the other hand, that it is difficult to forecast working capital and that it hardly ever works out.

## **4.5.6 Return on operating capital**

RoOC has traditionally been the most important measure and it was what they talked most about before but it disappeared for a while, in favour for Cash surplus Value Added. Now it is back again though and the reason for this is possibly that someone felt that it was missing. However, those two metrics have the same purpose, to see if they return the capital that they invested. The difference between CsVA and RoOC is that CsVA counts for all the assets in today's value which RoOC does not. When calculating with RoOC the depreciations reduce the asset base and when calculating with CsVA the inflation increases the value of the asset base.

There is also a disadvantage with RoOC, namely, the so called "hockey stick effect". This means that, when they have written off their assets after a certain time, they get an unbelievable effect on the relation between the profitability and those assets.

RoOC has been around for a long time and it has its place in the corporate culture. The people in the company know what it is, but might not know how to calculate it which they do not always have to know either. An interviewee at region level does not see this metric as very important.

## **4.5.7 Cash surplus Value Added**

An employee at the headquarters works a lot with the use of Cash surplus Value Added in the organisation and speaks for it as a financial metric to measure the business. CsVA uses operating cash surplus in relation to the required returns on investments. These requirements are determined by the financial market. CsVA is used to see where and how much value that is created in the organisation. The logic behind it is that if shareholder value increases then the customer value also must have increased.



At region level one interviewee says that CsVA has not got the penetration in the organisation that it should have. He means that everything has its advantages and disadvantages. The way they have used CsVA it has brought with it a lot of preparations and it is also quite hard to keep updated because it is based on all the historical investments since a while back in time. He says that they started with this for two and a half years ago and they still do not have full reporting about it and he thinks that is the reason that it has not had the penetration it was meant to have. He also thinks that it depends on that they have not been all clear in communicating why this measure was implemented, not internally anyway. It was the headquarters in Stockholm that gave directions about it because they wanted a measure for profitability that they could communicate towards the shareholders and internally.

Another interviewee agrees and thinks that CsVA has not had the penetration in the organisation as it was meant to have. He thinks it depends on that it has not been taught well enough. He says that CsVA should complement RoOC and not replace it. He measures it every quarter since he means it should not be measured too often. He has it in his reports because he wants to, not because it is demanded, and he does not think that the rest of the region has done very much with CsVA. In his opinion it is a good measure that gives a fair view of the company's performance.

When we asked another interviewee at region level about CsVA he said that it is something that they report but he does not personally use it. When it comes to investment appraisal he tends to use cash flow metrics a lot and he is familiar with cash flow methods such as internal rate of return, net present value, and Cash Value Added in terms of big projects. He also thinks that CsVA is the same thing as CVA and explains that it is basically the discounted cash flow benefits of the project, divided into the initial outlay to calculate how much an investment returns. An investment must in terms of CVA return at least one and the more the better.

#### **4.5.8 Nonfinancial measures**

The KPIs have more or less been the same over the years that one interviewee within sales has been working for SCAP. He means that a main change for the future, which also is a must, is the nonfinancial measures.

An interviewee at the headquarters on the other hand thinks that SCAP do combine financial and nonfinancial metrics in a way and he takes Eurobest as an example, but he does not really see a point in doing it more or in another way.

An interviewee at region level also says that they report nonfinancial measures to Brussels in Eurobest. He thinks this benchmarking program where the best developed plant during the year is rewarded, is very important because it has a great motivation aspect. He also means that it has to be used with carefulness though, not to loose quality, but he thinks they have learned over the past ten years that it has been used in the organisation.

Eurobest is a library with documents on how to improve the plants. There are three types of measures: Speed of machines, number of people, and waste level. For these measures there are goals that each unit is supposed to strive for. Every month the units report their figures and then get rewarded on how much they have improved.

The need for this system shows that it also is important to measure nonfinancial things. This could, according to an interviewee, mean that there also is a need for complementary methods for the performance control in SCAP.

Other nonfinancial measures such as on time deliveries, customer service, and efficiency of the sellers, are also used on lower levels but this is not harmonised among countries. There is a discussion going on about harmonising which would make it easier to compare different countries, but an essential question is also whether it is important to do that. One interviewee thinks that sometimes it is, but he means that it is most important to compare one country's performance over time.

About other KPIs an interviewee tells us that the Data Warehouse includes KPIs for supply chain, Eurobest, and sales figures. There are different KPIs for different levels and he underlines that it is important to have good definitions for the KPIs.

## **4.6 Goals for the KPIs**

The overall goal for SCAP is a 16 % EBITDA-margin and for Average Working Capital / Sales it is 12 %. Very few of the units reach the 16 % goal of EBITDA-margin.

The difficult thing with KPIs is that there is not one KPI that is good by itself. There is a lot of talk about the importance of having an EBITDA-margin of 16 %, but one interviewee thinks this is dangerous to use this in the wrong way. An example he gives is the trading activities, i.e. the nonconventional business, within the company that only are about buying and selling packaging material between units. Of these activities they do not get high margins so even if this is a very important part for SCAP it will always pull the EBITDA and the EBITDA-margin down.

### **4.6.1 Opinions on the goals**

“Since few of the units reach the EBITDA level this goal needs to be discussed”, says one employee at the headquarters.

Another interviewee at the headquarters thinks that the goals for the KPIs are very high and this implies that the value of having goals is a bit out hollowed. They do not create incentives for the management at the operation level to work harder in order to reach the goals since they feel like it is impossible to reach from the beginning.

In contrary another interviewee at the headquarters thinks that the goals are good even though they are high. He means that the units feel that they have to deliver anyway even if they feel that the goal is unreachable, otherwise they will decline and be closed down.

An interviewee at region level thinks it is ok to have an EBITDA-margin requirement of 16 %, but they can not push too hard on that because then there is a risk that they will loose profitability. There is a risk that this happens if the highest management talk too much about just one goal. In the long run this could hurt units or activities that are doing better on other KPIs. He goes back to the example about the trading activities and says that if they look at RoOC, which is also one of the goals, this metric will become very high for the trading activities since they do not have very much capital to return on. That is why he means that they have to be a bit nuanced when looking at the financial development. In this case it is interesting to look at the EBITDA margin, but they have to consider the trading activities and how they develop too. They have to understand that the EBITDA margin can decrease, but that the cash flow in contrast will be higher.

Concerning goals an interviewee thinks that since the plant of the year is the most improved one and not the best performing one, the plants should set their own goals for the KPIs. He means that it is a self improvement process as it is with Eurobest. About the EBITDA target he says that the problem is that they need to understand how to achieve it not just what to achieve. Therefore he thinks that it can only be reached by breaking it down to cascaded measures. He says that most people do not know how to make an impact on EBITDA so that is why they felt that they needed to develop the cascaded measures.

An interviewee at region level says that the EBITDA margin of 16 % is the strategic growth goal and he means that the problem with this is that to achieve it they have to sell more but by doing so they tend to drive the working capital and the costs up. He says that it is difficult with the nonconventional business which is their main driver of profitability. This is a growing business but the EBITDA in this business is dropping so it might not be right to have this measure for both types of businesses. He also thinks that it could be a bit unfair to have the same EBITDA target when there are differences in depreciation between units.

Another interviewee at region level thinks that the strategic goal of 16 % could be demotivating when it is put into the budget. It has to be a goal with a long term strategy to get there. It would be unrealistic to tell the plants that they have to have 16 % by next year. “When it comes to goals there has to be a balance between challenge and realism”.

#### ***4.7 The function of the performance control system***

SCAP is, according to one employee, always managing here and now, looking forward with forecasts but the actual profit numbers are inevitably historical. “A good manager would understand what happens even if the profit numbers are historical”.

An employee at region level thinks that SCAP’s performance control is capturing both an after the fact and a forward looking perspective. He says that they work with quarterly forecasts where they forecast the first coming quarter in monthly intervals and the next coming three quarters in quarterly intervals. When they get the financial result they compare this with the forecast and can modify the coming quarters according to that, so, already in the forecast stadium an expectation is created about whether they are going to reach the goal they strive for or not. There are also goals in Eurobest that they strive to reach which also shows that it is important to measure the right things. So he does not feel that anything is lacking for the company to be more forward looking.

One interviewee at the headquarters agrees and does not think that there is a need for financial metrics that are more forward looking. He means that the financial metrics for the future is the forecasting. The current forecasting gives a visibility for the future.

An employee at the headquarters, however, do not think that the performance control system as it is today is forward looking, but works more like an alarm system.

One interviewee thinks that the performance control should first be an alarm system to control but he also thinks it should be an incentive system like Eurobest or Six Sigma. He

underlines this by saying “Do not forget to celebrate!” However the interviewee within sales says that he does not have incentives for the sellers because he is not a fan of incentives. “It is their job to do the right things without incentives”. He thinks this system with a variable provision based on the contribution, is working fine the way it is today.

#### ***4.8 The link between performance control and performance***

According to a lot of our interviewees, both at the headquarters and at region level, there is a clear link between performance measurement and performance. This can best be illustrated by the following quotations: “We manage what we measure”, “What gets measured gets done”, and “What you measure is what the employees focus on”.

Further on, one interviewee says that by measuring certain things you communicate that they are important. This gives you focus on the areas that are measured. This also implies that you have a responsibility when you have any kind of impact on the measurements, to choose the right things to measure and not all things. He thinks that SCAP, as a company, have some things to learn concerning this area.

#### ***4.9 Information***

Performance control is to manage the business through financial, economic, and operational information. Thus information is in the heart of the performance control. The information that is communicated to higher levels is collected every month when the units make their closure. The profit centres and building blocks feed all data into the software system and the regions then request reports.

As a company, SCAP is good at collecting information at a detailed level, according to one interviewee. They have a very detailed focus and are very in to understanding numbers and managing numbers in a detailed way. This interviewee thinks that compared to other companies SCAP has a relatively good understanding of the mechanisms in the system on a very detailed level. He became aware of this by comparing to the data collection process in another corporation, Rexam, which SCAP acquired a few years ago. The consultant company McKinsey have also said that compared to their other customers SCAP have a much more detailed approach and a much more detailed understanding. This interviewee thinks that the reason for the detailed information collection lies in the culture of the company.

One interviewee says that there is a great need of information. Today they have approximately 98 % information and the 2 % they are lacking are really needed. In line with the development of information systems the information is today more of a system and less people. This makes it important that the system works.

#### **4.9.1 Information systems**

SCAP has several different information systems from which they can collect data. The ERP-system offers good information about product costing according to one interviewee, but it can be quite difficult to extract. Thus, he means that they need to make the information more accessible and easy to use. There is also a lot of information in the CBS system, but they also struggle with this sometimes. Now they have an impact team which has a program basically for gaining a better understanding of how to use the data. They are currently working on easier access to the information in the system, so they will be able to measure important things on a regular basis which is hard to do today.

Into the Common Data Warehouse (TCDW) each plant put in their manufacturing performance. Things like for example electricity consumption are put into the TCDW. The information in TCDW is, according to an interviewee, very important for the plants.

Another interviewee says that TCDW are hopefully generically similar across different plants so that the information in it can be used in a comparable way. TCDW has a high detailed level, but a lot of knowledge is required to use it fully.

A new information system is going to be implemented in the plants. It is called MIRAS and is based on automatic upload. When this comes they will be able to get the information that they need right away. MIRAS will be very powerful, if they get it to work well, because it can give both an overview, that for example the controllers need and detailed information, that for example financial managers and supply chain managers, is in need of. However, there is very much to learn about the system.

An interviewee thinks that it would be quite good if they nationally could understand the customer breakdown of sales, direct costs, and labour costs to know which customers that are producing their profitability. On a routine basis they do not always have the visibility of their volume, their sales, and machine performances in relation to the customer because their system does not allow them to get that information in a straightforward way. A better customer profitability analysis, ultimately profit and loss account that actually delivered, that show them what they are making by customers, would be great, but he thinks that it is a hard thing to get to. Another interviewee feels that they do not have a good customer relation management tool. But it should come in place later since it is currently in progress. Today it takes a lot of effort to gather information about customers. There is a lot of information but it is difficult to extract it.

Several interviewees at region levels underline that how to gather data sources is the most important part and they say that it is one thing to have the information, but the question is how to make use of it.



## 4.9.2 Opinions on the amount of information

One interviewee within sales thinks that they have more or less every figure for the products at bottom line which implies that they have enough hard figures. He actually believes that it sometimes may be too much information. Another interviewee also experience that they ask for too much. He thinks that they need to reduce the information to get a better focus on what is important and maybe also agree upon what is important as a company. As it is today they have an abundance of information, so much that the volume of it is nearly never ending. Controlling or performance control should not be about controlling or managing the flow of reports, it must be about controlling or managing the business. However, when the reporting becomes too widespread you almost tend to go from controlling the business to controlling the reporting. Then you have gone too far, and he believes that they have passed that line. Therefore they are trying to decrease the information and there is a group that currently is trying to streamline the report system. Likewise a supply chain director talks about the importance of limiting the information and stresses that the main business driver is not reporting. Since only some of the KPIs are important for each business it is important to screen.

One interviewee says that perhaps SCA have too much information, but the important thing is what you do with the information and also that the information is reported correctly. The accountants spend a lot of time trying to get the information right. This, in a way, is why profitability is a very powerful thing because hopefully the profit is correct. If the other information is incorrect they are still being able to see if they make a lot of money by measuring profit. Thus, the bottom line according to him is the quality of information and how it is used.

Another interviewee believes that basic KPIs must be used by all the plants and must come from a clear data source. This gives the possibility to compare between different plants. He thinks that today, there are too many reports and that too many reports are different. It is therefore very important to define KPIs in the same way. Yet another interviewee says that

each manager will manage the information differently, because of different management styles.

#### ***4.10 Communication of performance measurement to lower levels***

As we mentioned in the part about EBITDA, SCAP has been criticised for having a performance measurement system that is all top driven. People in the mills do not understand how they can make an impact on EBITDA and many do not understand EBITDA at all. The EBITDA target can only be reached by dropping it down by cascaded measures. The problem is that they need to understand how to achieve it, not just what to achieve. That is why the cascaded measures have been developed.

One interviewee at the headquarters is not sure if the units know why they report the things that they do report. He thinks that it would be more motivating for them to know more about the connection between the financial performance measurements and the company strategy than they do. He says that there has been a discussion of making reporting easier.

One interviewee at region level thinks that they understand their metrics. They talk a lot about it and they know why they do that. On the other hand they report a lot of things that they do not talk about and then a lot of people probably do not understand the reason for reporting some things.

Another interviewee at region level thinks that there is good communication between the different levels and he thinks that people have a fairly good understanding of what they measure and why. They get together every month and he presents the numbers, and thereby tries to say where the business is going, and how profits are.

Something that is coordinated centrally and communicated from the factories to higher levels is Six Sigma that is a complementary method to improve in the factories. It is a part of every meeting and it is being reported monthly.

#### **4.11 Implementation**

A big challenge with performance measurement is how to implement it according to an interviewee. He says that talking about it does not really do it. The question is what do they do with the measurements? The important thing is measurement which leads to action. In short this can be summarised with, “What gets measured gets done”.

According to another interviewee the financial measurements are well implemented in the organisation, but a proper management system is missing.

CsVA has not had such a great impact as it was meant to have. According to an interviewee this is because it has not been taught in the organisation. It came about three years ago and is now on its way to be kicked out. Such a point of view creates neither commitment nor confidence. This is something that the finance director for the Nordic region also talked about.

An employee thinks that, a lot of projects that they have tried to roll out in SCAP have been lacking power, structure, and resources in the past. Therefore people are sometimes sceptical to new consultant stuff. Results from a Six Sigma project shows that there is a lack in encouragement to work on projects and that the employees leave training with positive energy, but it does not last too long. The results also indicates that it is hard to have project work on top of daily business, because the employees does not have any or not sufficient time for it. To be able to implement a new thing the employees need to focus on the right energy and priority, and they also need a final push.

## **4.12 Aspects of corporate culture**

The most apparent feature of the corporate culture in SCA is the aspect of being a traditional corporation. An employee at the headquarters does not think that anything new proposed will be taken seriously and that it would not be adopted by the organisation. He thinks it works fine the way it is today and that the metrics themselves are ok. "It is a traditional business and the traditional methods of measuring works". He means that really huge decisions are being made with these traditional metrics.

An interviewee at region level thinks that there is a big doubtfulness when it comes to changes in the organisation. The leaders have traditionally been very independent. They have had like their own kingdoms. "To become an ambassador instead would probably not be so popular". However, he also says that it is important not to forget that the leaders of tomorrow probably will look different than the leaders of today.

He also says that they have been very focused on EBIT and such metrics and if the units do a good job, then everyone is satisfied. If the development shows that these measurements no longer work for the whole business, then more sophisticated control, such as Balanced Scorecard, must be used. He means that they are on their way towards some kind of hybrid state and a more holistic view.

An aspect of the corporate culture in SCAP, according to one interviewee, is that people tend to not want to be measured. Sometimes they are measuring things internally but they do not want it to get out. He tells us about when he made a presentation about a measurement program which some plants are using. He says that some liked it and started to use it and some did not. However, most of them keep their figures to themselves. This means that they can not compare with others and that they do not know whether their costs are correct.

## 5 Analysis

---

*In this chapter the analysis will be presented. Here we compare our empirical findings with our theoretical framework which also constitutes the basis for the structure of this chapter.*

---

### 5.1 Introduction

This analysis is, as stated in the methodology chapter, a pattern matching which means that our theoretical framework is compared with our empirical findings. We go through the factors in the theoretical framework in order to establish if there is a match or not and we also present factors that we have found to be of importance, but that were not present in the framework before.

### 5.2 Strategy

As seen in the empirical findings, SCA's overall strategy is to create shareholder value, but that is something that every company has as their bottom line and this can therefore not be regarded as a real strategy. When it comes to the division SCA Packaging it seems that there has not existed any clearly spoken strategy here either and since they have had no clear-cut strategy there are not any action plans and therefore no indicators of what to measure. Now there is emerging somewhat of a strategy though, namely to offer total customer solutions by creating adjacent businesses around the core business.

Instead of an overall strategy there are different projects like Eurobest and the turnaround plan. In these projects goals are specified which makes it possible to know what is most

important to measure. Because of the lack of strategy, this is something that is missing in the daily business, however, and we see a tendency towards directing a lot of attention to projects for improving bad business, but no attention to “normal” or good business. This, we find to be a problem in SCAP. The constant focus on “bad performers” implies that they risk not tapping the full potential of their well functioning units.

The fact that SCAP has been operating without a strategy for a long time might be a sign that having a clear strategy is not important to all companies. Even if SCAP is not doing so well today, they were working the same way without a strategy even in their good days. The problems they have today can have other reasons than not having a clear strategy. Some possible reasons are that the market has gone in to a phase of maturity and that the price of paper has gone down. Instead of having a strategy, we feel that SCAP uses its performance control as a substitute to a strategy. By measuring things, and with the results of the measures as a starting point, they make decisions about which actions to take. Since it is not evident that all companies have a clear strategy, this could be a common approach for companies and a strategy might not be that important to all. Then instead the will of the units to reach their goals is what is controlling the business and that in turn has an impact on the choice of strategy and not the other way around as spoken for in the theories.

Even though the strategy might not have been important for SCAP before, we think it has to be now for them to be able to turn things around since the phase of the market is not going to change and the price of paper is still low. It is more difficult for companies operating on a mature market to create competitive advantages and it therefore ought to be more important for these types of companies to have a strategy.

Of course, as we saw in the causality discussion in the introduction, it all ends up with profitability in terms of an increased shareholder value, but the important thing for the employees is to know how they in their different positions in SCAP can help bringing this goal about. Our opinion is that this insight often is lacking and thus people work towards a goal that they do not know how to affect.

The lack of a tangible strategy makes it very difficult for us to see if the financial performance measurements really are in line with the strategy. What is apparent is that the people in the headquarters, as well as on region levels, feel that there is an alignment between the two, but when you ask employees at lower levels they are not as convinced about this fact. We think that the explanation for this partly is that at higher levels there is of course a stronger connection with the top management and thus with the company strategy and partly that the performance metrics deployed there tend to be of a more general kind. At lower levels on the other hand this alignment is far from clear-cut since they do not know how their performance affects the overall goals such as the EBITDA-margin of 16 %.

If SCAP has used its performance measurements as a substitute to a strategy it is not strange that the connection between them is not that visible. Now when there are signs that they try to work out a strategy with the turnaround plan, the visibility of this link becomes more important.

The conclusion we can make is that even though it is stated in the theories that strategy is a prerequisite, this is not always the case. SCAP has had a performance control system without having a strategy for a long time. They are now starting to develop a strategy though and we believe that this is because they have realised that they can not continue without one. Therefore we keep the strategy as a factor in our performance control framework.

### ***5.3 Organisational structure linked to performance control***

The organisational structure in SCAP, which is one of a high degree of decentralisation, brings according to the theories with it a need for clearly defined and tightly controlled sets of operating systems. This, we have found to be true also in SCAP. It is manifested by the fact that when asked to report the same thing different people come up with different

results. This implies that in SCAP they clearly need to define their KPIs better in order to get the same results that can be compared across units.

A possible downside that can be found with decentralisation according to the theories is that competition may occur between units. This is confirmed when looking at SCAP where the divisions see themselves as quasi-independent companies in competition with each other. The high degree of decentralisation has also led to expensive duplication of tasks in many cases, thus also in accordance with the theories. This seems to have been somewhat recognised though, and there are plans to integrate certain functions across units to minimise this duplication.

The fact that decentralisation requires a different and more extensive formal information system than non decentralised companies, has been recognised in SCAP. However, it has been handled with an overload of information and this is not what is needed. According to the theories, to have accurate information on the present and the recent past can improve forecasts by diagnosing underlying long term trends. Efficient information collection and processing are also crucial, to cope with the increase in the complexity of decision making created by the high level of uncertainty in a very volatile environment. The fact that an accurate information flow is of importance for the organisational structure, corresponds between the theory and our empirical findings.

In consequence we see that the organisational structure in SCAP has an impact on performance control and this is thus in accordance with our theoretical framework. We also see that the problems concerning decentralisation and profit centres apply to SCAP in the way that the theories prescribe. This implicates that we will not do any changes concerning this factor in our new and developed framework.



## **5.4 Culture linked to performance control**

In our interviews we have not discovered any strong evidence of country specific cultural differences that affects performance control in SCAP. This, however, does not mean that we think that cultural differences do not exist between the units operating in different countries, but just that they are not very evident in the performance control area and thus not in line with our theoretical framework. Our apprehension of the theories about performance control in MNCs is that they strongly emphasise this cultural aspect but we do not find any clear evidence of this in SCAP.

The cultural impact that we have found to be of significance is instead the corporate culture of SCA. If this organisational culture steams from the Swedish heritage or not is something we do not know, but what is apparent is that it does influence the performance control system.

In SCAP it is clear that, the path by which a company's organisational history, heritage, and the values, norms, and practices of its management influence the control system. There seems to be a culture of wanting to do things as they always have been done, a willingness to stay the same. This is an implication of SCAP being a company operating in a mature market. In such companies there is often a need for change but the executives tend to be trapped in conventional thinking.

The corporate culture in SCA is thus one of strong traditions which we believe comes from the fact that it is an old company with a fairly traditional type of business. This tradition focused corporate culture has brought a general inertia with it. The result is thus very few changes and late adoption of new practices. It has also lead to a general unwillingness to change amongst the employees in many cases, which has made it more difficult to introduce new methods and practices. This has had the same impact on performance control as on the company as a whole, resulting in the utilisation of the same traditional methods and measures over a very long period of time. To make the company, i.e. the employees more open to changes, and this we believe to be a necessity, the benefits of these changes

must be communicated throughout the plant or office. A well throughout implementation plan also has to exist to make sure that the changes really are adopted by everyone.

The conclusion we make is thus, that in terms of country specific cultural differences, culture is not affecting the performance control as we stated in our theoretical framework. This factor is therefore excluded. Instead we replace it, in our new and developed framework, with corporate culture which we have found to play an important role when it comes to performance control in SCAP

## **5.5 *Measurement methods of today***

The metrics utilised in SCAP today are mostly traditional ones like the ones presented in our theory chapter, EBITDA, Working Capital, and Return on operating capital, which is the same as RoCE in the theory. They have all been used for a long time, and that MNCs are likely too stick to traditional metrics even though there is a need for change, as stressed in the theories, seems to correspond well with SCAP. Even if there at some point is an understanding and some kind of knowledge of alternative methods a lot of companies still tend to use the same traditional methods as they always have done. The reasons we have found for this in the theory seem to correspond well with why SCAP has not changed very much in their performance system over the years. These reasons are that they think that their measures are suitable for their needs and that the introduction of new measures is not promoted by the organisational culture.

We have noticed that on higher levels the employees tend to know why things are measured and what EBITDA, working capital and CsVA is good for, especially the people in the finance department. They also think that the employees at the lower levels know. When coming out to lower levels in the organisation many of our interviewees have said that the employees there know that EBITDA is measured and they know that shareholder value should increase but they do not know how they can affect the EBITDA metric to be able to create more value. That might be a reason why they have developed their own metrics.

They measure much more on the different levels than what they report to higher levels and how they measure varies from place to place

As we have understood it, to have a nonfinancial measurement system is also important for SCAP but, as it seems, to different extent at different levels though. At the headquarters they seem to care mostly about the overall financial measures and not so much about nonfinancial ones. The nonfinancial measures they mention at the headquarters are the ones included in Eurobest. Eurobest is something that seems to be well implemented throughout the organisation, since this is something that our interviewees at all levels have mentioned. Further down in the organisation, they have also developed their own nonfinancial measures, like the targets in Värnamo and Norrköping. This indicates that they, at lower levels in the organisation, seem to find nonfinancial measures more important. All our interviewees at lower levels have said that they add their own measures to what is demanded from them to report. These own measures also include nonfinancial measures.

According to our theory chapter, there are some criterions that the performance control in a company should fulfil. The first criterion is that the performance measurement system must be integrated with the overall company strategy. This is something that we do not think that SCAP's performance control is, the way it is designed today, much because there is not a clear strategy in the company. As mentioned before the strategy has not been that important to them, but it seems like it is starting to become more important with the turnaround plan and then a big issue is to get the performance control to be integrated with the company strategy. They do not either quite fulfil the criterion that the system must be implemented throughout the whole organisation. As we have seen everyone seems to know what to measure, but not always why and how to impact the metrics. This, we think, is a sign of bad implementation. There is also a criterion that says that the metrics must be fair and achievable. In SCAP they have goals that are very high and not many of the units reach the goals. This is something we think are demotivating for them. It might not either be fair to measure all businesses the same way. Therefore this criterion is not fulfilled either.

According to the theories there must also be a good system of feedback and review and this part we think SCAP is good at. However, one problem might be that they are too much “after the fact” oriented in their performance control. Another criterion is that the performance control system should be easy to understand, simple and clear. We think that since SCAPs performance control has got so many different levels and is so wide spread and not uniform at all, it does not fulfil this criterion. The measurements demanded from top management are not understood at all levels and further down in the organisation where these measurements are cascaded it is hard to say how great the understanding throughout the organisation is because of the conformity.

Since a lot of these criteria are not fulfilled by SCAP, the question is if they really are important. As mentioned before, SCAP performed well before, even though operating as they do today, which could imply that there are other things besides these criteria that can make up a performance control system. Some of our interviewees in SCAP have expressed that they think some of these criteria should be in place and that things currently are being done to fulfil some of them. Given these facts we do not want to discard the importance of them.

## ***5.6 Alternative measurement methods that could be used***

As mentioned in the part where we discussed SCAP’s corporate culture, it is a very traditional company and for many years they have been using the same measurement methods. The organisation seems to be reluctant to changes and they are satisfied with the way it is today. In our theory chapter we presented theories about alternative methods that could be used and below we discuss how we think that SCAP could be able to make use of these methods, but first we take a look at why and where they are in need of new metrics.

In SCAP we see a need for the development of new measurement methods within certain areas of their traditional business. This is due to the factors included in our framework such

as decreasing profitability, a need to create enhanced shareholder value, competition and somewhat a changed “strategy”, but also because of the maturity of the company. The implication of cost-based competition in a mature market is evident for SCAP, which thus makes it essential to know your costs well and to focus on the most profitable segments. We, as well as SCAP, feel that they have trouble doing this today since they are not able to tell where they actually make the money and which customers who are the most important ones strategically.

There is also an awareness of a need for new metrics within the new adjacent businesses in SCAP. As it is today they are lowering the EBITDA for their units, even though they are making profit which is due to the fact that these businesses are very different in comparison with the conventional business. Since these businesses are more of a service kind we think that it would be good to introduce metrics that are more qualitative and that better accounts for the kind of resources used by their activities.

An overall reason to use the complementary methods that we have presented is that if they are implemented in the organisation SCAP’s performance control system would become one of more strategic performance control. This would help them to better communicate the company strategy and vision, which there is a great need of in SCAP.

### **5.6.1 EVA**

EVA is a measurement method that could be linked to SCA’s overall “strategy” since it is positive correlated to MVA and in that way also to shareholder value. As mentioned before the bottom line for SCAP is to create value for its stakeholders and EVA is a good metric to use to be able to tell where value is created, “profit measured by shareholders”, since it also includes a charge for the capital employed. Since this measure also can be used for setting goals, evaluating performance, determining bonuses, and for capital budgeting etc., it is a metric that could be of significant importance in the whole performance control system for

SCAP and not only good for measuring one thing, as for example EBITDA that only measures profit.

The CsVA that SCAP use is similar to EVA and if CsVA was better implemented throughout the whole organisation it could be as good as EVA since CsVA, when used correctly, also is able to tell where value is created. The way CsVA has been used in SCAP has meant a lot of preparations and there are also opinions on that the metric is hard to keep updated. This might be a reason for that it still is not fully implemented throughout the organisation. The company has not been clear with why this measure was to be implemented and that could also be a reason for the problems with implementing it. Even though they have not succeeded with the implementation of CsVA, they have at least at higher levels felt a need for this type of metric. This implies that there is somewhat an awareness of the shortcomings of today's measures and a good intention to do something about this.

## **5.6.2 ABC**

With the turnaround plan SCAP is trying to cut costs and make the business more effective. When doing this an ABC system would be a good help. Some of our interviewees have said that they think that there already is some ABC thinking in some parts of the business. This implies that they have some awareness of the concept of ABC and that they find it to be suitable for their business. However, we do not think that they think in terms of ABC in the organisation. They might know about their costs on a detailed level, but this knowledge is more like product costing. An ABC system would show the costs of resources used by different functions and it provides a better picture of the economic situation of the operations. The time, and the cost of the time, a seller spends on selling a product, should for example be linked to the cost of producing this product. We think this linking to functions is an important part that is lacking in SCAP. The sales manager we talked to said that it was not important to him how much time a seller did spend on the customer visits.

This is something that should be important though and it is accounted for in an ABC system.

As stated in the empirical findings, in the project to standardise and do better with payments they discovered that a lot of time had been spent on tasks that cost a lot of money in terms of work hours. This has led to the insight that a lot of time and money consuming tasks that need to be measured are not recognised in this SCAP unit. We have also seen a desire in SCAP for knowing which customers who are profitable and also to have a visibility of volume, sales, and machine performances in relation to the customer. Things like these are exactly what an ABC system is intended to measure.

Another reason for SCAP to implement an ABC system is that they are operating in a mature market. This because when operating in a mature market it is harder to establish competitive advantage and they compete more on cost based factors. When doing this it is no longer enough to measure performance in terms of profitability. Here it becomes essential to know the details of the cost structure that make up the profitability. We think that for being a company operating in a mature market SCAP is measuring too much on profitability and an ABC system would contribute to making them more cost oriented and able to create better competitive advantage in the environment in which they operate.

In our theory chapter we presented theories about an integrated EVA and ABC system, which is said, to be able to reduce distortions in production costs effectively. The ABC system is very helpful in reducing costs, but it is important not to forget the value creation. Just to lower the costs is not a guarantee to create value. That is the reason why it would be good to integrate these two methods. In SCAPs case it might be an option to integrate an ABC system with the CsVA method, of course dependant on that the CsVA method becomes better implemented throughout the organisation.

### **5.6.3 BSC**

SCAP does not use the Balanced Scorecard as it is today. In the empirical findings it is stated that they have a lot of information at a very detailed level so it would not be that difficult for them to create a BSC by making use of the already existing information. Our interviewees are positive to using nonfinancial measures in combination with financial ones which implies that the BSC could be a good metric for the company. However, they do not have very much insight in the concept of BSC.

The Balanced Scorecard does not have to be the same throughout the whole organisation and must not be developed and implemented top down. Instead it is something that could be individually developed at different levels in the organisation. As one of our interviewees mentioned, SCAP has been criticised for having a top driven performance control system, and this could be a way to make it less so. It is also a good way to map the different things that are being measured at different levels and locations and it gives a good overview for the top management. Today they do not seem to know what is being measured at different places. The Balanced Scorecard is dependant on the company's strategy and vision, so the first step would have to be to define and communicate a strategy.

A Balanced Scorecard should be limited to the most important metrics. By thoroughly going through the databases at the different levels and determine which metrics that are the most important does also help clean the systems up and get rid of the metrics that are unnecessary, which in turn also helps to minimise the current information overload.

## **5.7 Information**

In SCAP there is an awareness of the importance of information. It is a company that is good at collecting a lot of information, which thus is in line with the theories that are saying that MNCs require extensive and efficient information systems, since they are large and decentralised companies. There is also a rather widespread awareness throughout SCAP



that they are not always good at making their information into useful information to guide the company in its daily business. One problem that SCAP is facing is that it often can be difficult to extract good information from the information systems that they have. To solve this problem they need to learn more about the functions of their systems. We get the feeling that when new information systems are introduced there is a belief that this will in itself provide better and more useful information, but this is not the case. Because of the lack of indebt knowledge on how to really get the most of these systems the result is instead more and more information that people do not know what to do with.

This brings us to the other problem with information in SCAP. Since there of course is a great need to keep track of the company performance, and there have been difficulties to get the right information, this seems to have resulted in too much information. This is not good since it takes focus from the things that are the most important to look closely at. As stated in the empirical findings this information overload can also risk turning performance control into controlling or managing the flow of reports, instead of controlling or managing the business. If this happens you have clearly gone too far, and it seems that in some cases SCAP have passed that line.

In order to solve the information problem, less information, more focus throughout the organisation, and clear guidelines on what is important are needed. There seems to be a rather big awareness about these problems amongst the people we have talked to and there is currently a group in place that is trying to streamline the report system.

In relation to our theoretical framework we now see that information is as important in SCAP as stated there. However the theories only talk about the advantage of information and do not emphasise that any information and too much information are not desirable. This need to streamline and screen the information is something that we have found to be important in SCAP and thus want to add to our new and developed framework.

## **5.8 Communication**

The communication in SCAP is of significant importance since it is a company with a high degree of decentralisation. In our theoretical framework we show that it is essential that issues that are of importance to the company are communicated out to the units. Since there has not been a clear strategy in SCAP this is not something that they have put emphasis on. Now when giving orders about the turnaround plan it is a way of communicating the new strategy.

When the headquarters communicates the measures that they want to have measured, it seems like they only tell the lower levels what to measure and not why and how everyone can make an impact on these measures. Therefore the headquarters must work at communicating more about the measures that they want to have reported and not only what to measure so that everyone understands the link between the performance measurement system and the company strategy.

One thing that we have found to be very important when it comes to communication is that it has to be a two way communication, which is not stated in the theories. As important as it is for the headquarters to communicate downwards is it also for the lower levels to communicate upwards. They should inform their superiors about what they think is important to measure even besides what is demanded. They should also inform the higher levels about how they measure these things. That would make it easier for the headquarters to control if the different plants/units/management areas/regions do things in the same way.

## **5.9 Coordination**

According to our theoretical framework, coordination is an important aspect of performance control in MNCs since these corporations are geographically dispersed and operate in different environments.

In our empirical findings we have discovered that in SCAP different things are being measured in different places in the organisation. Certain things are being demanded from the headquarters but then lower levels put emphasis on other things too, that they themselves think are important. These types of measurement methods differ a lot between different units and are not comparable. Thus, the headquarters has not got a proper system for coordinating the units, besides for demanding information about certain KPIs that they see as important, like EBITDA and working capital. In consequence, coordination does not seem to be an important thing in SCAPs performance control. However, during our interviews opinions on the need for coordination between units have been expressed and programs that are coordinated, such as Eurobest and the cascaded metrics has been developed for the reason of creating comparable metrics

The question is, however, if this information actually needs to be coordinated between the different units, between the different management areas, between the different regions, and the headquarters. Even though it could be good if the headquarters had proper information about what is actually being measured and seen as important on the different levels in the organisation we feel that this would require too much time and effort to be worthwhile. Instead we think that comparisons should only be made on lower levels.

Our conclusion is therefore that when it comes to SCAP there is not always a need for coordination between units and this should thus not be emphasised too much. If the units are too different it is not interesting to benchmark them with each other. On the other hand it would be good to be able to do some comparisons between units that are situated within the same region and have similar businesses. Especially when there are similar units with great variations in their results it would be good to be able to compare what they are doing differently. These comparisons can only be made if the measurement methods are uniform. In these cases the coordination therefore needs to be improved by setting clear guidelines for performance KPIs to make sure that the units actually measure the same things otherwise the benchmarking is useless.

By coordinating the measurement methods between different plants/units/management areas/regions they could also learn from each other by exchanging experiences about what they think is important to measure and how to measure it. When talking about coordination, communication plays an important role and therefore it is important even here that the channels are of a two way kind.

When comparing the need for coordination within our case company with our framework, we thus see that the theories put more emphasis on this factor than is shown to be needed in SCAP. In most cases so far they do not seem to have suffered from not having the ability to compare. When having an organisation as big and widespread as SCAP the coordination would demand resources that would surpass the benefits produced. Still on lower levels, i.e. between units that are fairly close to each other in terms of their operations, the efforts to create coordination would not have to be very extensive and would create benefits for SCAP. This is something that they also have recognised themselves. Therefore we do not want to exclude “coordination” from our framework, but just put less emphasis on it.

## ***5.10 Implementation***

As we have concluded in the part about organisational structure, implementation is an important factor for the performance control within SCAP. Looking at SCAP today, even though communication might be in place when it comes to new ideas, projects, and metrics etc., they have a hard time gaining acceptance throughout the organisation just because of the lack of strong implementation.

A “culture” of bad implementation seems to have existed in SCAP for quite a while. As stated in the empirical findings, a lot of projects have been lacking power, structure and resources and this has made the employees sceptical to new projects that come along. With this scepticism as a starting point, plus the general unwillingness to change within the organisation, it becomes clear that in order to achieve any changes a lot of effort must be put in any new project, if it is to be launched successfully.

An example that shows the importance of implementation when it comes to performance control in SCAP is the CsVA method. The idea of introducing CsVA as a metric came about three years ago and seemed to be a good idea, but because of the lack of implementation far from everyone in the organisation know what it is and how to use it. There has also already been a discussion of excluding this metric again. To give something up after just three years creates neither motivation nor incentives to implement new things in the organisation. In cases like these we think that it is also about learning from each other and exchanging experiences since there clearly are some people in SCAP who really care for CsVA and know a lot about it. There is for example a finance director for one management area who thinks that this metric is very good and uses it a lot. However, he has no idea of how much it is used at other places in the organisation and do not care if they know how to use it elsewhere. This attitude we mentioned as a problem when we discussed profit centres. They think too much about themselves and do not care what the others do and how they do it.

We think that when SCAP is to implement something new, they do not make use of the people that really care for and use the new metrics since they do not let them go out and teach the other people at different levels in the organisation. That might be a reason for why they are having the problem with a top driven performance control system. This is also a part where the two way communication plays a significant role. We have seen that some lower level positioned employees are good at things, CsVA for example, which they do not teach upwards or across the organisation, but higher positioned employees often give orders about how to do things.

It is our opinion that the aspect of implementation not has been stressed in the theories about performance control in MNCs, but rather the focus has been on the factors included in our theoretical framework, i.e. communication and coordination. The difficulties that SCAP has in integrating new projects with its existing business show, however, that implementation is something that really needs to be emphasised along with these other factors and thus should be taken into the framework of performance control.

### ***5.11 Distinction between top and unit performance control***

In the theories about performance control emphasis has not been put on the distinction between top performance control and unit performance control. The theories rather talk about performance control in general terms for the whole organisation and instead focus on communicating the metrics to the units. Our study of SCAP has led us to believe that there in MNCs is a need to distinguish between the metrics, as well as the goals and the incentives, used on local and global levels. This, because we have found that in SCAP it can be difficult for lower levels to understand how they can affect overall goals such as the EBITDA. This implies that the goals do not work as incentives and people get frustrated because they do not see their role in the value creating.

By having other metrics on lower levels that can be clearly linked to the activities at these levels, it becomes easier for the employees to understand how to affect their own goals. When separating the performance control in this way it is essential to have a clear and understandable link between the different levels in order to make understandable how the metrics of the lower levels connect with the ones on the higher levels. If this is done in a proper manner it also becomes more visible how the overall company goals are fulfilled by the achievement of the local goals.

The distinction between local and global interests has been done to certain extents in SCAP and even though there is a lot more to be done they seem aware that this is an important issue. The newly developed cascaded measurements are a good example of this and also the many specific locally developed KPIs.

We thus believe that the division of metrics is an important part of performance control in MNCs that has been neglected by the theories. We will therefore include this factor in our new and developed framework.

## **5.12 Performance**

We have found a clear link between performance and performance measurements in SCA, in the sense that almost all of our interviewees stated that people focus on the things that get measured. This is thus in line with the theories and thereby with our theoretical framework. By measuring certain things it is communicated that they are important, which gives a focus on the areas that are measured. This implies that there is a responsibility for the employees to choose the right things to measure and not all things. The question is, however, if SCAP is actually making these choices, so that they really measure what they want to achieve, since some of our interviewees have expressed that SCAP has some things to learn concerning this area.

As we have discussed in the part above about information there is a general problem with measuring too much which takes focus from the most important things. Thus within this area there already seems to be alignment and with the reduction of information and metrics used the link between performance and performance control will automatically be stronger and more important.

## **5.13 Driving forces to changes in performance control**

In the theories we have seen different aspects of why changes in performance control are needed. We think that many of them correspond to why SCAP's performance control system is in need for change. According to the theory the most important of these aspects is decreased profitability. As it has been lately, SCAP has been suffering from decreasing profitability because the prices on paper have gone down which has led to a need for better knowledge about the cost structure of the organisation and thereby new metrics. We can thus see that this factor has an impact on changes in performance control in SCAP, as stated in the theory.

Another aspect that is stated as a driving force for change in our framework is changed strategy. The strategy is an issue that SCAP has been starting to put emphasis on lately and we mean that meanwhile doing this they should also consider creating a more strategic performance control system. This, as we have shown in our theoretical framework, can be done through adopting some alternative measurement methods in order to get the performance control to be more aligned with the company strategy.

SCAP's new strategy, with the adjacent business concept and the turnaround plan, brings new business processes with it and new technology is most likely also an issue here. These factors are also stated in the theories as driving forces to change the performance control system. We have in our empirical findings discovered that there is a need for new types of performance metrics concerning the new businesses and thus we can see these two factors, in accordance to the theories, apply to SCAP.

As every company, SCAP is working towards a goal of enhanced shareholder value which is also something that the performance control system should be able to show if they are doing or not. With the measure CsVA, this is something that SCAP is heading towards, but as mentioned before this measure is not implemented well enough throughout the organisation.

The aspect of attracting and retaining people is not something that we have found to be an aspect leading to a need for change in the performance control system in SCAP. This is thus excluded from our developed framework. New competition has not been discussed during our interviews and therefore it is difficult to say something about it. However, we presume that this aspect might not be of that much importance since it has not been mentioned and thus it is also excluded.

When relating these factors to SCAP we have seen that some of them are of greater importance for the company than others. In our final framework we have therefore rearranged the order of the driving forces.



## **5.14 Summary**

After analysing our empirical findings compared to the theoretical framework we have observed that some of the factors concerning performance control in MNCs that we have found are in accordance with the theories while some are not. The differences and similarities between our theoretical framework and the empirical findings can be summarised as follows:

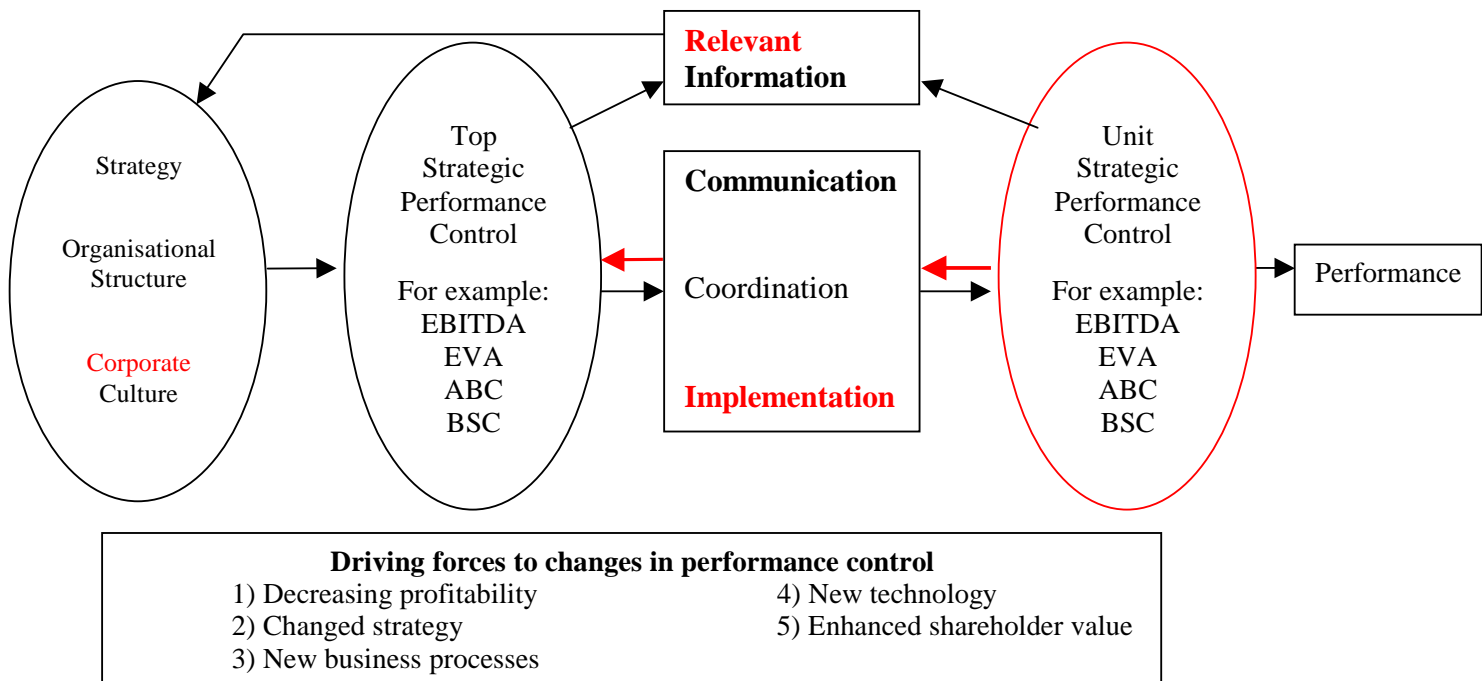
1. The organisational structure does, as the theories state, have an effect on performance control in MNCs.
2. The country specific cultural differences do not have a clear impact on the performance control, but rather the corporate culture.
3. This corporate culture, which is one of strong traditions, has led to the utilisation of traditional KPIs.
4. There is an awareness of the shortcomings of the traditional metrics and there are possibilities to implement alternative ones
5. The information which performance control leads to, should be relevant information and not just a lot of information.
6. Coordination is not always important between all units in MNCs.
7. The communication, coordination and implementation must go in both directions.
8. Implementation is an important factor when creating for example new metrics.
9. A distinction but also a clear link between top and unit performance control needs to be made in MNCs.
10. There is, in accordance with the theories, a clear link between performance and performance measurements.
11. The majority of the driving forces to changes are the same in SCAP as in our theoretical framework, however two has been excluded and the order of importance has been rearranged for the remaining ones.

## 6 Results

*In this chapter the insights from the analysis which make up our results will be presented. To conclude the thesis these results are compiled in a new developed framework.*

### 6.1 A new developed framework

As stated in the summary of our analysis, we have observed that some factors concerning performance control in MNCs, which are not emphasised in the theories, are of importance, at least in SCAP. With these findings we have developed a new framework for performance control in MNCs that incorporates all the important things that we have discovered. This developed framework is presented below:



There are seven different things that distinguish this framework from the theoretical one. First the culture has been changed to corporate culture, since this was found to have an important impact on performance control in SCAP. Then emphasis has been put on the need to limit the information generated by the performance control systems and information systems by adding the term “relevant”. Since implementation has been found to be of importance in MNCs this factor has been added to communication and coordination. Furthermore less emphasis is put on coordination since this has shown not to be an essential aspect throughout the whole organisation of SCAP. A distinction has been done between top and unit performance control because we have found that, in order to make the KPIs relevant and incentive creating they have to be differentiated across different levels. Since these different levels still has to be closely aligned this has also led to a movement of the factors of communication, coordination, and implementation. Finally we have included arrows showing that all these three factors have to go in both directions in order to achieve this alignment.

From these changes we can extract three factors that we find to be of most importance for performance control in MNCs and thus want to put forward as our most essential findings. They are corporate culture, implementation and information.

## **6.2 *Alternative methods of performance control***

Concerning the alternative metrics, we have concluded that they could be suitable for SCAP. The alternative methods Activity-based Costing, Economic Value Added, and Balanced Scorecard would take SCAPs performance control from general performance control to a more strategic performance control. This, we think is of great importance partly because SCAP is beginning to work with their strategy, for example in terms of the turnaround plan, and partly because they are operating in a mature market and thus need to manage their costs and activities better to be able to create competitive advantages. Since SCAP has already tried to implement CsVA, which could be seen as a substitute for EVA, there is no need to introduce this metric. Instead emphasis should be put on a better

implementation of CsVA. Concerning ABC and BSC we have seen a lack of insight in these metrics, but some interest was also shown and therefore we think that they fit into our model of performance control in MNCs.

### **6.3 Conclusions**

What we have seen when studying performance control in SCAP, is that performance control in a multinational corporation seems to be much more complex and differentiated than performance control in non-multinational corporations. The developed framework that we have constructed for performance control in MNCs therefore contains a lot of new aspects. Despite the fact that these aspects are rather separated from each other we have found that they all have a common denominator that binds them together. This common denominator we refer to as information. We think that it can be seen as the glue that keeps the different parts of performance control together.

This concept of information thus encompasses many different kinds of information and all our important findings concerning performance control in MNCs can be linked to this concept. First there is information in the sense of generating information from the performance metrics through the information systems. Information is also the bottom line when strategy, structure, and culture are being communicated from top management to units. There is also information that has to go from units to top management and vice versa about what they measure. Furthermore information is needed to overcome the resistance to change, which is embedded in the corporate culture. Finally information about new metrics and even more essential information about why they are needed and why they are important for the units are of great importance in order to implement the new things. In consequence we can see that in the end everything is about information.

This implies that the handling of information is of great importance. To be able to do this in an efficient way information systems that are well implemented and easy to use are essential for the collection of relevant information. Therefore a MNC as SCAP must not

just be aware of that information is very important to them. They must also make use of the data that they probably already have and make it in to relevant information. This requires a lot of effort from the top management in terms of that they have to address resources to the area of making data in to relevant information.

To have an information system that collects uniform data, throughout the company would also make the information gathering easier. It would no longer occur, that two people report the same thing in different ways. This would in turn result in that the relevant information would not be as difficult to extract as it is today. It is not said that the information always has to be used to compare different units with each other but, in those cases when it is important to do that, it would make it a lot easier if the information was uniform in the whole company.

Most important however, is that a better and more efficient information flow would lead to better informed employees, which in turn would lead to better knowledge in all directions in the organisation. A consequence of this is that with a constant and relevant information flow the need for controlling the units would decrease, since everyone would know what was expected from them and how they fit in to the system. Another result would be that the employees would know more about what is going on around them and not only what is happening in their own unit, as they do today.

There are opinions in SCA about making the company more like one through clustering, in order to come around certain problems caused by the decentralisation. This could, however, also lead to problems since the units would not appreciate having to give up their current positions. By focusing on the information flow in the organisation the feeling of actually being one company, instead of many geographically and organisationally dispersed units, could grow stronger because of the increased knowledge about each other. This could imply that a lot of the downsides with decentralised profit centres could be overcome without the units having to give up on their independence. Thus, we can conclude that with a better focus on the information flow in SCAP a lot of other issues could be solved.

## **6.4 Contribution and validity**

The purpose of this thesis was to increase the understanding of issues that affect performance control and its development concerning alternative measurement methods in multinational corporations operating in today's mature markets. Here we will present how our thesis has contributed to the understanding of this. When discussing the contribution of a study the external validity and thus the degree of explanatory power and relevance must also be discussed in order to position the new framework and thereby see if it can be theoretically generalised (Glaser, 1978).

Concerning the explanatory power of our developed framework we have still kept some of the factors from the Anthony & Govindarajan (2001) model and therefore our model ought to give a general overview of important features concerning performance control. Our framework also has advantages in relation to theories about performance control since it is developed from a descriptive point of view, as opposed to the existing theories that are mostly normative, and thus have a real connection with the way that performance control is actually carried out in a MNC. Another advantage with our framework is the MNC approach. A lot of theories concerning performance control take a more general approach, thus lacking the special features of MNCs that our framework captures.

When it comes to relevance we think that the framework has some features of interest. We believe that the developed framework has potential to serve as a guideline for managers within MNCs operating in mature markets. Even though it is not a framework that can be applied anywhere it provides some new insights that existing theories do not describe and also shows that the theoretical view might not always apply in practice. Therefore we think that we have a rather good external validity in our theoretical generalisation.

Of course there are also weaknesses that limit our ability to make a theoretical generalisation. One is that we have done a case study which says more about our specific case company than about companies in general. Since SCAP produces corrugated board, which is a rather special product with geographical limitations it is not necessarily a typical

MNC and thus the result from this study might not apply to other MNCs. However, we believe that concerning the most important features of MNCs, such as having many units in a lot of countries, SCAP is like most MNCs are in general.

## **6.5 *Future research***

Since our research has only investigated a small part of a potentially large field we believe that future research could find interesting and new things within this area. A suggestion for future research is to make descriptive studies of more companies in order to get a better picture of how performance control is executed in different MNCs. Another suggestion for future research is to look more closely in to the factors that we found to be of importance but that have not been closely examined in the theories so far, such as corporate culture, information, and implementation. It would also be interesting to examine the impact of the implementation of alternative methods such as ABC in combination with EVA in MNCs.

# Sources

## Published sources

### Books

Alvesson, Mats & Deetz, Stanley, *Kritisk samhällsvetenskaplig metod*, Lund, Studentlitteratur, 2000

Alvesson, Mats & Sköldbberg, Kaj, *Tolkning och reflektion. Vetenskapsfilosofi och kvalitativ metod*, Lund, Studentlitteratur, 1994

Andersson, Bengt-Erik, *Som man frågar får man svar – en introduktion i intervju- och enkätteknik*, Second edition, Kristianstad, Kristianstads boktryckeri AB, 1994

Anthony, Robert N. & Govindarajan, Vijaj, *Management Control Systems*, Tenth edition, New York, Mc Graw-Hill, 2001

Ax, Christian, Johansson, Christer, Kullvén, Håkan, *Den nya ekonomistyrningen*, Third edition, Malmö, Liber ekonomi, 2005

Backman, Jarl, *Rapporter och Uppsatser*, Lund, Studentlitteratur, 1998

Bartlett, Christopher A & Ghoshal, Sumantra, *Managing across Borders: The Transnational Solution*, Boston, Massachusetts, Harvard Business School Press, 1989

Bell, Judith, *Introduktion till forskningsmetodik*, Third edition, Lund, Studentlitteratur, 2000

Ehrbar, Al, *Stern Stewart's EVA the real key to creating wealth*, New York, John Wiley & Sons, Inc., 1998

Emmanuel, Clive et al., *Accounting for management control*, Second edition, London, Chapman & Hall, 1995

Eriksson, Lars T & Wiedershem-Paul, Finn, *Att utreda, forska och rapportera*, Fifth edition, Stockholm, Liber ekonomi, 1997

Gerdin, Jonas, *ABC-kalkylering*, Lund, Studentlitteratur, 1995

Glaser, B G, *Theoretical sensitivity: Advances in the methodology of Grounded Theory*, California, Sociology Press, 1978



Grant, Robert M, *Contemporary Strategy Analysis*, third edition, Oxford, Blackwell Publishers Inc., 1998

Holme, Idar Magne & Solvang, Bernt Krohn, *Forskningsmetodik – om kvalitativa och kvantitativa metoder*, Second edition, Lund, Studentlitteratur, 1997

Kaplan, Robert S & Cooper, Robin, *Cost & effec : using integrated cost systems to drive profitability and performance*, Boston, Massachusetts, Harvard Business School, cop., 1998

Lawrence, Paul R & Lorsch, Jay William, *Organization and environment: managing differentiation and integration*, Boston, Massachusetts, Irwin, 1967

Mintzberg, Henry, *The structuring of organizations: a synthesis of the research*, Englewood Cliffs, N.J., Prentice-Hall cop., 1979

Yin, Robert K, *Case study Research – Design and Method*, Second edition, USA, SAGE publications, inc., 1994

## Articles

Baliga, B R & Jaeger, Alfred M, “Multinational corporations: control systems and delegation issues”, *Journal of International Business Studies*, Fall 1984; 15; 2

Barsky, Noah P & Bremser, Wayne G, “Performance measurement, budgeting and strategic implementation in the multinational enterprise”, *Managerial Finance*, 1999; 25; 2

Bentley, Timothy J, “Return on Capital Employed (ROCE)”, *Management Accounting*, 1977; 55; 3

Buckley, Peter J & Casson, Mark C, “Models of the Multinational Enterprise”, *Journal of International Business Studies*, 1998; 29; 1

Calabrese, John & Rafferty, Brigid A., “EBITDA: What Your Borrower is Measuring and How it Affects Cash”, *Commercial Lending Review*, May 2003; 18; 3,

Emmanuel, Clive “An approach to teaching international management accounting and control: integrating corporate strategy, organizational structure and culture”, *Journal of Accounting Education*, 1998; 16; 1

Ferner, Anthony, “The underpinnings of ‘bureaucratic’ control systems: HRM in European multinationals”, *Journal of Management Studies*, 2000; 37, 4

Hamilton Brian, “EBITDA: Still Crucial to Credit Analysis”, *Commercial Lending Review*, September 2003; 18; 5,

Haq, Tanya, "Companies look to nonfinancial measures", *Management Accounting*, March 1995; 73; 3

Ittner, Christopher D & Larcker, David F, "Innovations in Performance Measurement: Trends and Research Implications", *Journal of Management Accounting Research*, 1998; 10

Ittner & Larcker, "Coming Up Short on Nonfinancial Performance Measurement", *Harvard Business Review*, November 2003; 81; 11

Iyer, Savita, "Moody's Puts EBITDA Use in Perspective", *Bank Loan Report*, July 3, 2000; 15; 27

Jarvis, Bill & Skidmore, Derek, "Problems in Using Return on Capital Employed", *Accountancy*, 1978; 89; 1022

Kaplan, Robert S & Norton, David P, "The Balanced Scorecard – Measures That Drive Performance", *Harvard Business Review*, January/February 1992; 70; 1

Kaplan, Robert S & Norton, David P, "Strategic learning and the balanced scorecard", *Strategy & Leadership*, September/October 1996; 24; 5

Kaplan, Robert S & Norton, David P, "Leading change with the balanced scorecard", *Financial Executive*, September 2001; 17; 6

Kaplan, Robert S & Norton, David P, "The office of strategy management", *Strategic Finance*, October 2005; 83; 10

Lehn, Kenneth & Makhija, Anil K, "EVA & MVA: As performance measures and signals for strategic change", *Strategy & Leadership*, 1996; 24, 3

McClure, Ben, "Working capital works", <http://www.investopedia.com> (051130, 11.19), June 2003

McDonnell, Sharon, "EBITDA", *Computerworld*, January, 2001

Noerreklit, Hanne & Schoenfeld, Hanns-Martin W, "Controlling Multinational Companies: An Attempt to Analyze Some Unresolved Issues", *The International Journal of Accounting*, 2000; 35; 3

Payne, Stephen M, "Ten Working Capital Blunders to Avoid", *Journal of Corporate Accounting & Finance*, 2002; 14; 1

Prahalad, C K & Hamel, Gary "The core competence of the corporation", *Harvard Business Review*, May – June, 1990; 68; 3

Roztocki, Narcyz & LaScola Needy, Kim, “Integrating activity-based costing and economic value added in manufacturing”, *Engineering Management Journal*, June 1999; 11; 2

Roztocki, Narcyz & LaScola Needy, Kim, “Variation in production volume: The impact of using an integrated ABC and EVA system to reduce distortions in production costs”, *ASEM National Conference Proceedings*, 2000

Rugman, Alan M & Verbeke, Alain, “A perspective on regional and global strategies of multinational enterprises”, *Journal of International Business Studies*, January 2004; 35; 1

de Villiers, Johann, “The distortion in Economic Value Added (EVA) Caused by Inflation”, *Journal of Economics and Business*, May/June 1997; 49; 3

Wayman, Rick, “EBITDA – The good, the bad, and the ugly”, <http://www.investopedia.com> (051130, 10.52), February 2002

Yeniyurt, Sengun, “A literature review and integrative performance measurement”, *Marketing Intelligence & Planning*, 2003; 21; 3

## Annual reports

SCA, 2004

FEFCO, 2004

## Electronic sources

[www.cimaglobal.com/cps/rde/xbcr/SID-0AAAC544-76F7BD25/live/PerfMeasurementLatestTrends\\_techrpt\\_0702.pdf](http://www.cimaglobal.com/cps/rde/xbcr/SID-0AAAC544-76F7BD25/live/PerfMeasurementLatestTrends_techrpt_0702.pdf) (051201, 14.15)

<http://www.investopedia.com/offsite.asp?URL=http://www.fool.com/news/indepth/telecom/content/ebitdalimits.htm>, 051130, 10.57

<http://www.investopedia.com/terms/b/balancedscorecard.asp>, 051201, 10.50

<http://www.investopedia.com/terms/e/ebitda.asp>, 051204 12.45

<http://www.investopedia.com/terms/w/workingcapital.asp>, 051208, 14.15

<http://www.investopedia.com/terms/m/mva.asp>, 051213, 17.40

<http://www.investopedia.com/terms/r/roce.asp>, 051216, 11.10

## **Verbal sources**

Per Arfvidsson, 051115

Philip Barnes, 051202

Axel Bauchmüller, 051208

Martin Davidson, 051125

Fredrik Elerud, 051116

Paul Feistle, 051208

Marcus Holmstrand, 051125

Douglas Hoover, 051125

Thomas Kalling, 051116

Philip Knowles, 051115

Michael Lamprecht, 051208

Tony Prakash, 051116

Tom Rice, 051202

Dick Sanders, 051115, 051116, 051202

Peter Thorstensson, 051124

Norbert Vogel, 051208

Maria Wieloch, 051114

# Appendix 1 – Interview guide

## Performance control in general

- What is performance control for you?
- What is the function of a performance control system?
- What is the function of the performance control system in SCAP?
- Which Key Performance Indicators do you use?
  - Financial and nonfinancial
- How do you choose what to measure?
- How much is being reported to higher levels?
- How is the communication between the different levels?
- Is there always an understanding of the metrics and why they are being reported?
- What do you think is the most important to measure?
- Do you think that you measure the right things?

## Goals

- How are the goals for the KPIs set?
- What do you think about the goals for the KPIs?

## Contextual factors

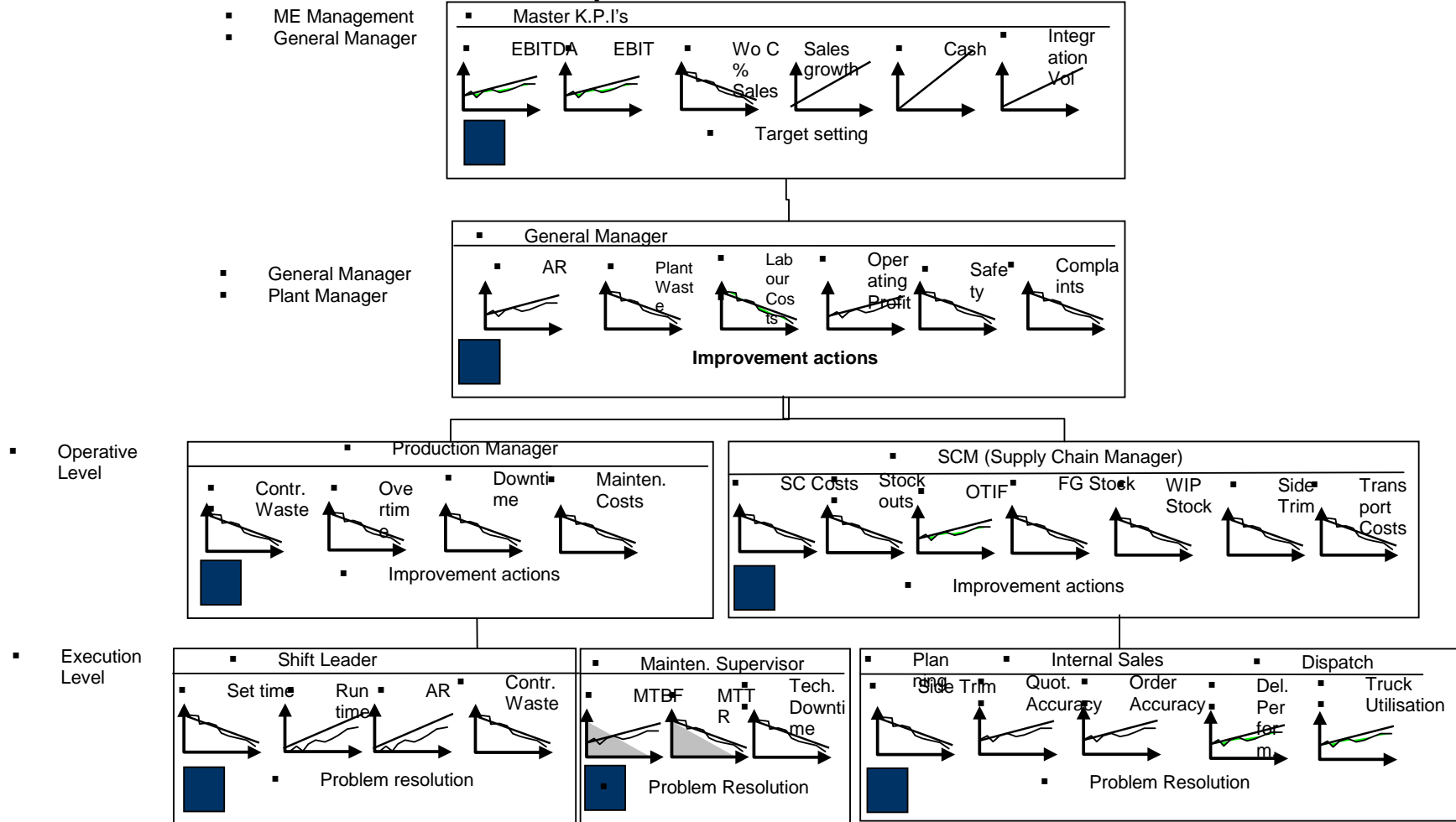
- Which is your strategy?
- Which are the overall strategic goals that you have to link your performance control to?
- Do you see a link between the performance control system and the company strategy?
- Do you see a link between the performance control system and the company structure?
- What do you think about the organisational structure in SCAP today?
- Do you think that there are any other factors that affect performance control?

## Alternative metrics

- Have there been any changes over time in the performance control system in SCAP?
- Have you thought about measuring other things or use other methods?
- Do you know what drives your costs?
- Do you know which customers who are profitable?
- Which are your opinions about the measurement methods EVA, ABC, and BSC?

# Appendix 2 – KPI Cascade

## KPI Cascade Top down KPI Definitions:



## Appendix 3 – Target for division display Norrköping

### Target 2005 for Display

Area	Target 2005	Q. 1	Q. 2	Q. 3	Q. 4	Comment
1. Safety	No accident or incidents / month	0 <u>X</u>	0 <u>X</u>	0 -	0 -	
2. Productivity	Good, effective flow measured by turnover per hour	XXX <u>XXX</u>	XXX <u>XXX</u>	XXX -	XXX -	
3. Marginal	Good price level XX on XXX scale	XX <u>XX</u>	XX <u>XX</u>	XX -	XX -	
4. Printing capacity	Short- and long term planning that gives us XX% utilisation	XX% <u>XX %</u>	XX% <u>XX %</u>	XX% -	XX% -	
5.Complaints	Total cost less than X,X% of turnover (internal + external)	- < X,X% <u>X,X%</u>	- < X,X% <u>X,X%</u>	- < X,X% -	- < X,X% -	
6. Short time sick leave	Less than X% short time sick leave	< X % <u>X,X %</u>	< X % <u>X,X %</u>	< X % -	< X % -	
7. Hit rate	At least XX% of our quotations shall lead to orders	- XX% <u>XX %</u>	- XX% <u>XX %</u>	- XX% -	- XX% -	New metric with 3 month displacement