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Non-financial measurements in banking industries of Sweden, Romania and Ukraine

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Abstract

Title: Non-financial measurements in banking industries of Sweden, Romania and Ukraine

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Key words: Non-financial measurements, performance measurement system, banking industry, strategy.

Purpose: We intent to explore the use of non-financial measurements in financial services industries in Sweden, Romania and Ukraine. Our analysis will be focused on the use in practice of the latest theoretical developments, the non-financial indicators link with the banks' strategies and the financial measurements and the differences in use between the three countries found at different economic development levels.

Methodology: In order to give an answer to the purpose of our study, we have used a qualitative / deductive / exploratory approach. The conducted interviews were semi-structured.

Theoretical perspectives: The theoretical references derive from our academical studies from the literature concerning the performance measurement system and the non-financial indicators such as books and scientific articles. The previous researches regarding the performance measurement in banking industry were also included in our study.

Empirical foundations: In the empirical section we present gathered material from the public available information (annual reports, web pages) and interviews with Swedish bank representatives.

Conclusions: Our findings indicated a greater use of non-financial measurements in Sweden than in Romania and Ukraine and also a more mature and developed performance measurement system to be used by the Swedish banks in comparison with the financial institutions from the other two countries.

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Lund, June 2009

Tetyana Zhelyuk   Camelia-Luminita Popa

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Chapter 1

Introduction

1.1 Background

Companies have always been interested in measuring their performance. Why is the performance evaluation so important? Some explain it with logic, "What gets measured gets done". An organization success rests largely on the design and use of a performance measurement system as a part of the management control. To be effective, performance measurement system has to be more than just an evaluation tool. In fact measuring performance has no use if actions are not taken as a consequence of the measurement and if the results are not regarded into the future organizational strategy.

If traditionally the emphasis for performance evaluation was expressed by financial measures like return on investment, studies in the last decades challenged the financial measures capability to capture all important aspects that can assure competitive advantages (customer satisfaction, quality, innovation). Many researchers like Kaplan (1991), Bromwich and Bhimani (1989), Fitzgerald et al. (1991) demonstrated the need of multidimensional performance: financial and non-financial, internal and external, quantitative and qualitative. In the last years, academics and practitioners embraced the use of non-financial measures as they treat both causes and effects. Measures like customer satisfaction, and innovation activities are considered to be the drivers of the future financial performance (Kaplan and Norton, 1992).

There have been a number of researches conducted and theoretical developments published related to performance measurements and non-financial indicators in industries such as manufacturing, health care, etc. However not many researchers have been interested in the non-financial dimensions of performance measurement in banking and financial institutions. The distinctiveness of this industry is that it is highly concentrated on financial data and therefore its performance measurement system is intensively made up of financial indicators and ratios. However for this industry to successfully develop further, it is of critical importance to consider non-financial dimensions into its performance measurement. By conducting our research, we expect to fill in some gaps in the knowledge of non-financial indicators and performance measurement practices used by banking and financial institutions.

1.2 Problem discussion

Although an extensive amount of literature emphasizes the increasing role and benefits of non-financial performance measurements in financial services industry (achieving competitive advantage and improving financial performance on the long-term basis), previous studies (Hussain 2004) show their limited use in practice. Moreover, there are studies that point to a misuse of the non-financial performance measurements and the underestimation of their role when companies evaluate performance or design strategy links between goals and measurements (Ittner and Larcker, 2003). Therefore in our research we expect to find whether selected banks manage to realize the advantages of using non-financial indicators and successfully establish links and relations between them and strategic goals.

There have been only few studies that somehow relate to the topic of this thesis with even less of them taking an international perspective and consider several countries in discussing this area. We expect to bring an international touch to this topic and include several countries into our research. The countries selected to be the object of our study are Sweden, Romania and Ukraine; each of them is in different stage of economic development. Sweden's modern economy, although affected by the '70s oil crisis, evolved as a developed and mature business environment. On the other hand, economic progress of two other countries was stopped after the Second World War by the communism dominance and the planned economy system. In the last twenty years the East European countries registered high levels of economic growth, largely based on foreign investments. Considering the fast growth rates but also the foreign influence in the business environment it would be interesting to analyze if the performance measurement system and the non-financial indicators as a part of the management control area evolved in the same degree as the overall economy of the two countries.

The research question of our study refers mainly to the use of non-financial indicators in the financial services industry as well as their role in the performance measurement system design. The study also explores the links between the measurements used and organizational vision and goals. We also intent to draw a comparative analysis of the use of non-financial measurements in Sweden, Romania and Ukraine.

1.3 Purpose

The purpose of this thesis is to explore the use of non-financial measurements in financial services industries in Sweden, Romania and Ukraine. Our analysis will be focused on the use in practice of the latest theoretical developments, the non-financial indicators link with the banks' strategies and the financial measurements and the differences in use between the three countries found at different economic development levels.

1.4 Target group

We hope that our findings would contribute to expanding the knowledge about the use of non-financial measurements by banks. Target audiences of our study are people in academic settings, such as researchers, professors and students, and financial institutions themselves, such as managers and performance measurement departments. We want to provide banks from analyzed countries with a better insight about non-financial indicators use in performance measurement and their position in relation to local and international banks. We also think that our findings can benefit other organizations interested in implementing and improving non-financial dimensions into their performance measurement systems.

One of the objectives of our study is to offer a benchmark for banks in Romania and Ukraine to strive for. Our study reveals not only the importance of non-financial perspectives from a theoretical position. It also explains the importance of non-financial measurements from the practical experience of strong developed banks in Sweden point of view, which have more advanced performance measurement systems that incorporate non-financial dimensions. Hence, our study can help banks in Ukraine and Romania to emphasize the importance of non-financial measurements and indicate the ways to effectively link individual dimensions with overall organizational strategy.

1.5 Disposition

Our research will be presented in a following way:

Chapter 2	provides information and justification for the methodological approach of this thesis
Chapter 3	reviews the theoretical information related to the performance measurement

	system and the non-financial indicators as well as their usage in financial institutions
Chapter 4	presents empirical findings and analysis of banks in Sweden, Romania and Ukraine.
Chapter 5	provides an insight of the banks performance measurement system and non-financial measurements used by Swedish banks
Chapter 6	compares the empirical findings with the theoretical information
Chapter 7	summarize and concludes the study and considers possible directions for further studies
List of References	presents the list of material used in this research.
Appendix	includes supplemental material for a better understanding of this study.

Chapter 2

Methodology

In the following chapter the methodological guidelines of our study will be presented and also the line of actions taken in order to complete the thesis.

2.1 Background for method description

The main focus of our research is concentrated on the performance measurement system used in the four largest banks in Ukraine, Sweden and Romania. The choice of these three particular countries is based on the authors' national origins (Romanian and Ukrainian) as well as on the place of education for this master program, Sweden. Being familiar with economic, social and cultural environments of these countries has motivated us to make them the central focus of our research. The choice of the subject is based on the authors' studies in accounting and management control and also on their specific interest in the financial services industry and its performance evaluation due to the changes imposed by the current global financial crisis.

2.2 Research approach and strategy

A research study can be conducted using an inductive or deductive approach. Saunders, Lewis and Thornhill (2003) describe the particularities of these two opposing principles. The *inductive* process consists of a "bottom-up" approach which starts with the data collection and based on the conducted analysis develops the theory. The d*eductive* process is reversed, "top-down", and starts from the theory development, which is tested forward through different researches. In our case, due to the great amount of theory debate in the chosen field and the previous researches conducted on the similar subjects in different countries, the study will be based more on a deductive approach.

Researchers have also a methodological choice for data collection: a qualitative or quantitative method. Holme and Solvang (1997) detail the differences between the two approaches. The *quantitative* research represents an objective and statistically valid approach, which consists of structured questions with predetermined response options and a large number of respondents involved. On the contrary, the *qualitative* research is a more subjective approach, using a small number of respondents and mainly individual, in-depth interviews or focus groups. The nature of the qualitative research is exploratory and open-ended. This thesis has a qualitative nature aiming to gain a deeper understanding of the performance measurement systems used in financial institutions from Sweden, Romania and Ukraine.

This thesis is based on an exploratory research design. According to Zikmund (2000) the purpose of the *exploratory research* aims to get a deeper understanding of the problem's aspects and to help analyze the situation. This type of research fits the best our thesis specifics because it often relates on secondary research or qualitative approaches.

If we base the research strategy choice on Yin (2003) classification: survey, archival analysis, histology and case studies, we can conclude that the most appropriate strategy for our thesis is the case study based on its particularities as a deep study conducted on a small selection of organizations.

2.3 Data collection

Data collection process was divided in two main phases: the preliminary study or the literature review and in-depth interviews with banks' representatives. The two phases were based on the use of both primary and secondary sources.

2.3.1 Secondary data—the preliminary research

In order to get an overview of the studied problem we conducted a preliminary study of the theoretical issues related to our research. The studied literature regards a general view on the performance measurement system and the use of non-financial indicators as well as a targeted focus on the banking industry.

The second area of literature examined refers to previous studies with similar subjects conducted in the financial services industry from different countries. This helped us to gain a previous insight on the performance measurement systems used by banks in various countries. This research phase was based on written books and independent articles related to the measurement systems and banking industry subject. It reviewed and analyzed the relevant literature during the entire study in an effort to include in our research the latest published relevant literature.

The next phase of the preliminary research was to analyze the annual reports, corporate web pages and presentations made by four largest banks from each country, Romania, Sweden and Ukraine. This area represented our major work due to the review conducted on the five years annual reports for each bank.

In order to get a better insight about the performance measurement practices used and to understand why analyzed banks use certain non-financial measurements, we needed also a primary data review, conducted through interviews with managers of three Swedish banks.

2.3.2 Primary data—in-depth interviews

The primary data review was conducted by interviewing Swedish banks representatives. We chose to interview only Swedish banks based on several reasons, with one of the main being that Swedish banks hold a leading position among the three countries in performance measurement practices and concerns for non-financial dimensions. Another important rationale is language, as we wanted to ensure that both authors can actively participate during the interview process by raising questions and communicating with the interviewees. Another reason relates to proximity, referring to Swedish banks being the closest to our location and environment where majority of our research was conducted.

In selecting the format of interview questions, we have chosen a semi- structured approach, with open-ended questions. Reason for using open ended questions is that were looking forwards to getting insights regarding why financial institutions use particular non-financial measurements, what motivated them to and what are their position regarding the raised issues. The advantage of using a semi-structured interview is that interviewed individuals will have to follow pre-designed set of questions, however will be given a degree of flexibility in discussing issues related to the topic, which will allow us to bring up new questions if we recognize the need to get a more expanded answer. The interviews were conducted in confidentiality, without disclosing the banks' or interviewees' names, to ensure more open communication. The interviewees were invited to share additional information if they feel the need to clarify certain aspects. The interviews were recorded and analyzed using a playback mode. To see the particular questions asked during the interview process, please refer to the Appendix 1.

The interview framework contained one question that asks the interviewees to rank financial and non-financial dimensions based on their level of importance to the bank, starting with 1 being insignificant and 6 highly important. We considered that a six point Likert scale is an optimal choice because the scale is not too small and allows the range of variations; at the same time, as it is not too big, there are not too many answer options which could distort interpretations of results. In the same time it offers a forced choice method due to the absence of a middle option.

2.4 Selection of companies

In our research, we were interested in studying primarily four major, leading banks in Romania, Sweden and Ukraine, Romania and Ukraine being selected as the authors' countries of origins. The financial services market in three targeted countries is composed of financial institutions of different sizes. Our companies' selection was based on the proportional representation criterion. In this regard we selected the first four largest banks from each country, which together contribute to about 50-80% of industry revenues, being considered as representative for the three financial industries. The banks outside the selection of big four are smaller in terms of assets, employees, branches, services offered, etcetera and therefore have a much smaller contribution to the total industry results. The size of bank is based on the amount of its assets, which are the loans that the bank has provided (Zineldin, 2005).

The selection of the four largest banks from each country was based on criteria like profitability, net assets, number of employees or national banks ranking. In Sweden, according to Svenska Bankforeninger the "big four" Swedish commercial banks in terms of profitability, total assets and number of people employed are: SEB, Swedbank, Nordea and Handelsbanken. They are present on almost all the financial market segments, together accounting for over 75% of the total assets on the banking market. We included in our study Swedish banks from the commercial category due to the fact that this category resemble the most with the type of banks analyzed in the other two countries.

The largest four banks representing the Romanian financial industry are Romanian Commercial Bank (BCR), Romanian Development Bank Societe Generale (BRD), Raiffeisen Bank Romania and Transilvania Bank. They are the largest ones in terms of profitability and net assets, representing half of the total Romanian banking market's assets[1].

According to Ukrainian Government Portal, the four biggest Ukrainian banks are Private Bank, Prominvest Bank, Raiffeizen Bank and Ukrsots Bank.

More details on the particular financial institutions targeted in each country are presented in the empirical section alongside the national industry's details.

2.5 Choice of measurement dimensions

In conducting empirical data analysis we studied corporate annual reports and web pages looking for measurements, which would indicate that a given company is using non-financial dimensions in its performance measurement system. We looked at the financial indicators to see whether the

[1] Enculescu A., The first Romanian banks top.

bank links them to non-financial ones, however unless found a strong relation, we did not discuss them in this study as our main concentration is on non-financial measurements.

The choice of measurements used in our research has been generated both theoretically and empirically. The theoretical perspective was based on the Kaplan and Norton BSC framework and also on previous studies referring to the financial services industry. On the other hand, the empirical contribution to the measurements choice was based on the banks' annual reports analysis. The indicators selected in the empirical phase represent environmental concerns, social participation, diversity index, employees' development and reward, etcetera. The main measurements considered in our study are strongly related to customers, employees, quality of service, market share and innovation and explained more below.

Customers and employees represent a main concern for each company as they are strong drivers for profitability. The link between customers dimension and financial results is mainly established by the customer satisfaction index. The employees' contribution at the organizational goals' achievement is evaluated through measurements related to their commitment, motivation and education.

Quality is defined by Wyckoff (1992) as "the degree of excellence intended and the control of variability in achieving that excellence, in meeting the customer's requirements." It is frequently measured in terms of *customer complaints* and *customer satisfaction*. To understand how studied banks evaluate the quality of service provided, we will analyze the link between performance indicators they use and customer satisfaction, perception of quality and complains.

Market share relates to the total value of customer deposits (in terms of home currency, dollar or Euro) held by a specific bank in a given market in comparison to other market participant banks (Zineldin, 2005). Market share analysis serves as a better tool to monitor changes in bank's market position rather than profitability data. It provides information of bank's market segment from a comparative perspective (Zineldin, 2005). To analyze how studied banks measure market share changes we will see how their performance measurement system is linked with expansion of branch offices, ATM, card transaction and market share change. We will also evaluate the emphasis analyzed banks place on rewards and recognitions awarded by various institutions.

Innovation. In order to survive banks must be quick and flexible to respond to changes forced by external environment. As banks are highly dependable on customers, but clients can easily change the financial supplier, banking institutions must ensure that they diversify products and services offered to increase customer's dependency on a particular bank (Zineldin, 2005). Indicators related to those are expansion of services and investments in research and development like new products, market share of new products, and services per employee, etcetera.

Moreover, we will also evaluate commitment of the studied institutions to environmental protection, social programs and desire to be a well-recognized employer.

2.6 Methodological limitations

In this study we focus our attention only on four biggest banks of Ukraine, Sweden and Romania. Hence, banks from other countries might have a different position in usage of non-financial indicators. We also assume that the four biggest banks in each analyzed country are representative for the entire financial industry in designing and applying their performance measurement systems.

An important part of our analysis is based on public information reviewed from the annual reports and corporate web pages of analyzed organizations. There can be the case, especially in the two East European countries with a relative limited experience in public information disclosure, that the studied banks do not file as public information all the necessary data for a fair evaluation of the performance measurement system. Analyzed banks may be using much more non-financial measurements than they are actually disclosing in their annual reports and corporate web pages. Our major assumption is that the specific non-financial dimensions used by the banks will be mentioned in their strategy description or in their performance reports presented in their annual statements or corporate web pages. In this regard our study results for Romania and Ukraine are based on the public availability of meaningful information.

Another methodological problem occurred during the primary data research and it referred to the inability to interview Romanian and Ukrainian banks. Hence we will not have the insight perspective of Romanian and Ukrainian banks regarding the performance measurement and the role of non-financial indicators. Therefore, we cannot project their position regarding the choice of performance measurement practices.

Related to the interviews conducted with the Swedish banks, we have to mention that the banks' assignees available to help us in our research were representing different organizational level and also different positions in the company: Alpha – branch manager, Beta – Head Quarter Performance Management Department representative and Gamma – regional marketing director. The interviewees' different perspectives may have affected the comparative analysis results.

Our major attention is focused on the current practice of analyzed banks in usage of non-financial measurements. Although the secondary data collection was based on the analysis of five years annual reports, the lack of major developments in the performance measurement system design changed our analysis focus. Therefore this paper will not analyze historical developments in measuring/presenting non-financial indicators, but focus on current degree of their usage among studied banks. The important changes found during the data collection will be mentioned in the analysis chapter.

2.7 Quality of the study

The quality and the trustworthiness of a qualitative research can be determined by validity and reliability of the study. The *validity* is a main concern in the research and indicates whether the study truly gives the best view of the problem studied. According to Seliger and Shohamy (1989) any research can be affected by internal or/and external factors, which even though do not concern the research can invalidate its results. The findings can be internally invalid because they were affected by other factors than the ones that researchers considered or because the researchers' interpretation of collected data is not clearly supportable. The external validity refers to the extent to which the study results can be applied to a larger group. The findings are externally invalid if they cannot be extended to contexts outside the research one.

The validity of a present study can be supported by the fact that the findings are largely supported by the theoretical ideas presented in the thesis. The findings show largely similar performance measurement systems in the three countries but in different stages of development while the interviews conducted with the Swedish banks indicate similar results although they were conducted at different organizational levels. These facts entitle us to claim that the findings are applicable to other financial institutions.

McKinnon (1988) explain that *reliability* presumes stable and reliable results without impairment from accidental circumstances. A reliable study implies that other researchers would come to the same results if using the same method.

The thesis is written with the authors' best efforts to conduct a reliable study. We are aware that the methodological problems described previously and also the personal experience and opinions of the authors may have affected the findings, however the thesis is reliable for its purpose.

Chapter 3

Theory Owerview

3.1 Performance measurement system

"Performance measurement is an ongoing study of organizational health" Maybaum[2]

3.1.1 Definition and role

Performance measurement stands at the heart of any organization: *how well are we doing*? One cannot emphasize improving his performance without evaluating the current one. How to measure the performance has been a focus interest for both academics and practitioners, especially because a number of studies revealed that the measurement-managed companies outperform the non-measurement managed ones (Fitzgerald, 2007).

The performance measurement (PM) debate has been based more on its role and design than on its definition. Defining the performance measurement system can be a useful tool for the managers confused by the different approaches of performance measurement debate. The most quoted definition is provided by Neely et al (1995, p 81), "*a performance measurement system can be defined as the set of metrics used to quantify both the efficiency and effectiveness of actions*". The *effectiveness* emphasizes the extent to which the customer's requirements are met and *efficiency* is referring to the proper utilization of resources at a given level of customer satisfaction.

Moullin (2007, p181) recommend a definition that can offer more guidance to practitioners, "*evaluating how well organizations are managed and the value they deliver for customers and other stakeholders*". The intended role of this definition is to inspire managers to consider the extent to which the firm measure the value delivered to customers and whether it covers the main aspects of performance.

A more practical definition is offered by the US General Accounting Office[3] (Franceschini et al, 2007, p 109), "*performance measurement is the ongoing monitoring and reporting of program accomplishments, particularly progress towards pre-established goals*".

The PM system is an important tool in an organization and is used to understand, manage and improve its processes. Franceschini et al. (2007) states that an effective measurement system help managers understand:

- How well the organization is doing (correct process representation);
- If the goals are met (goals and reference standards identification);
- Whether the customers are satisfied (control and process development);
- If the organizational processes are in control (control organization effectiveness and efficiency parameters);
- Whether and where process improvements are necessary (identification and correction of problems).

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[2] Maybaum & Maybaum web page, Why performance measurement works, p 1, http://www.maymaycpa.com/MMPages/2002_nov-dec/maybaum1.html

[3] US General Accounting Office (GAO/GGD-98-26)

The importance of performance measurement system derives from its role in the organization. Franco-Santos et al. (2007) proposed five different categories of performance measurement role, which are presented in the Figure below:

Table 1: Roles of Performance Measurement	
Role	***Description***
Measure performance	monitoring progress and evaluating performance
Strategy management	planning, strategy formulation, strategy implementation and alignment
Communication	internal and external communication, benchmarking and compliance with regulation
Influence behavior	compensating and rewarding behavior, managing relationship and control
Learning and improvement	feedback, double-loop learning and performance improvement

Emphasizing the role of performance measurement, Franceschini et al. (2007) states the reasons for adopting a performance measurement system:

- Provide a structured approach to focus on strategic plans, goals and performance;
- Concentrate the focus on the desired achievements and also ensure feedback on the progress towards the objectives;
- Improve communication internally among employees and externally between the organization and its stakeholders;
- Support the decision making process.

The authors also explain the limits of the performance measurement system. First, the cause and effect of outcomes are not easily established because the results are influenced by numerously internal and external factors that make the cause of a particular result difficult to determine. Secondly, poor results do not necessarily indicate poor execution; sometimes they can indicate unrealistic setting of targets. Third, the measurements are only a model, an approximation of the actual system. Last, the performance measures do not ensure compliance with laws and regulations.

3.1.2 Design

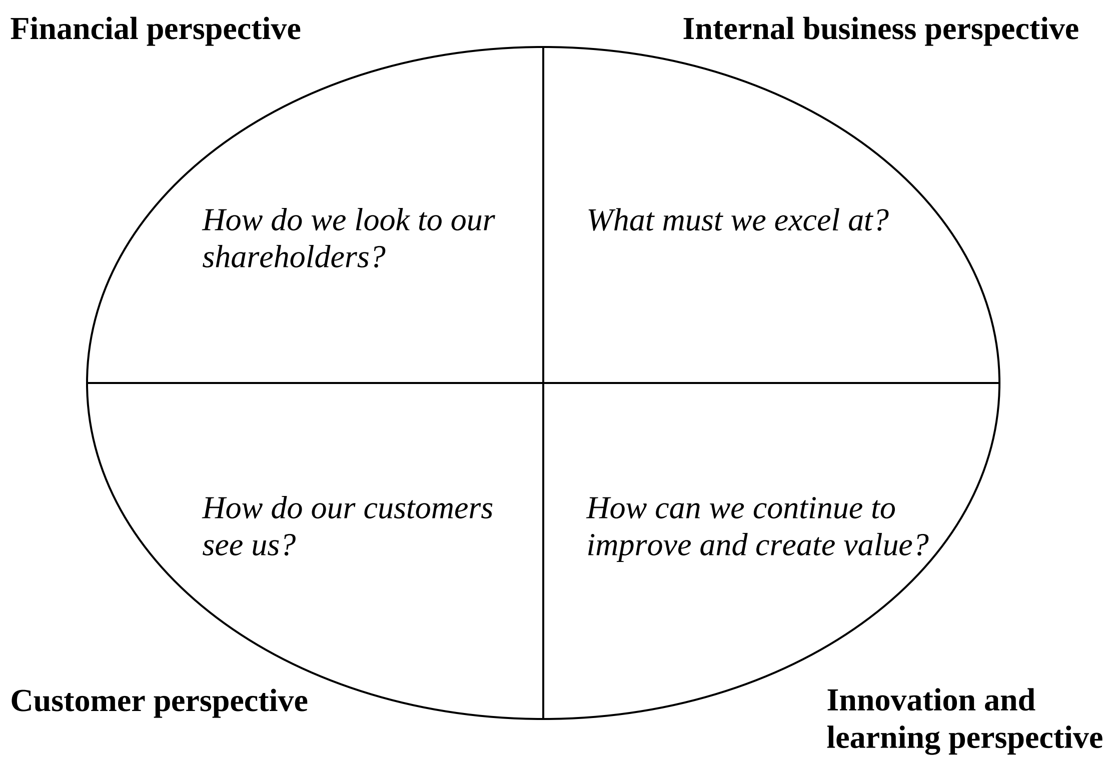
Important step towards establishing an efficient performance measurement system is the designing process. Every organization has to adapt the theory on performance measurement to fit the specifics of its processes. Fitzgerald et al. (1991) states that the performance measurement framework can be build on two basic types of measures: those related to *results* (e.g. financial performance) and those related to the *determinants* of the results (e.g. innovation, quality).

Franceschini et al. (2007) emphasize three types of indicators on the performance measurement framework, which are presented below in Table 2:

Table 2		
Effectiveness	**Efficiency**	**Customer care**
Are we doing the right things?	*Are we doing thing right?*	*The degree to which the customers appreciate the performance.*

The theorists of performance measurement system have different views on its designs from providing detailed performance measurement framework to describing guidelines or principles to performance measurement design. The best known performance measurement framework is the Balanced Scorecard, developed by Kaplan and Norton (1992), which is based on following organizational aspects:

Figure 1: The Balance scorecard dimensions



Other authors, like Globerson (1985), provided criteria for performance measurement design rather than designing a framework:

- Performance criteria must be chosen from the company's objectives;
- Performance criteria must allow comparisons between similar companies;

- Each performance criterion must have a clear purpose;
- Performance criterion's data collection and calculation method must be clearly defined;
- Ratio-based performance criteria are preferred to absolute number;
- The evaluated business unit must control the performance criteria;
- Performance criteria should be chosen through discussions with the people involved;
- Objectives performance criteria are preferable to the subjective ones.

Maskell (1989) offers also seven principles for performance measurement design:

1) The measures should be directly aligned with the company's strategy;
2) Non-financial measures should be used;
3) The measures can vary between locations;
4) The measures change as circumstances do;
5) The measures should be simple and easy to use;
6) The measures should provide fast feedback;
7) The measures should be designed to induce continuous improvement rather than just monitor.

Bouwens and Spekle (2007) describe particular issues in designing the appropriate performance measurement system especially for decentralized organizations where the performance measurement system has the role to sustain the decision making process for managers of business units. One problem in designing the performance measurements is *sensitivity*. This demands that the measures must be responsive to the managers' decision and efforts. If the achieved performance influenced by the managers' actions is not the same with the measured performance, the measure is insensitive and accordingly do not serve the purpose of influencing decision making and also providing meaningful feedback.

Another issue related to establishing a good performance measurement is the presence of *noise* in the measure(s). In this case the measured performance can be influenced by several uncontrollable events, which make the managers' efforts to be reflected inaccurately and determine a wrong perception of their performance.

The performance measurement design can also be affected by *distortion*. This problem occurs when the measured and achieved performance is not aligned with the organization goal achievement. In this case managers' action can have a positive impact on the measure but not on the organizational objective or contrarily can have a positive impact on the ultimate goal but not influence the measure. Designing the PM system is a key process for organizations that outlines the future role and influence of the performance measurement in the company's activities.

3.1.3 Optimal number of measurements

An important issue in designing a proper PM system is establishing a correct number of measurements used. A limited number of indicators would affect the general managerial perception about the organization's performance. On the other hand too many indicators would have a similar effect and dilute the results.

The optimal number of measurements needed to evaluate the organization's performance was debated in literature. Kaplan and Norton (1992), the developers of Balanced Scorecard, recommended no more than 20 performance indicators, Hope and Fraser (2003) suggested less than 10, while Stern Steward & Co, the advocates of Economic Value Added argue that EVA is a complete measure to enhance the shareholders value. Parmenter (2005) distinguish between key result indicators, KRI (communicate management's performance to the board), performance indicators, PI (indicate the management what to do), and key performance indicators, KPI (indicate the management what to do to dramatically increase performance). Parmenter considers that the optimal rule is 10 KRI / 80 PI / 10 KPI, which means having 10 key results indicators, measured by 80 performance indicators and 10 key performance indicators.

3.1.4 Financial / non-financial indicators trade off

Over the last decades academics have been debating about the optimal measures to evaluate the organizations' performance. Two major schools of thought were formed in this regard: the stakeholder versus the shareholder approach. The *shareholder approach* is based on the principle that a measurement system focused on shareholder value will lead to the final goal, the shareholder wealth. The approach emphasizes only financial measures based on residual income like: discounted economic profits, EP, by Marakon Associates, economic value management, EVM, by KPMG Peat Marwick, economic value added, EVA, by Stern Steward and cash flow return on investment, CFROI, by Boston Consulting Group's HOLT Value Associates (Fitzgerald 2007).

The other approach, the *stakeholder* one, sustains the use of financial and non-financial measures. Its advocates argue that focusing only on financial measures can have a negative impact on the organization's response to the competitive environment's demands. There are two general views of the performance measurement system under this approach. The first claims that companies can achieve greater performance if they concentrate on a diverse set of financial and non–financial measurements (Lingle & Schiemann, 1996). The second view is based on the contingency theory and advocate that the performance measures must be linked to the company's strategy and/or value drivers (Fisher, 1995b; Langfield-Smith, 1997). Closely related to the second approach is the use of measures like Balanced Scorecard, BSC, (Kaplan and Norton, 1992). This is the most widely known multidimensional framework which is built on the idea that what is measured motivates stakeholders to act. Other representative frameworks are: the SMART pyramid (Lynch and Cross, 1991), the results and determinants framework (Fitzgerald et al, 1991) and the performance prism (Neely and Adams, 2001).

3.1.5 Increasing importance and the relationship between financial and non-financial indicators

> *"If senior managers place too much emphasis on managing by financial numbers, the organization's long-term viability becomes threatened."* R.S. Kaplan[4]

Corporations analyze their success from the "bottom line" perspective of quarterly profits and expenses; financial indicators are viewed as fundamental and major indicators of organizational success. High pressure on financial indicators forces management to take actions that are very shortsighted and are made at the expense of long-term investments (Shaw, 1999). However, it is

[4] Maybaum & Maybaum web page, Why performance measurement works, p 1, http://www.maymaycpa.com/MMPages/2002_nov-dec/maybaum1.html

crucial to point out that financial indicators comprise only one dimension in evaluating performance. Relying too heavily on financial data provides incomplete picture for management to lead and assess organizational performance (Maybaum, 2002). Organizational performance needs to be analyzed from both financial and non-financial perspectives as they complement each other and ensure long-term health for the entity.

The major advantage of non-financial performance indicators (NFP) is that in contrast to financial ones, NFP can point to the linkage between cause and effect of activities within the organization and deal in particular with causes and not with consequences (Hussain, 2004). Financial measures, such as profit or expenses, arise as consequences of non-financial activities. They worked well during the industrial era, however in the current environment with high emphasis on competition and strive for continuous improvement, they are loosing their positions. Moreover, traditional financial indicators such as return on investments or earnings per share can mislead companies from investing into continuous innovations and improvements (Kaplan and Norton, 1992). On the other hand, the non-financial aspects, such as internal processes, innovations, improvements and customer satisfaction drive the future financial performance.

Striving to improve the current measurement systems, management is concerned with making it more relevant for the company's performance (Kaplan and Norton, 1992). Some studies have pointed to the importance of the new financial measurements, more relevant and helpful than a multidimensional framework, while others have suggested the increased importance of non-financial, operational measures. However, in order to succeed, there is a crucial need to understand that no single indicator can fulfill the role of an efficient performance measurement system. In order to reach this, there is a need to combine financial and non-financial indicators in managing the organization (Kaplan and Norton, 1992).

3.1.6 Advantages of using NFP indicators

When developed, implemented and used properly, non-financial indicators can be a helpful complement to financial measurements in managing organizations and ensuring that the designed strategy is followed. Major advantages of NFP include:

- Non-financial indicators are driven by the objective to obtain long-term competitive advantage, which is derived from the strategy and long-term goals of the management as well as organizational mission and vision positions (Hussain, 2004). While financial information places major concerns on short-term, annual performance, it may hinder important strategic goals, such as competitive strength, new product development or expansions. As highlighted by Ittner and Larcker (2000), when companies start supplementing financial measurements with non-financial ones, they can easier communicate objectives and motivate managers to take actions towards the long-term strategy.
- NFP support and give attention to the intangible assets. Intangible assets, such as customer loyalty, brand perception and intangible capital, are perceived to be the drivers of success in the majority of industries (Ittner and Larcker, 2000). Measurements that relate to employee relations, quality, brand perception and innovation comprise a significant portion of the company's value. Financial indicators tend to exclude intangible assets, stimulating management to take poor and harmful actions. On the other hand, NFP can provide indirect, quantitative information about company's intangible assets and ensure that proper concerns and actions are taken to further stimulate them (Ittner and Larcker, 2000).

- Non-financial measurements are more efficient in indicating the success of the managerial effort and provide a link to improvements in financial performance (Hussain, 2004). Current financial measures may not fully grasp the future benefits of making certain decisions now. Good examples would be investing in research and development or certain marketing costs which have to be expensed instead of capitalized, reducing the profits in the short-run (Ittner and Larcker, 2000). NFP provide a link between those activities and the future financial performance, and therefore support healthy, long-term oriented decisions.
- NFP provide more accurate evaluation of managerial performance. According to researches done by Ittner and Larcker (2000) non-financial measurements are less sensitive to noise and more concerned for organizational health in the long-run perspective. Therefore they lower the risk and pressure imposed on the management in determining their compensations.

The implementation of non-financial measurements can have advantages not only for the organizational profitability, but for its stakeholders as well. Usage of NFP provides an opportunity for management to evaluate the organizational progress earlier than the financial statements are being made (Ittner and Larcker, 2003). Moreover, NFP indicators educate the employees regarding the proper actions they need to take to meet the strategic targets. NFP measurements provide a better tool for investors in analyzing overall organizational performance, as they can observe organizational investments into its intangible assets, such as R&D, which would be expensed in accounting statements but add value to the company from a non-financial and economic perspective (Ittner and Larcker, 2003).

3.1.7 NFP as a subject to misuse and manipulations

Despite the number of advantages of NFP, only few companies enjoy them in practice. This issue can be explained by the fact that in many cases, companies fail to identify and act upon suitable non-financial measurements (Ittner and Larcker, 2003). Companies do not put proper effort into identifying the NFP that relate to their strategy and establishing an understanding of the link between cause and effect of non-financial indicators into financial measurements.

Due to the lack of proper understanding of non-financial measurements, NFP are highly susceptible to misuse and manipulations by management. Findings of Ittner and Larcker (2003) indicate that, "misuse of non-financial measures may be even more damaging because of the significant opportunity cost incurred." The major misuse on NFP arises from a failure to consider and verify the cause and effect relationships between the chosen non-financial drivers and the desired outcomes. In a study by Ittner and Larcker (2003), out of 157 observed companies, only 23% managed to constantly monitor and update the cause and effect linkage. The study indicates that those 23% of companies that met the requirements, had on average almost 3% higher ROA and about 5% higher ROE than those that failed to do so.

3.2 Performance measurement in the financial service industry

Previous research findings point to the fact that non-financial performance measurements within companies are highly influenced by the strategic orientation of the company. However, depending on the industry, the strength of the influence will vary (Hussain, 2004). Depending on the country and external conditions, the usage of non-financial indicators varied within the financial institutions. Research findings of Hussain (2004) indicate that banks and financial institutions (BFI) place greater emphasis on updating and ensuring that management accounting system measures the financial performance in an accurate way, placing much smaller attention to measuring non-financial indicators. BFI widely use traditional management accounting systems to measure NFP.

3.2.1 Basel II Accord

The Basel Committee on Banking Supervision issued in June 2004 the second Basel Accord containing recommendations on banking laws and regulations aiming to create an international standard for banking regulators that can assure the financial market stability. In practice, Basel II main focus is on risk and capital management requirements, establishing rules that link the bank's level of risk with the capital reserve held to assure the bank's solvency. As a general rule the higher the risk, the higher the needed capital reserve.

Basel II affects the performance measurement first by affecting the bank's performance due to the specific requirements on capital allocation and capital reserves and second by affecting the measurement system, especially the bank's solvency evaluation, by defining the risk and dividing it in different types of risk: operational, market and credit, and also by establishing methods to quantify them.

Basel II uses a "three pillars" concept:

I. *Minimum capital requirements* – the first pillar emphasize the minimum capital requirements depending on the level of credit, market and operational risk of the bank and also the appropriate way to evaluate the three types of risks depending on each bank particularities.

II. *Supervisory Review Process* – the second pillar addresses to the regulators, the banking supervisory authorities, requiring qualitative reviews in order to ensure compliance with the first pillar. It also provides a framework to handle the residual risk (systemic, pension, concentration, strategic, reputation, liquidity and legal risks).

III. *Market Discipline* - the third pillar's requirements aim at greater disclosure of the banks' risk position, increasing the market transparency.

Regarding the implementation of Basel II Accord in the countries that are the object of our study, The European Commission published in 2006 two directives, 2006/48/EC and 2006/49/EC. Those directives transformed the Accord's requirements into European law; the member states were required to apply the directives from January 2007. The banks from Romania, which became an EU member in January 2007, were allowed to postpone the Basel II implementation to January 2008, solution adopted by the majority of banks due to the high cost involved in the Accord's implementation. Regarding the implementation in Ukraine, although until now there are not mandatory requirements for Ukrainian banks, in the light of the current global financial crisis and the country loan from International Monetary Fund, IMF, it is expected that the Ukrainian government will be more receptive to IMF requirements which focus among other on Basel II implementation.

3.2.2 Committee of European Banking Supervisors

The Committee of European Banking Supervision (CEBS) is composed from representatives of banking supervisory authorities and central banks from European Union and has the role to advice the European Commission regarding financial issues. Its other roles require CEBS to contribute to the implementation of financial related directives and to enhance the convergence between member states as well as increase the supervisory cooperation in EU. CEBS has certain guidelines regarding the information that banks have to prepare annually. The aim of those requirements is to provide a roadmap helping the banks to follow consolidated financial reporting framework (FINREP).

The framework of FINREP is based on international accounting and financial reporting standards (IAS/IFRS). FINREP has to be followed by European credit institutions when they prepare financial statements under IAS/IFRS or directed by the local supervisory authorities. This framework specifies financial indicators that banking institutions have to provide. FINREP has two sets of information: core information and non-core information. Core information consists of the list of minimum information that credit institutions have to provide, and consists of Consolidated Balance Sheet (assets, liabilities and equity) and Consolidate Income Statement (CEBS). On the other hand, non-core information is built on core information and is optional based on national level requirements.

3.2.3 The line between financial and non-financial indicators

Table 3 below presents classification of performance indicators and their measurements provided by *The Foundation for Performance Measurement*. There are six generic dimensions for performance measurement, such as competitive advantage and flexibility, financial performance and utilization of resources, quality of service and innovation. Please refer to the Table 3 *Dimensions of Performance and Measurement Types*.

Table 3: Dimensions of Performance and Measurement Types[5]

Dimensions of Performance	**Examples of Measurements**
Competitiveness	Market share and position Growth in sales Measures per customer base
Financial Performance	Capital structure Financial ratios: profitability, liquidity, etc
Flexibility	Flexibility in volume and specification Delivery speed
Resource Utilization	Productivity Efficiency
Quality of Service	Reliability, responsiveness, comfort, friendliness, availability and access, competence, etc.
Innovation	Progress and performance within innovation developments Performance of individual innovation projects

[5] Retrieved from *The Foundation for Performance Measurement*

It is important to point that according to *The Foundation for Performance Measurement* those six dimensions are classified into two categories. First two dimensions, competitive advantage and financial performance, point to the success of the strategic decision, which are ends or consequences of a decision. The other four dimensions comprise the determinants of a competitive success, that is, they serve as a cause of future performance, in other words the first two dimensions represent the results and the other four represent the determinants of the result.

The link between these two dimensions emphasizes the relation between financial (results) and non-financial (determinants) indicators. Financial and non-financial measurements are interconnected due to a cause-effect relationship. A good financial result reflects also a proper control over the non-financial dimensions of the business, while a system of monitoring and developing the non-financial performance can assure long-term financial benefits.

3.2.4 Traditional MAS not suitable for banks

"One measure, such as net income after capital charge or ROE, is not robust enough to tell us everything we need to know about the health of the business. You can not capture the essence of all of our diverse business within a uniform set of [traditional accounting] measures." P. Burns[6]

Accounting analysis and management accounting systems, as a universal business language, provide the management of the company with needed information to plan and control organizational goals. Considering the rapid technological developments, globalization, elimination of borders and raising competition, traditional management accounting systems are not able to provide and include all the information needed by an organization to make proper decisions, plans and controls (Hussain, 2005). Current trends forced companies to realize that besides cost/expense information, such aspects as flexibility, quality and speed became the major indicators of competitive position (Suwignjo, Bititci, Carrie, 2000). Performance measurement based solely on financial indicators fails to measure and consider all range of factors that are now essential for organizational success.

Traditional MAS concentrates too heavily on accounting indicators

Traditional accounting approaches, such as ROE or ROA, provide a summary representation regarding which bank units are contributing or departing from shareholder value creation (Karr, 2005). They work like a thermometer—perform a diagnostic function of a current condition. However they fail to answer questions related to "how" and "why" of achieved performance results or show the progress in terms of achieving strategic goals of the bank. Moreover, as stated by Karr (2005), a set of one single PM system cannot accurately evaluate performance across different levels and units within the bank. Despite this realization, banks continue expecting that one system, comprised of traditional accounting measurements will ensure all the needed information to control and lead the organization. Therefore Karr (2005) indicates that banks need to adopt a wider set of performance indicators, which will provide a better picture as to how the institution is moving along the mapped strategy.

[6] Karr, J. (2005) Performance measurement in banking: beyond ROE. *Journal of Performance Measurement*. Retrieved Apr 2009. http://findarticles.com/p/articles/mi_qa4148/is_200505/ai_n15742974/ - p 2

Traditional MAS does not capture all aspects of efficiency indicators

As the structure of financial service industry is changing promptly, it becomes more important to indentify the indicators of cost and revenue efficiency (Berger et al, 1993). The efficiency of financial service industry is highly interconnected with improvements in profitability, better prices, improved quality of service and safety (Hussain, 2005). Therefore, in order to ensure that banks and financial institutions sustain and develop their efficiency, modern management accounting system has to include major factors that are crucial for the success of the company.

Historically PM systems in banks have developed towards providing reactive financial results for past performance. The argument presented by Karr (2005) is that PM based on financial perspective is essential in evaluating the achievements within a particular bank and its units, however it does not provide a complete picture. Such performance measurement system, according to Karr (2005) fails because it

- Lacks important NFP indicators;
- Concentrates extensively on outcomes rather than drivers;
- Adopts backward looking perspective, instead of being proactive and having a forward-looking view;
- Results are measured and compared with internal information, hence external benchmark and comparison is missing;
- Rarely includes cross-organizational measurements.

As a result of those shortcomings, traditional PM that is widely practiced in banks is not fully useful in evaluating the performance of banks and financial institutions. It needs to be modified to include a wider picture and help in evaluating organizational performance in relationship to strategic agenda (Karr, 2005)

Overlooks customer satisfaction

Zineldin (2005) argues that in a current business environment, a good reputation and a strong market position of the company quickly rewards with a stable market share and income. However, this can only be achieved by making a strong organizational commitment to providing a service that is based on diligent attention to the needs and wants of customers. The researcher notes that banking organizations do not only sell products and services, but, what is more important is that with every customer transaction and communication, they sell the reputation of their bank.

Moreover Ittner and Larcker (1998) argue that customer satisfaction has became a leading indicator for the accounting performance, as customer-level tests ensure evidence that future revenues are greater as customers are more satisfied. Researchers find that customer satisfaction measures have positive and statistically significant relation to accounting performance. Marketing literature reveals that higher customer satisfaction increases loyalty level of existing customers, lowers marketing expenses by positive image perception and enhancing the reputation of a company, all leading to improvements in financial performance.

The findings of Anderson, Fornel and Lehman (1994) indicate that contemporary accounting performance measurements do not fully reflect the benefits of investing into customer satisfaction. The study of Ittner and Larcker (1998) reveals that customer satisfaction indicator is economically relevant to the company’s performance on the stock market, however less relevant to the current accounting values. They found that growth in customer satisfaction index has an indirect influence on accounting performance by having a bigger number of customers, therefore they suggested the inclusion of customer satisfaction measurements into internal PM system.

The major issues in implementing customer satisfaction into performance measurement system are explained by Arthur Andersen (1994):

- Establishing a link between customer satisfaction and financial performance, in particular profitability;
- Understanding the point where customer satisfaction starts providing diminishing returns, as there are evidences suggesting that high customer satisfaction provides diminishing performance benefits.

3.2.5 Why banks should use NFP

Non-financial performance is essential for service organization, therefore financial service institutions have a crucial need to measure, evaluate and improve non-financial aspects of performance (Hussain, 2005). While it is relatively easy to identify NFP indicators in manufacturing companies, this becomes an issue in service organizations. In particular this is applicable for banks due to a heavy influence by central banks into the process of business operations.

To compensate for the missing aspects of traditional PM systems, banks and financial institutions are striving to define and develop new systems that would look beyond traditional financial indicators and be more effective in aligning objectives and measurements (Karr, 2005). Banks and financial institutions of developed economies have realized the need to establish and monitor linkages between measured performance and strategic objectives. Hence, more attention is being paid to non-financial performance indicators and development of the PM system that would measure those aspects, as a way to compliment and improve existing performance measurements (Karr, 2005).

Table 4 *Possible Dimensions of Bank Performance Measurement* presents several possible PM dimensions for banks. Karr (2005) findings point that each dimension and combination of dimensions has value to different units and divisions of the bank. The issue is that a single PM system is not capable of supporting and monitoring all of the combinations across organizational levels and units throughout the bank. Therefore there is a need to expand the existing traditional PM systems in order to capture the major dimensions.

Table 4: Possible Dimensions of Bank Performance Measurement[7]

Level	Reporting Hierarchy	Information Scope & Content	Reporting Period	View	Use
Strategic Tactical	Legal entity Line of business	Financial Operational	Daily Weekly	Ongoing One-time	Decision-support

[7] Source Karr, 2005

Transactional	Work unit Function Product Market Customer Value chain Process	Market Internal External Quantitative Qualitative	Monthly Quarterly Annually	Historical Forward looking	Performance indicator Early warning Incentive Compensation

According to the findings of Hussain (2004), each strategy and objective of a given bank defines its long-term decisions. Adoption of shareholder-oriented perspective forced banks to heavily concentrate on financial measurements, in particular return on equity (ROE). However, due to their inability to show a full picture and adopt a proactive approach, financial measurements are important, but need complementary indicators in order to reflect the whole story (Karr, 2005). Bank executives are recognizing that in order to meet a desired long-term term objectives and establish a long-term competitive advantage, BFI need to adopt PM that includes non-financial perspective (Hussain, 2005). Researchers indicate that over the past decade banks have come to realize this and started the development of measurement metrics that provide a better insight about the performance and go beyond the ROE (Karr, 2005).

In his research, Karr (2005) arrives with suggested areas and dimensions that a new performance measurement for banks should include:

- *Define measurement metrics based on vision and strategy*. Traditional systems of performance measurement use one set of indicators common to all types of businesses, however banks need specific measurements that are considering specifics of the business. According to Karr (2005), the vision, as banks' statement regarding its desired position in the future, "defines the scope and broad parameters for the measure." Vision is defining major areas for measurements to emphasis, ex profitability, continuous learning and improvement, quality, etc. On the other hand, strategic targets define metrics that need to be used to assess performance, for example the strategy of having cost advantage position implies evaluating costs structure and position compared to competitors, market share, etc.
- *Establish clearly defined linkages to ROE*. A complete set of performance measurements should be sensitive to the economics and processes of a particular business in order to reflect on indicators that drive net income and return on equity. It has to reflect a set of areas, which management will be able to push or pull in order to improve income and ROE.
- *Include non-financial measurements*. NFP are missing from the reporting framework of most banks, however they are equally important in managing the organization. As explained previous, they are helpful in explaining causes, and hence, can provide a roadmap as of how to cure the problem within organization. Karr (2005) suggests several NFP indicators that need to be included in banks: quality of service, head count, time of processing loans, new sales calls, time to market and cross-sales.
- *Include a view on cross-organizational processes*. Some banking activities are complex and consist of multiple stages and involve several units. In such cases, evaluating individual sub-unit on discrete bases will not provide satisfactory results, therefore banks needs to measure a total performance process (Karr, 2005).

- *Include external perspectives*. Benchmarking the results can help in understanding bank's target position and needed actions in relation to customers, shareholders and suppliers. External benchmarks are better indicators than inwardly focused measures when it comes to evaluation strategic success of an organization (Karr, 2005).
- *Adopt proactive approach*. PM in banks and financial institutions are rarely projecting prospective views and in most cases show performance in comparison to prior plans and periods, which becomes a big issue for organizations like bank and financial institutions, that need to be flexible and prompt in their actions, especially in times of economic turbulence. This get in the way of managers to understand the consequences of reported results. Therefore, according to Karr (2005), emerges a need to improve PM so that it would encourage continuous improvement and takes a proactive perspective.
- *Set of measurements has to be brief but to the point*, robust and complementary to existing PM. Performance measurements have to be carefully selected and updated as changes in business conditions and environment take place. It is important to ensure that they are properly balanced, to avoid instances when one indicator can be emphasized and improved at the expense of another one, which is equally important. However, it is important to ensure that the number of measurements is limited, because having too much of them can distort performance evaluation and create confusion (Karr, 2005)

3.3 Previous researches

This section looks at previous studies that directly relate to our banking industry analysis. One of the researchers that conducted a number of studies in this area is Mostaque Hussain who studied performance measurement systems used by financial institutions in Finland, Japan and Sweden. Another view on banking performance measurement is offered by Ittner, Larcker and Randall; they analyzed non-financial performance measurements practiced by financial institutions in the U.S.

3.3.1 Typical PM systems used by Swedish banks

In his study, Hussain (2005) looked at several BFI in Sweden and tried to analyze which PM systems they have integrated and how they combine non-financial indicators. According to his findings, Bank Alfa has been dissatisfied with its present way of evaluating performance and has been taking actions to deal with this issue. Bank's executives have been paying attention to NFP aspects, such as quality and response speed, on-time services, commitment to customers and customers' satisfaction, as well as the concern for environment (Hussain, 2005). Alfa's management showed a concern regarding the growing need to evaluate non-financial aspects, however according to their reflection, for them it is harder to measure and analyze NFP aspects than financial ones. Bank Alfa had been using activity-based cost management for some time and started implementing benchmarking. Corporate management made a decision to re-engineer business process and implement Balanced Scorecard (BSC).

Husaain' (2005) analysis of bank Bravo revealed that the bank is using financial performance measurement across every section of the organization, with activity-based costing management (ABCM) being a major financial PM system. However, the management expressed dissatisfaction with ABCM in its role to decrease services and indirect costs to the organization. ABCM was acknowledged to be a good tool in measuring financial performance, but poor in evaluating the non-financial one. Management has pointed out that they continuously evaluate NFP and are interested in implementing BSC into the organization to help improve current PM. However, thy expressed concerns regarding the lack of knowledge how to follow-up on NFP data and ensure that the bank's or its business units' performance works according to the plan.

In contrast to previously described entities, Bank Charli was the one that reflected that their MAS is successful in terms of measuring financial and non-financial performance (Hussain, 2005). Management used market surveys to evaluate NFP and was satisfied with this method, as it was relatively easy for them to evaluate the performance. However, their concern was regarding measuring such aspects as customer and employee commitment as well as social well-being. Bank Charli uses ABCM, BSC, Process Type Theory and benchmarking in measuring performance (Hussain, 2005). Top management reflected that they do not have issues in using present methods to measure performance, however they considered current non-financial performance measuring methods to be not as good as they need. In particular, they stated that ABCM and target costing are not good at identifying areas that drive costs or properly allocate and identify activity costs. Target costing was criticized for not being helpful in controlling and decreasing indirect expenses, while BSC was not fully useful in evaluating NFP.

On the other hand, the fourth analyzed bank, Delta, provided a completely different picture regarding the importance and measurement of NFP. Bank's top executives perceive budgeting as an "unnecessary evil" and do not recognize traditional planning and control practices to be effective as they provide insufficient and distorted perception of the company. Moreover, Bank's Delta perception is that "non-financial performance is derived in financial performance and its measures" therefore little emphasis is placed on measuring NFP (Hussain, 2005). Management of this bank has negative attitudes towards various characteristics of traditional MAS, however they use income/expense ratios, ABCM and BSC to evaluate financial performance. Bank Delta perceives benchmarking to be a very important tool in providing a roadmap of how to reach particular targets.

3.3.2 Sweden, Finland and Japan (Hussain, 2004)

Hussain conducted a study in 2004 regarding the effect of organizational strategic orientation on performance, especially on the non-financial performance measurement in the financial services industry in Sweden, Finland and Japan. The empirical part of the study was based on interviews with the representatives of four banks or financial institutions from each country. The research revealed that organizational strategic orientation has a high influence on non-financial performance measurement, with different effects on different financial institutions or countries.

According to the study results, ***Finnish*** banks and financial institutions, BFI, place more emphasis on financial performance than on the non-financial ones. In those companies, traditional management accounting systems were widely used to assess non-financial performance. A cause for the greater importance given to financial performance is the influence of the central bank regulations which hinder the BFI capability to make long-term plans and strategies and affects the objectives of non-financial performance measurement.

The strategies and objectives of the organizations have a great influence on non-financial measurement. The Finnish BFI with well designed strategies and objectives were successful in measuring both financial and non-financial performance, while the BFI without clear vision and strategy were less successful in measuring non-financial performance. In most cases the management tried to measure both financial and non-financial performance but the lack of strategy to incorporate the performance measures into objectives made the assessment of non-financial measures difficult.

Although in the ***Swedish*** BFI management gave a fair importance to the measuring of non-financial performance, the emphasis was placed on short-term financial benefits rather than long-term non-financial objectives like research and development. The objectives of non-financial measurements were financial/profit oriented and designed to fulfill short-term benefits than to follow a long-term strategy or to include social responsibility.

The performance measurement in ***Japanese*** BFI was influenced by the top management attitude towards non-financial objectives. In many cased managements' strategies and objectives included non-financial aspects like social responsibility. This can be viewed as a way to achieve non-financial goals as well as an attempt to reach financial performance by creating a positive image of the firm or "goodwill". Usually the objective of non-financial performance was to create competitive advantage and improve long-term financial performance.

The study concluded that even though the non-financial measurements were considered important in all three countries the majority of managerial emphasis was placed on financial performance measurement. Also, its findings indicated that the firms' strategies and objectives have an important impact in the non-financial performance measurement even if the strategy emphasizes different goals like: short-term / long-term financial goals, competitive advantage or social responsibility.

3.3.3 Finland and Japan (Hussain, 2003)

In another study conducted in 2003, Hussain studied the different nature of non-financial performance and their measurement practices in financial services industry in Finland and Japan. The study revealed three different natures of non-financial performance: the first is profit driven, the second emphasizes the long-term competitive advantage and the last one is independent in nature (i.e. not linked with the firm's profitability). Financial service institutions in both countries placed more interest on financial measurements than non-financial ones, with the financial performance measurement being a regular and essential practice in all firms, while the non-financial performance being in most cases less significant and irregular.

The research's results showed that the non-financial measurement most used by the financial services institutions were customer satisfaction, quality service, commitment with clients and stakeholders and on time service. Regarding the use of the new management accounting techniques, the study revealed weak adoption in practice of Balanced Scorecard and activity-based costing and management.

3.3.4 United States (Ittner, Larcker and Randall, 2003)

Christopher Ittner, David Larcker, Taylor Randall conducted in 2003 a study regarding the effect of the measurement system on the performance of US financial service firms. The study was based on data from 140 US financial service firms and studied the following hypotheses drawn from academic literature:

1. The organization performance is positively associated with the extent to which the firm uses a diverse set of financial and non-financial measures;

2. The organization performance is positively associated with the extent to which the performance measures are aligned with the firm’s strategy;
3. The organization performance is positively associated with the extent to which the performance measures are aligned with the firm’s value drivers;
4. The organization performance is positively associated with the use of Balanced Scorecard, economic value measures and casual business models.

To evaluate the first hypothesis the authors compared the measurement system with the actual financial outcome of companies (stock returns, return on assets and sales growth) and not with the self reported firm’s performance. The results showed a positive association between performance measurement practice and stock returns but not the other two accounting measures. The findings indicated that financial service firms with more mature performance measurement system and firms that make more extensive use of financial and, particularly, non-financial indicators earn higher stock returns than the companies with similar strategy and value drivers.

The authors found little evidence for the hypotheses that more or less extensive measurement than indicated by the firms’ strategy or value drivers adversely affect performance. The results also indicated that greater measurement emphasis and diversity is positively associated with higher satisfaction and stock market performance. The study indicated that a proper benchmark for measurement diversity is greater measurement emphasis and diversity relative to competitors with the same strategy or value drivers than related to an absolute scale of greater measurement.

Regarding the last hypothesis, the study indicated that the firms claiming to use the Balanced Scorecard showed few differences in their use of non-financial indicators than non-user firms and also that they make little use of the causal business models of leading and lagging indicators even though the Balanced Scorecard supporters claim that they are the basis of the scorecard process. In contrast, the financial service firms using economic value and business models make more use of non-financial measures that the firms that don’t use these techniques. Overall the study revealed that the users of Balanced Scorecard, economic value measures and casual business models rate higher satisfaction with their performance measurement systems than the other firms, but there were almost no evidence that these techniques are aligned with accounting or stock market performance.

The study carried a number of implications for research and practice. The first implication is that although theorists and practitioners promote the benefits of Balanced Scorecard and economic value measures, there is no evidence to show higher financial performance on firms using these techniques. Second, many firms claim that they have implemented a particular business model practice but they didn’t fully adopt all the theorists prescriptions. Finally, greater measurement emphasis and diversity than competitors with similar strategies or value drivers is positively associated with higher stock market performance.

3.3.5 Cultural differences (Hofstede)

Differences between management control practices in various countries can be explained through a cultural perspective. Main research findings connecting the contested concept of culture with the management control system were provided by Geert Hofstede. He based his initial culture studies on an International Business Machine, IBM, employee survey. Hofstede defined four culture dimensions: power distance, individualism versus collectivism, uncertainty avoidance and masculinity versus femininity (Harrison and McKinnon, 2007):

- *Power distance, PD*—represents the extent to which less powerful members of organization and institutions accept that political, social or business power is not distributed equally;
- *Individualism versus collectivism, IDV*—refers to the degree to which individuals are integrated in groups. Individualistic societies are represented by loosely linked individuals who are motivated first by their own interests, while the collectivist societies consist in closely linked individuals who see themselves as a part of one or more collectives and are motivated mainly by the group's norms;
- *Uncertainty avoidance, UA*—refers to the society's tolerance for the uncertainty and ambiguity of the future;
- *Masculinity versus femininity, MAS* –represents the distribution of the stereotypical family roles of gender in society. High MAS countries value most the competition and success, including the material one, while the low MAS countries value personal relationships, tolerance, non-material quality of life and modesty in achievements.

There are certain critics of the culture approach. The first argument states that Hofstede ignores the multi-national composition of countries with different ethnical regional groups. The second one undermines the culture study's value because it was restricted to middle level IBM managers, while the third criticism implies that the measures derived from the 1970s are out of date in the current dynamic environment. The final argument used against Hofstede's approach is that culture is too complex to be reduced in a few dimensions (Harrison and McKinnon, 2007).

Nevertheless, cultural perspective provided by Hostede assists in explaining differences in management control practices across the countries. From the previous presented studies we can observe, for example, that US with a very high individualism rate, 91, and also a considerable high masculinity rate, 62, is the only country where the study is focused heavily on the effect of performance measurement system on the financial returns, especially the stock returns. Meanwhile, in Japan, society with a very high uncertainty avoidance rate, 92, and a low individualism level, 46, Hussain observed that top management attitude had an important influence in the NFP measurements and that the management accounting systems were used mainly to solve up to date issues.

3.4 Criticism

Both schools of thoughts involved in the performance measurements system design were the subject of diverse criticism from the academic community. The shareholder approach advocates were accused that although the new measures are intensely advertised as superior in creating shareholder value they have a downside of focusing solely on residual income. General examples are myopia, focus on short-term benefits over long-term goals, agent problems when associated with the reward and also measuring the performance based on residual income on business units that don't have total control of their assets (Bouwens and Spekle, 2007).

Other criticisms referred to the main idea of shareholders being the center of the organization's activity. Alchian (1972) explains that shareholders can be viewed not as joint owners, but as investors (like the bondholders) which carry a greater risk. This view relates with the critics of the proprietary rights concept, which states that the organization has to consider interests of all of its stakeholders: customers, employees, shareholders, etc, by owing its first duty to the future evolution of the company as a whole.

The critics of stakeholder approach, like Jensen (2001), argue that in practice managers can not make useful decision by regarding the interests of all stakeholders (customers, employees, shareholders, communities, even the environment). This is because they have competing interests that necessitate important trade offs not explained by the stakeholder theory. This issue can induce a subjective decision making process aimed at serving best the self-interests of managers.

The critics of BSC, as the main representative of the stakeholder approach, imply that the Balanced Scorecard has issues with some of its key assumptions and relationships (Norreklit, 2000; Norreklit and Mitchell, 2007). First, the cause-and-effect relationship between the BSC dimensions is problematic. The authors argue that there is not a causal but rather a logical relation between them. For example customer satisfaction does not necessarily drive increased financial performance but the processes that caused the customer value at low costs lead also to good financial results. This criticism implies that BSC is based on invalid assumptions, which can lead in sub-optimal performance.

The second argument is based on the BSC link with the strategy. The researchers sustain that the BSC is not a valid strategic management tool because it does not ensure the organizational and environmental rooting (Norreklit, 2000; Norreklit and Mitchell, 2007). Therefore, a gap must be expected between the BSC strategy map and the actual strategy applied in managerial actions, unless the BSC control methods can be adjusted by ensuring interactive processes of strategy formulation, BSC design and implementation.

Norreklit (2000) argues that a downfall of the BSC model is that it is based on empiricism. Due to the fact that Kaplan and Norton (1996a) refer to case studies that are highly complex, organizations implementing BSC framework can encounter difficult issues related to the gap between the theoretical development and the empirical world. The gap can derive from the implementation process as well as from the translation of the empirical case studies into the BSC theory.

Jensen (2001) also argues that the BSC is a scorecard without a score. Jensen position is that BSC offers a list of metrics without offering a single-value measure that can describe the performance obtained and indicate clear recommendations for improving it.

The role of non-financial measurements was also debated in the academic community. In 2000, professors Christopher Ittner and David Larcker identified five primary limitations of the use of non-financial measurements:

- Evaluating non-financial performance can be a time consuming and an expensive process. The costs can sometimes exceed the benefits, especially if significant investments are needed (e.g. IT systems);
- The non-financial data can be measured in different ways without a common denominator. It is difficult to evaluate general performance when the indicators are denominated in time, quantities, percentage or other arbitrary ways;
- Lack of causal links with the company’s objectives or financial performance;
- Lack of statistical reliability, even if the measure is properly represented (e.g. a survey with few respondents or few questions);
- Using too many non-financial measurements can lead to measurement disintegration, which occurs when the evaluation effects are diluted.

3.5 Conclusion

The academic society conducted a continuous debate regarding the non-financial measurements role in the organization's performance evaluation. Although there are drawbacks related to the use of non-financial indicators difficulty in establishing a causal links between measurements and organizational goals, we emphasize the idea that a proper use of non-financial measurements can emphasize the long-term financial performance. Moreover, it can induce competitive advantages.

Previous studies related to the use of non-financial measurements in financial services industry in different countries reveled a general understanding of the importance of non-financial criteria. However those findings also indicated a limited use of non-financial indicators in practice. Frequently there are cases of an improper use of these indicators, when organizations do not link the measurements with company's objectives or financial performance.

Our study aims to gain an insight view of the actual use in the financial institutions in Sweden, Romania and Ukraine of the non-financial measurements. A comparative approach between the theoretical ideas and their use in practice will offer the opportunity to asses in more depth the role of non-financial indicators in the organization's evolution. The study will also offer an interesting benchmark between the performances systems used in the three countries.

Chapter 4

Usage of non-financial data by banks in Sweden, Romania and Ukraine

Based on secondary data collection

4.1 Sweden

Financial sector in Sweden is one of most essential growing industry, accounting for almost 4% of Sweden's production output (GNP) and employing over 100 000 people (Svenska Bankforeninger). By the end of 2008, number of banks in Sweden accounted to 123 (Svenska BankForeninger) There are four main categories of banks in the Swedish market: Swedish commercial banks, foreign banks, saving banks and co-operative banks. The Swedish financial sector experienced major changes in structure during the last decade of operations, like the industry slip between banking and insurance services as well as increased operations abroad (Svenska BankForeninger).

According to Svenska Bankforeninger the "big four" Swedish commercial banks are SEB, Swedbank, Nordea and Handelsbanken. They are present on almost all the financial market segments, together accounting for over 75% of the total assets on the banking market. For those banks to maintain their position, they need to place a lot of emphasis on customer value creation and improvement (Swedbank, 2007).

We included in our study Swedish banks from the commercial category due to the fact that this category resemble the most with the type of banks analyzed in the other two countries. According with the Bankforeningen ranking the four banks are the biggest in Sweden regarding profitability, total assets and number of people employed.

Zineldin (2005) analyzed major Swedish banks in order to define their positioning strategy. According to his findings,

- SEB's position is to continue being a bank for big corporations;
- Positioning of Nordea and Swedbank are as family banks;
- Handelsbanken's relates to being the bank with outstanding product/service quality.

Despite the fact that Swedish government does not impose regulatory barriers aimed at reducing competition coming from foreign banks, non-Swedish banks do not provide a significant contribution to the financial market of the country (Zineldin, 2005). Majority of Sweden's foreign banks concentrate their services on corporate clients. Possible explanations according to Zineldin (2005) for such low influence of foreign banks on Swedish banking industry comes from

- Strong loyalty of Swedish customers to their domestic banks
- Financial obstacles, such as comparably expensive labor cost and high corporate taxes
- Problems related to competing Swedish banks in their home environment.

4.1.1 Banks' details

Nordea is the largest financial institution in Scandinavia with over 30,000 employees. The bank's Swedish operations create one of the largest finance companies and also an important player on fund management and mortgage credit markets. Nordea also owns Plusgirot, a credit transfer payment system.

SEB represents the financial group formed around Skandinaviska Enskilda Banken. A large part of SEB's market is located in Germany and Baltics. In Sweden, SEB is an important player in fund management and life insurance, as well as in the mortgage and finance company sectors.

SEB has also a strong position on the stock market, currency trading as well as international payments.

Handelsbanken has more than 460 branch offices in Sweden. The bank also expanded in the Nordic region beginning with 1990, both trough acquisitions and by opening branch offices. Handelsbanken has extensive operations in the mortgage credit market, fund management, finance company and life insurance sectors.

Swedbank Group includes banking activities undertaken in Sweden through a developed network of over 450 bank branch offices and also in the Baltic region through its subsidiary bank Hansabank. The group also includes Swedbank Robur, Sweden's largest fund management company, and Swedbank Hypotek, one of the largest mortgage finance institutions. In addition, Swedbank cooperates with the independent savings banks and partly owned banks among the savings banks movement.

Table 5 *Non-financial Indicators in Four Biggest Swedish Banks* represent our findings regarding the non-financial indicators that Sweden's four biggest banks measure and disclose. The checkmark is placed by the area/indicator, which the bank measures and discloses in its annual reports or corporate web page.

Table 5*: *Non-financial Indicators in Four Biggest Swedish Banks

	SEB	**Swedbank**	**Nordea**	**Handelsbanken**
Customers				
Number of customers	√	√	√	√
Customer satisfaction	√	√	√	√
Availability of call center[8]	√		√	
Expansion and market share				
Number of branches (total)	√	√	√	√
Number of new branches (per year)	√		√	√
Number of ATM users	√	√	√	√
Number of users of Bank's internet service	√	√	√	√
Changes in card transactions	√		√	√
Market share position	√	√	√	√
Employees				
Headcount	√	√	√	√
Average age			√	√
Male/female ratio	√	√		√
Education level	√	√		
Satisfaction			√	
Commitment				
Average working period				
Employee turnover	√			√
Sick leaves	√	√		
Health index	√	√		
Training				
Investment in training	√	√	√	
Amount of employees attending	√		√	
Hours of training per employee				

[8] In different languages

Internal promotions				√
Productivity				
Increase in productivity level	√			√
Environment				
Carbon emissions	√			√
Environmentally certified cars[9]	√			√
Total paper consumption	√	√		
Real estate related measurements[10]	√	√		√
Travel related indicators[11]	√	√		
Environmental brand perception		√		
Additional				
Rankings by various institutions	√	√	√	√
Reward scheme	√	√	√	√
Concern to be as an attractive employer	√	√	√	
Diversity index	√	√		
Financial support to social projects	√	√		√
VOICE index	√	√		

To understand each section better, we will proceed with providing each bank's perspective on an analyzed section and its indicators.

4.1.2 Customers

All of the four banks disclose the importance of measuring and improving customer satisfaction level. Ensuring high customer satisfaction and strong relationships between individual bank and its customers are reflected in vision/strategy of each of them. For example:

> SEB vision is "*to be the leading bank in Northern Europe in terms of financial performance and customer satisfaction*" (SEB Annual Report, 2008, p 4).

To achieve those goals, SEB developed "Road to Excellence" action plan, with major priorities on reaching superior productivity and quality, further integration of SEB, engaging into more activities with its attractive customers, etc.

Swedbank's vision is somewhat similar to SEB,

> "*Swedbank shall be the leading financial institution in its home markets. By leading we mean:*
>
> - *The highest customer satisfaction*
> - *The best profitability*
> - *The most popular employer*" (Swedbank, Annual Report, 2008, p 6).

Nordea's vision and values place the customer on the center on the organization focus:

> ***Nordea vision***:
> "*…being the leading Nordic bank, acknowledged for its people, creating superior value for customers and shareholders*." (Nordea Annual Report, 2008, p 8)

[9] As percentage of company's vehicles
[10] Energy, water and waste consumption
[11] Air and train travel, CO2 emission

Nordea values:

"Great customer experiences

- *We think and act with the customer in mind*
- *We understand individual customer needs and exceed expectations*
- *We deliver professionally*
- *We create long-term relationship*s" (Nordea, corporate web page 2009)[12]

Observing that banks strategies are highly interconnected with customers, we expected to see a number of indicators related to customer satisfaction evaluation. In fact, all four of them presented customer satisfaction analysis of their Swedish and international operations. SEB, Swedbank and Nordea measure customer satisfaction separately for private and corporate clients.

One of **Swedbank**'s long-term objectives is to achieve service leadership position in the markets of its operations. To fulfill this, the Bank takes actions to establish uniform, well-integrate channels of sales. Swedbank recognizes the need to maintain a great flexibility level in order to supply attractive products to various customer segments (Swedbank Annual Report p 21). Therefore, it has been extending working hours of its branches during the week and offering late-nigh openings on Saturdays as well as modifying services for private and corporate customers. By ensuring efficiencies in its processes, the bank facilitates a bigger focus on customer service, hence builds a better customer experience environment.

To fulfill its vision of becoming the leading bank of Northern Europe, **SEB** places efforts on improving its existing services, increasing activities and communication with respect to private and corporate clients (SEB Annual Report, 2008). SEB Bank has been placing a lot of effort on developing and strengthening its customer support centers. About 90% of customer contacts are conducted over the phone and Internet (SEB, Annual Report, 2008). Hence, SEB has developed its call centers in 22 languages to support private and corporate customers. To assist large multinational corporate clients, the bank has established branch and retail office all over the globe (from New York to Shanghai and Singapore).

Nordea is focusing on a strong relationship between the bank and the customers based on proactive actions. A special attention is given to the customer satisfaction index which is benchmarked with the other financial institutions in order to achieve superior customer loyalty. The index is measured through surveys answered by the clients.

Handelsbanken emphasizes the importance of the customer satisfaction as a key to competitive advantage. Distinct from the other banks, Handelsbanken is focusing on the customers' needs not on individual products. Bank adopts its services and offers to suit the needs and goals of individual clients. The bank is evaluating its performance based on the customer satisfaction index and benchmarking; Handelsbanken uses the index that is measured at national level by SKI/EPSI and not the index measured internally. The bank's policy states that more time spent with the client increases the satisfaction level, and through increased productivity the time availability can be increased also. In this respect the employees who maintain the client-bank relationship are specially trained for customer relations.

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[12] http://www.nordea.com/About+Nordea/Mission+vision+and+values/51342.html

4.1.3 Expansion and market share

All of the four analyzed banks present data related to their market share position and number of current and new branches, ATM machines, increase in card transaction, etc. All of the analyzed banks place high emphasis on Internet service usage by their clients. This can be explained by the fact that as Internet usage rapidly grew starting from the mid-90s, Swedish banks made major investments in establishing customer-friendly and efficient online banking services. Currently, Swedish banks are considered to be some of the world's most advanced in terms of providing Internet banking (Sweden Retail Banking). All banks strive to improve and expand their internet services. For example, about 60% of SEB Swedish customers use internet service. Swedbank, in its 2008 Annual Report, states that Internet banking services keep developing into a strong sales channel and that an increasing number of customers use this service to manage their securities. During 2008 Swedbank had expended a number of services on Internet, as well as improved them to be more user friendly and competitive.

The banks are also focusing on developing new products and services that can quickly and efficiently meet customers' needs and can increase their commitment. While Nordea is concentrating on developing personalized products for different segments of customers, Handelsbanken concentrates not on new products but on personalized offers that meet exactly requirements of individual clients.

4.1.4 Employees

All of the four analyzed Swedish banks have very strong positions in acknowledging the value created by their employees and the need to motivate them and increase their commitment to the organization. All four banks presented the basic information about their employees, such as the number of personnel, break down by division and location, and average age. Two banks presented the employee segmentation by their educational level. **SEB** presented several tables helping the reader of its annual reports to get a better perception of its employees. The company provided a distribution table for the number of its employees by gender and age. It also provides a pie chart showing the educational level of its employees and geographical distribution.

Attention-grabbing aspect related to employees was found in SEB Annual Report (2008), where the Bank provides an overview of its Corporate Responsibility. What is very interesting about this is that SEB looks down at each section of the Corporate Responsibility and states its priorities in relation to this. In For example, in the section *Commitment to Employees*, SEB priorities are:

- Having employees with the highest motivation level in comparison to their peer groups
- Achieving a workforce diversity
- Ensuring that employees have opportunities to develop their careers and learn, as well as establish a balance between work and life.

Nordea is emphasizing the employees' importance in its organizational values:

> ***"Our values***
>
> ***It's all about people***
>
> - *We acknowledge that people make the difference*
> - *We enable people to perform and grow*
> - *We foster initiative-taking and timely execution*

- *We assess performance in an honest and fair way*

One Nordea team

- *We team up to create value*
- *We work together across the organization*
- *We show trust and assume accountability*
- *We make rules and instructions clear and applicable" (Nordea corporate web page, 2009)*[13]

<u>Commitment</u>

We found that information related to employee commitment was not so widely disclosed by studied banks. Only SEB and Handelsbanken presented employee turnover information. In fact, **SEB** presented 5 year statistics regarding the average number of its employees, amount of starters, leavers and retired employees during the year as well as percentage change compared with the previous year. Moreover, Swedbank and SEB presented data indicators regarding the health condition of their employees, such as sick leaves and health index. Table 6 *SEB Key Performance Indicators*[14] shows HR related non-financial indicators that are used in SEB.

Table 6: SEB Key Performance Indicators
Human resources related indicators
Sick leave rate (share of ordinary working hours)
Health index (share of staff with more than 5 days of sick leave over last 12 months)
Diversity index (share of female managers)
Number of full-time employees

Swedbank states that higher commitment of its employees will result in lower absenteeism and higher level of efficiency. The Bank also recognizes that higher work place safety will contribute to lower absenteeism. Swedbank points that it is concerned about the health of its workforce, therefore it offers various health services in case of employee illness, as well as support group and security in case of robbery or attack on employees. Swedbank has launched a policy about health and work environment in 2008,

> "*which includes action plans for workplace discrimination, zero tolerance of harassment and a program of diversity initiatives within the bank"* (Swedbank 2008 Annual Report, p 39).

Both SEB and Swedbank present health index calculators based on analyzing the amount of sick days taken by employees. To increase employee commitment and increase the alignment between employees and shareholders, SEB launched a share saving program in 2008 and started encouraging employees to become bank's stockholders.

Swedbank and **SEB** disclose the VOICE survey data, which is an employee survey, carried out every second year, used as a tool to identify areas that need improvements and decide on proper actions (SEB Annual Report, p 17). SEB findings showed that Group's employees perceive

[13] http://www.nordea.com/About+Nordea/Mission+vision+and+values/51342.html

[14] Retrieved from SEB Annual Report, 2008

competence, motivation and responsibility to be at high level within the bank. On the other hand, VOICE survey showed that SEB has to improve its customer focus. Results of VOICE survey serve as benchmark criteria for Swedish banks to see how leadership, motivation and performance of each of them stand in relation to industry participants.

Nordea places great attention to employees' commitment and motivation. Annually the bank measures employees' satisfaction to understand how to improve its relationship with the employees. Employee' motivation is assured also through a profit share scheme applicable for all the employees and through long-term incentive programs available to managers.

At **Handelsbanken** the employees' commitment is assured through a personal development plan, PLUS, which covers career choices, internal promotions, wage negotiations and other related matters. The commitment and motivation levels are also increased through a profit share scheme, Oktogonen, available for all bank's employees and also by maintaining a suitable working environment, special focus being placed on employees' health.

Training and development

A key success factor for quality service is the employees' professionalism. All banks are concerned with the issue of training and developing employees. For example, as a base of its Performance Management, SEB ensures that each leader breaks down strategic goals and communicates them to employees as individual targets that are clearly connected to the objectives of SEB (SEB Annual Report, 2008). The feedback and coaching are provided at follow up meetings with each individual employee. This ensures employee commitment and knowledge about short and long-term priorities of the company.

SEB places high emphasis on ensuring that right people are in the right positions, therefore during 2008 it carried out the Global Talent Review, which assessed many of company's employees and leaders across various divisions (SEB Annual Report p 16). Employees that perform at a high level and show a potential for further developments are comprising in the Global Talent Pool of SEB, which allows the bank to work closely and actively with career plans of individual employees as well as ensuring that the company invests in the proper developmental activities (SEB Annual Report, p 16).

SEB recognizes that in order to establish a performance-driven corporate culture, the company has to develop the leadership skills of its employees. SEB has invested over 24 mil Euros in employees' competence development, which ensured that almost all of the employees participated in training activities, as well as about 1,700 SEB's leaders participated in various leadership programs (SEB Annual Report, p16).

Similar to SEB, **Swedbank** points that it has a crucial need to offer continuous training and development programs to its employees in order to sustain employee satisfaction and contribute to bank's long-term survival (Swedbank Annual Report, 2008). The bank sees that employee's satisfaction with their job contributes to lower level of absenteeism and higher productivity. Among all four analyzed Swedish banks, Swedbank and SEB are the only two to disclose its financial expenditures related to training activities.

Nordea focuses on developing employees' competences and leadership capabilities. The competences are assured through training sessions while for leadership issues the bank has a special program called Performance and Talent Management.

Due to the fact that **Handelsbanken** is a strongly decentralized organization it has no common training policy. The employees are trained on the job, being themselves in charge for developing their competences. Due to decentralization the bank focuses on promoting a common set of values for all employees.

Productivity

We were expecting the banks to disclose more information related to measuring and improving employee productivity, therefore we were surprised to find only SEB to present the productivity changes within the organization. To boost its productivity, **SEB** had presented the "SEB Way" program, with the objective to raise and improve operational efficiency by streamlining and reforming processes to free up resources and increase productivity (SEB Annual report, p 7). As a result of this innovation, the bank managed to maintain the same number of employees but increase productivity (which it perceives as a number of transactions) by 34%.

Handelsbanken is also focusing on productivity due to its positive effects on the increase in available time for customers. Although the productivity is perceived as an important driver for customer satisfaction, the bank did not present actual figures related to this.

Concern to be perceived as the best employer

Three out of four analyzed banks showed high concerns for being perceived as an attractive employer to work for. In fact, Swedbank was recognized in 2008 as the most popular Swedish organization to be employed in (Swedbank Annual Report, 2008).

SEB describes in its Annual Report that one of its goals in relation to employees is to be the most attractive employer among the financial sector companies. Therefore, it puts an active effort in attracting young professionals by participating in various employee fairs and placing advertisements in different student and job web pages.

Nordea embraces the concept of being the employer of choice by developing specific values regarding its employees (Nordea Annual Report, 2008, p 22):

- Building the foundation
- Right person in the right place at the right time
- Mobilizing, differentiating are rewarding
- Opportunities for employees to develop and grow
- Leadership required to go from Good to Great.

4.1.5 Environment

Though banks do not have a significant and direct influence on the environment, we observed a great concern and number of established goals related to preserving and caring for sustaining a green profile. We found that they are concerned for making their negative impact on environment smaller and less damaging. In its Corporate Responsibility section, **SEB** states that in relationship to *Commitment to the Environment*, the bank has a number of priorities related to communicating with their suppliers regarding environmental issues, developing products that meet environmental preferences of their customers and reducing the carbon footprint of the organization.

SEB has a set of performance indicators related to its environmental and social impact, which are presented in Table 7 *SEB Environmental and Social Indicators*[15] below.

Table 7: SEB Environmental & Social Indicators
Total paper consumption
Graphic paper
Suppliers paper
Total
Environmentally labeled (out of total)
Real estate related indicators
Total energy consumption in buildings
CO2 emission from buildings
Waste consumption
Recycled waste
Total water consumption
Facilities, number of m2
Travel related indicators
Air travel
Train travel
CO2 emission from travel
Social commitments
Financial support of social projects

Similar to SEB, **Swedbank** presents its environmental goals. Table 8 *Environmental Goals for Swedbank*[16] below presents the objectives of the bank for 2008 and the actual results of those actions.

Table 8: Environmental Goals for Swedbank
60% of our customers shall feel that Swedbank is Sweden’s most socially responsible bank. ⇒ Result 2008: private customers 56% and corporate ones 61%
60% of our customers shall feel that Swedbank is Sweden’s most environmentally responsible bank. ⇒ Result 2008: private customers 52% and corporate customers 67%
85% of bank’s employees shall feel it is important to consider the environment in their interactions with customers and suppliers. ⇒ Result 2008: 85% (2007→84%; 2006→ 77%)
We shall reduce the amount of paper we buy by 10%.

15 Retrieved from SEB Annual Report, 2008

16 Retrieved from Swedbank Annual Report, 2008

⇒ Result: 1%
We shall reduce our carbon footprint (from travel) by 10%. ⇒ Result: -19%

Though not all of the goals have been met, the bank managed to show that it does cares for the environment and dedicates time and effort to preserve it. We believe that by writing those objectives and showing them to the public, Swedbank managed to prove its care for the environment and the effort to improve its environmental footprint, therefore got social support and approval.

Moreover, making those goals visible to public provided an opportunity for Swebank to work on its brand perception and make sure that customers and employees know this bank as pro-environmental, hence building a positive public image. This will further strengthen its financial position by attracting new customers, project and investors. In fact, among four analyzed Swedish banks, Swedbank was the only one who stated that it wants its customers to view the Bank as the most environmentally concerned, hence building a strong environmental brand perception.

Nordea emphasizes the importance of environmental aspects and being committed to implement and sustain projects for reducing the environmental negative impact. The bank does not present specific indicators evaluating the environmental dimension.

Hadelsbanken is deeply involved in environmental issues. The bank's policy states that the environment must be a focus on the employees' daily agenda. In this regard every branch has an environmental coordinator who supervises the consumption of electricity, water, heating and transport and its effect on carbon emissions.

4.1.6 Additional Indicators

Concern for diversity

We have found several indicators showing banks' growing concern for promoting diversity and gender equality. For example, **Swedbank** states that these areas are essential for the company. The Bank has adopted a new policy starting 2008 to promote open-minded attitude for the company and its customers. Swedbank, having over 40% of executive positions occupied by women, has been recognized by Folksam as the most gender equal financial institution in the Nordic Exchange (Swedbank Annual Report, 2008).

Similar to Swedbank, **SEB** recognizes the need to promote diversity. The long-term objective of SEB Group is to have equal distribution of genders at each level, so that each gender will be represented at least by 40% at each organizational level (SEB Annual Report, 2008). Similar to Swedbank, over 40% of SEB managers are women.

Handelsbanken supports the equality between genders regarding career development within the bank. The equal opportunities policy's goal is that the proportion between male and female managers to correspond with the general gender distribution. For example, in 2008, 37% of managers were women while the overall female percentage was 54%.

4.1.7 Comparison within the country

The analysis covered the annual reports of the four banks for the last five years. The results showed that there were not major changes in the performance measurement over the last years. The main differences between four Swedish banks that can contribute to generating differences in their PM system are the ownership and the organizational structure. In this regard Nordea and SEB have a more centralized, hierarchical structure with top down decisions while Swedbank and Handelsbanken are decentralized, with the responsibility being delegated to the local branches. From the ownership point of view Swedbank and Handelsbanken have a more diluted ownership, with the majority of shares being owned by Swedish institutions. Nordea has the Swedish government as its main shareholder with 20% of the shares. On the other hand, SEB's major shareholder is Investor AB, which is controlled by the Wallenberg family.

We found that customer satisfaction in an important indicator for all four banks, the difference lies in the evaluation procedure. Swedbank and Handelsbanken use the measurements of Swedish Quality Index which surveys annually the customers' opinions about different industries, while Nordea and SEB use their own measurements, which we can assume are more complex and complete than SKI. The most logical explanation is that the decentralized banks lack the means and coordination to measure their own indicators. On the other hand for the centralized banks the Swedish customer satisfaction index must be consolidated or benchmarked with the results of branches from other countries, so the information must be the same.

Regarding the market share and expansion all four banks use similar measurements. On the other hand, Swedish banks have different treatments for employees' performance measurement. For example the employees' satisfaction is measured at Nordea through an annual survey. At Swedbank and SEB it is evaluated with the VOICE index conducted every two years. In contrast Handelsbanken does not measure the employees' satisfaction level at all. One reason for the lack of satisfaction evaluation at Handelsbanken can be the personal development plan, PLUS, which evaluate the performance and professional future of the employees and which can substitute the use of a satisfaction index.

There are differences in presenting in the annual reports the quantitative indicators related to the employees' commitment level (such as absenteeism and employee turnover). Taking into consideration that the modern HR applications calculate these indicators without any effort we can assume that some banks, like Nordea, does not consider these measurements as appropriate or important to include them in the annual reports.

We discovered that another difference in measuring performance concerns the training programs offered to the employees. While SEB, Nordea and Swedbank emphasize the need of formal training and development for employees, Handelsbanken considers that the employees are responsible for their competencies and that they can learn on the job by doing or observing. One explanation for the lack of trainings in Handelsbanken can be its decentralized structure and a perception that "the branch is the bank". In this way each branch can educate their employees on their own terms and with minimal costs while there is no need for network coordination to develop a training framework.

Regarding the incentive system, we found that all four banks have basic profit sharing schemes while Nordea, SEB and Swedbank have also performance-based rewards for top executives or other key employees.

On environmental issues all four banks show great interest and commitment, with the exception of Nordea bank which although emphasize the environment's importance doesn't measure specific indicators.

The results of our analysis show similar measurements in all four banks. No matter whether they use a Balanced Scorecard framework or not, the use of non-financial indicators in general is similar across analyzed banks.

4.2 Romania

The banking system in Romania has been the most dynamic industry sector in the country over the last years. Due to a high economic growth and development rate over the last 7 years and a rather low level of banking services, Romania, like the other east European countries, experienced high level of foreign investments into the banking industry. Under these conditions the biggest portion of the over 40 financial institutions in Romanian market have foreign majority shareholders. In the top four banks, which are the subject of our study, only one bank, Transilvania Bank, BT, ranked at fourth place, has Romanian ownership. In the current conditions of a global financial crisis the minority domestic banks accused the foreign banks subsidiaries of unlawful competition due to state financial aid received in the foreign area of operations.[17]

Before the global economic crisis, Romanian financial services market was in an ascendant trend. However the effects of financial crisis such as inflation, drop of the national currency value, real estate market frozen, decrease of foreign investments and unemployment contributed to limiting the customer pool and available financial services.

4.2.1 Banks' selection

Banks representing the Romanian financial industry were selected depending on two criteria: profitability and net assets. We included in our selection the first criterion because the profitability is a result of a good performance, which in turn must be achieved through a proper performance measurement system. Although at the first look, the profitability appears to represent only the financial performance and not the non-financial one, as theory reveals the non-financial performance is a driver of long-term financial performance. The second criterion, the net assets, was used because it is one of the official indicators with which the Romanian National Bank is ranking the financial institutions and due to the fact that can indicate the stability and future growth of the company.

The most profitable Romanian banks in 2008 were: BCR (541 million euro), BRD SocGen (367.66 million euro), Raiffeisen Bank (165 million euro – the higher increase in profitability, 75%) and Transilvania Bank (108.21 million euro).[18]

[17] BT manager criticize the state aids received by the foreign banks in Romania
[18] Most profitable banks' top, Dutu A.

Regarding the value of net assets, the first four places are taken by the same banks: BCR (23.8% from total Romanian banks net assets), BRD SocGen (15.5%), Raiffeisen Bank (6.25%) and Transilvania Bank (5.5%).[19]

Both rakings revealed the same results, with the four largest Romanian financial institutions being: BCR, BRD SocGen, Raiffeisen Bank and Transilvania Bank.

4.2.2 Banks' details

BCR, Romanian Commercial Bank, was founded in 1990, after the 1989 Revolution, as a state owned bank created from the old National Bank with 5300 employees and 100 branches. After 15 years of activity, BCR became the first Romanian bank and also one of the biggest banks in South-East Europe, ranked in 2005 by the British magazine "The Banker" as 332nd strongest bank world wide and 57th place regarding the banking efficiency. In December 2005 the bank was privatized; the new majority shareholder, Erste Bank from Austria purchased approximately 62% of its capital. At the privatization moment the bank had 12.000 employees and 317 branches, being one of the most profitable banks in South-East Europe.

After its privatization the main strategic objective was to integrate BCR into Erste Group by aligning the bank to its standards and best international practices. In 2008 the bank announced as strategic objective the successful completion of the Integration and Development Program (IDP) containing 42 projects regarding among others: the business model, Basel II requirements, structure, function and processes.

BRD, Romanian Bank for Development was founded in 1923, having a focus in investments and development. In 1990 it become a commercial bank after which in 1999 was privatized, the major shareholder being the French group Societe Generale with over 58% ownership. Nowadays the bank operates through 930 branches and 9,500 employees. The bank's main objectives are:

Excerpt: BRD main objectives

- *Organization and procedures adapted to the strategy of its customers*
- *Selective growth of its assets*
- *Innovation*
- *Decrease of the cost / income ratio*
- *Lasting profitability* (BRD corporate web page, 2009)[20]

Raiffeisen Bank Romania was founded in 2002 as a merger between Raiffeisenbank (Romania) S.A., and Agricultural Bank Raiffeisen S.A. both owned by the Raiffeisen Group. The bank provides a complete range of high quality products and services to private individuals, small and medium entities, SMEs, and large corporations via multiple distribution channels: banking outlets (more than 500 throughout the country), ATM and EPOS networks, phone-banking (Raiffeisen Direct) and mobile-banking (myBanking).

[19] The first Romanian banks top, Enculescu A.
[20] http://www.brd.ro/en/the-bank/profile/

Raiffeisen Bank Romania vision

"Raiffeisen Bank is the leader of the banking market through quality, dynamism and innovation." (Raiffeisen Bank Romania corporate web page, 2009)[21]

Transilvania Bank, BT, was founded at the end of 1993 with 79% Romanian capital and 21% foreign investments. Currently this is the larger bank with Romanian majority ownership. Initially based in the Western part of the country, the bank succeeded during the years to penetrate the financial market of the entire country. The bank emphasizes the growth in the corporate client sector based on increasing the quality of loan portfolio while focusing on competencies like flexibility, swiftness and quality.

BT mission

"*Our mission is to provide superior returns to the shareholders, to be a good corporate citizen close to the community we belong to and a bank where we work with pride and professionalism*." (Transilvania Bank, 2007 Annual Report, p 3)

Table 9 *Non-Financial Indicators in Four Biggest Romanian Banks* presented below shows a checkmark by the area of non-financial indicators that each banks shows concerns about.

Table 9**: **Non-Financial Indicators in Four Biggest Romanian Banks

	BCR	**BRD**	**Raiffeisen Bank**	**Transilvania Bank**
Customers				
Number of customers	√	√	√	√
Customer satisfaction	√			
Quality	√		√	
Number of complaints	√			
Availability of call center[22]	√	√	√	√
Expansion and market share				
Number of new products	√	√	√	√
Number of branches (total)	√	√	√	√
Number of new branches (per year)	√	√	√	√
Number of ATM users	√	√	√	√
Number of users of Bank's internet service	√	√	√	√
Changes in card transactions	√	√	√	√
Market share position	√	√	√	√
Employees				
Headcount	√	√	√	√
Average age			√	√
Male/female ratio				√
Education level				
Satisfaction				
Internal promotion				

[21] http://www.raiffeisen.ro/wps/portal/internet/kcxml/04_Sj9SPykssy0xPLMnMz0vM0Y_QjzKLN443NggFSYGYzp76kehCHgghX4_83FT9oNQ8fW_9AP2C3NCIckdHRQBFdRBM/delta/base64xml/L3dJdyEvd0ZNQUFzQUMvNElVRS82XzNfMzBV?actiune=internetcontent_ViewAction&internetcontent_ID=3&idTata=457

[22] In different languages

Commitment				
Average working period				
Employee turnover				
Sick leaves				
Health index				
Training				
Investment in training	√	√	√	√
Amount of employees attending		√	√	√
Hours of training per employee		√	√	√
Internal promotions		√	√	√
Productivity				
Increase in productivity level				
Environment				
Environmentally certified cars[23]				
Total paper consumption				√
Real estate related measurements [24]				
Travel related indicators [25]				
Environmental brand perception				
Additional				
Rankings & awards by various institutions	√	√	√	√
Reward schema	√			
Brand perception	√			√
Concern to be seen as attractive employer	√	√	√	√
Diversity index				
Financial support to social projects	√	√	√	√

To analyze the presented results, we will proceed with discussing each section separately.

4.2.3 Customers

The studied Romanian banks treasure their relationship with the customers, fact reflected in the strategy and values of BRD and Raiffeisen Bank Romania:

> ***BRD main strategy***
> *"BRD is committed to developing its goodwill on these three markets (retail banking, corporate banking, investment banking), by adopting a strategy of long-term partnership with its customers.*
>
> ***and values***
> *Every day, we assist you in reaching yours goals; we are a true partner in the development of companies, towns and regions*." (BRD corporate web page, 2009)[26]
>
> ***Raiffeisen mission***
> "*Raiffeisen Bank is a long-term partner for all its customers, offering a complete range of high standard financial services and generating an above average Return on Equity.*

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[23] Share of company's vehicles
[24] Energy, water and waste consumption
[25] Air and train travel, CO2 emission
[26] http://www.brd.ro/en/the-bank/profile/

and values
Focus on Customer Needs" (Raiffeisen Bank Romania corporate web page, 2009)[27]

Although all four Romanian banks are focusing on customer satisfaction and emphasize its importance, we found that they lack proper means to measure it. Only **BCR** measures the customer satisfaction through focus sessions [28]and mystery shopping[29]. The banks are measuring the number of clients and the impact of special services or offers on the number of clients. For example BCR classifies the customers depending on their financial importance for the bank and provides personalized services for the clients depending on their future relation with the bank. On the other hand **Transilvania Bank** has specialized services for segments of clients (e.g. medical division) and provides advices to customers through training sessions organized by the bank CIR – Romanian Entrepreneurs Club.

All banks emphasize the importance of the quality of services offered, but don't have specific measurements to evaluate it. On the basic level all four banks operate with call centers, which register the customers' complaints. Raiffeisen Bank operates with special teams focused on customers' needs. BCR has an advance measurement system for quality. In order to increase the employees' attention to clients' needs the bank measure the response level and reaction time rate. They also evaluate quality of service through mystery shopping practices.

BCR is also the only bank which has a reward scheme based on performance. The project is applicable to sales personnel who are awarded depending on the quality of service in order to motivate them to meet the clients' needs.

Daedalus Consulting conducted in 2007 a study of Romanian banks' customer satisfaction. The research was initiated by a financial magazine and consisted in an evaluation of the banks services using a scale from 1 to 10[30]. The results revealed Transilvania Bank (8.01 points) to be the interviewees' preferred bank followed by BCR (7.92 points), BRD (7.90 points) and Raiffeisen Bank (7.60 points), showing a relative stable customer satisfaction among the interviewees.[31]

4.2.4 Market share and innovation

The position on the market is one of the main concerns for the banks:

BCR's strategy
"*BCR aims at **strengthening its lead position within the Romanian market**, on all business segments, as well as to **increase the bank's profitability and operational efficiency**. On the performance and profitability level, BCR's focus is on achieving the financial targets set by the majority shareholder for the period 2008-2009, the ultimate goal being to become the most efficient bank in Erste Group.*

[27] Idem, supra, note 21

[28] Focus sessions are meetings with the customers in order to obtain feedback about bank services
[29] Mystery shopping are cases when "pretending clients" use bank's service to get a perspective about the quality of service at the organization
[30] With 1 being "very unsatisfied" and 10 "very satisfied"
[31] Retrieved from Ghiseul Bankar

In 2008, BCR will focus on ***business development, implementing new systems and continuing the improvement of its products and services portfolio,*** *especially for retail customers, while the corporate business is being entirely restructured, concentrating on a better customer relationship management, facilitated by the new corporate customer segmentation.*

BCR will ***continue the implementation of the branch network expansion plan****, mainly oriented towards high business potential areas, targeting to operate over 600 units by end-2008 and approximately 700 in 2009.* "(BCR corporate web page, 2009)[32]

All for banks measure their market share segmented for different products and services. They also focus on new products, services and/or commercial innovations (Ex. combination if services) and their impact on the clients loyalty and commitment. The growth or expansion is evaluated through the number of branches and agencies, users of internet banking, ATM, card services, etc.

4.2.5 Employees

The importance of employees is reflected in the mission and strategic goals of three out of four analyzed banks:

BRD values
"*The success of our strategy of sustainable development is based on our values embraced by all men and women of Société Générale Group: professionalism, team spirit and innovation."* (BRD corporate web page, 2009)[33]

Raiffeisen values
"Lead, Motivate and Empower People"

Raiffeisen motto: "*together we succeed*" (Raiffeisen Bank Romania corporate web page, 2009)[34]

Transilvania Bank mission statement
"*To be an employer of choice for all its employees*" (Transilvania Bank, 2007 Annual Report, p 23)

The basic measurement for employees is the headcount. Some banks like Raiffeisen and Transilvania measure also the age average rate or the male/female rate, especially in the managerial positions (Transilvania Bank).

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[32] https://www.bcr.ro/sPortal/sportal.portal?_nfpb=true&_windowLabel=LABEL_MENU&_urlType=action&LABEL_MENU_sh=8152c19ba3c0b6dee0136ff6d53e3bf4&LABEL_MENU_zz=22626.106896444195&LABEL_MENU_pc=3&cci=09002ee2803e6938&desk=bcr_en_0785&&navigationLink=TRUE&menu_navigationId=021864633029251190000194&menu_chronicleId=09002ee2803ee5cf&navigationId=021864633029251190000194

[33] Idem, supra note 26

[34] Idem, supra note 21

All the four banks place a special emphasis on employees' training, especially leadership development. The basic measurements are the number of the employees trained and the number of training hours per employee. BCR has special development programs for its top executives and middle managers while all employees are trained at BCR University. BRD and Raiffeisen developed programs, which evaluate the employees' performance individually and link it with their professional development and internal promotions. Raiffeisen is focused on team work and employee motivation. On the other hand, BT emphasizes the adoption of corporate culture as an instrument for employees' motivation focusing on career opportunities, remuneration policies, training sessions. The bank organizes the training and education programs through BT Academy.

4.2.6 Environment

The care for environment issues is present on all the banks agenda but mainly only at declaratory level. Raiffeisen bank does not mention the environmental field at all while BT is the only bank which has environmental objectives like energy saving and paper consumption decrease and also the intent to induce this behavior to their customers.

4.2.7 Additional Indicators

Awards

All of the analyzed banks treasure their awards received from different institutions as a appreciation of their performance. For example **BRD** was ranked for several year as the "Best Romanian Bank" by the financial magazines Euromoney, The Banker and Global Finance. Also the bank was awarded the title of "Most wanted employer".

The British magazine Euromoney awarded **Raiffeisen Bank Romania with** the title "Best investment bank in Romania", while Global Finance nominated Raiffeisen Bank "Best Bank in Romania" for two years in a row, 2004 and 2005. In 2007 the bank received awards from the Chamber of Commerce and Romanian financial magazines.

Social responsibility

All four banks show great interest in social activities, especially through sponsorships for culture, art and sport projects. Another aspect of social responsibility is education. In this regards BRD offers scholarships for university students with great results but poor financial resources.

Brand development

BCR and BT emphasize the brand concept and its development through marketing campaigns. BCR is focusing on the implementation of Erste brand in Romania, while BT is trying to increase the brand awareness.

Economic development programs

BCR is sustaining the country economic development cooperating with the government in programs like: multi annual national program sustaining the small and medium companies or programs to support the investments in agriculture. Also all four banks are involved in projects that attract PHARE or EU funds in Romania.

4.2.8 Comparison within the country

Analyzing the annual reports for the last five years, the results show no major changes during time in the use of performance measurement or bank's vision. Only BCR, which was privatized in 2005, conducted in this period a series of processes for the integration of Erste policies and culture. In this regard the bank fulfilled the Integration and Development Program (IDP) containing 42 projects regarding the adoption of Erste business model, Basel II requirements, structure, function, processes, etc. Regarding the differences in performance evaluation measurements, we discovered diverse approaches in measuring customer satisfaction and quality areas.

We analyzed the differences between the measurement systems of Romanian banks from a contingency point of view taking into consideration the ownership, the privatization moment, market position, bank type and also organizational structure.

All four banks operate as commercial banks with similar financial services dedicated to the entire range of customers: individuals, households, SMEs and large corporations. In the last years the banks incorporated in their portfolio products like insurances or mandatory pension plans.

Regarding the organizational structure all four bank have a hierarchical structure, all objectives and decisions being communicated top down from the Romanian headquarters to all branches and also from the parent bank to the Romanian subsidiary (except for BT).

The banks are represented in the entire country mostly in the urban areas but also in the rural ones, especially BRD. As for market position BCR has an upper hand followed by BRD, Raiffeisen Bank and BT, but on particular segments there are other banks with the strongest market position, for example BRD on factoring services.

Regarding the ownership, BT is the only bank in our study with domestic capital majority (founded 1993). BCR and Raiffeisen Bank have Austrian majority shareholders the former being privatized in 2005 while the latter in 2002. BRD has French majority ownership being the first privatized bank from our study, in 1999.

The differences in the customer and quality areas show that though all the banks emphasize the importance of customer satisfaction, only BCR evaluate this dimension. Even if the measurement used by BCR does not cover all the clients (being conducted with the help of focus sessions and mystery shopping practices), it is a step forward in evaluating the customers' feedback. Also the quality of services is acknowledged by BCR and Raiffeisen Bank but is measured properly only by BCR through ratings of the response level and reaction time rate or mystery shopping practices. Taking into consideration that the BCR measurements were implemented after privatization we can conclude that the differences are due to the influence of the parent company although the annual report of the Austrian mother bank mentions the evaluation of the customer satisfaction through more sophisticated tools like annual customers surveys.

Regarding the market share and innovation focus all four banks show the same emphasis on new product development and implementation and also on market position evaluation.

We found that employees are well regarded by all four studied banks. We attribute the differences between their approaches to the employees to be coming from differences in the ownership structure and corporate culture. The banks that are part of multinational financial groups like BRD and Raiffeisen Bank Romania have programs to evaluate the individual performance of employees and follow their professional development mostly through internal promotions. On the other hand, BT, a local bank emphasizes a strong local corporate culture and support to local communities and its individuals, “to be an employer of choice for all its employees” (BT corporate web page, 2009).

All four banks place major focus on training and educating its employees both by having own education programs like BCR University or BT Academy and by training session with special attention on management and leadership.

We discovered that the concern and care for environment is present in the statements of all banks but mostly at declarative level. An interesting results showed that only the local bank, BT, has particular environmental objectives like energy saving and decrease in paper consumption. The environmental interest is linked with BT mission: “to be a good corporate citizen close to the community we belong to” (BT corporate web page, 2009). The particularity comes from the assumptions that the bank belonging to Western European Groups where the environmental issues are a great focus would have a greater interest in prevention actions.

Our findings concern also the incentive system, which is a tool for influencing behavior and motivation of employees and is only slightly present in Romanian banks. Only BCR has a project developed for sales personnel where bonuses are awarded based on the quality of service. The project was implemented in 2007, probably from the influence of the mother company.

All banks have in common the involvement is social projects especially culture, art, sports and education programs. On the other hand the brand development and awareness it is a preoccupation only for BCR and BT. From its privatization in 2005 BCR developed and implemented projects for Erste brand adoption on Romanian market. On the other hand BT, being a local bank, had to make harder efforts for establishing brand awareness especially because Transilvania is the name of one of the three Romanian regions and customers from the other two geographical regions did not associate at first the Transilvania Bank with Bank’s services provided all over the country.

The comparison results show that generally the performance measurement systems in the four Romanian banks are based on the same principles, with some emphasis on non-financial dimensions but with a lack of tools to evaluate them.

4.3 Ukraine

Banking system in Ukraine is relatively young, with its evolution starting in 1991 as the country gained its independence and Ukrainian government adopted the regulations on Banks and Banking (National Bank of Ukraine, 2007). By the end of 1991, the economy had 76 registered banks, this number rapidly grew to 230 by the end of 1995, and then declined to 190 in 2006 (Dushkevych and Zelenyuk). Over the past decade, banking industry was the most dynamic and important sector in the economy, exhibiting high growth potential. The banking system of the country has a two tier structure that is composed by National Bank of Ukraine and various types of commercial ones.

Starting 2004, when Ukraine was removed from the black list of FATF, the country experienced wave of acquisitions by foreign banks. By August of 2006, the percentage of foreign ownership rose to 30% and showed a trend of further growth as long as the business environment of the country continues improving (Dushkevych and Zelenyuk). The research analysis predict that in the next several years Ukraine will have a decline in the number of banks, increase in mergers between banks and appearance of new large ones, as well a threat of bankruptcy for smaller ones and introduction of relatively new services.

According to Ukrainian Government Portal, the four biggest Ukrainian banks are Private Bank, Prominvest Bank, Raiffeizen Bank and Ukrsots Bank. To provide a brief introduction about the banks

- *Privat Bank* was established in 1992, currently is the leader in a banking industry of Ukraine;
- *Ukrsibbank Bank* was founded in 1990; since 2006 a member of a French based BNP Paribas Group;
- *Raiffeizen Bank Aval* was established in 1992 and currently (since 2004) is a part of Raiffeisen International Bank Holding AG Group, which is an Austrian Group;
- *Ukrsots Bank* is currently (since 2004) a member of an Italy-based banking organization Unicredit Group;

Looking at the Top 4 biggest banks in Ukraine, we can observe that they all have been founded shortly after the Ukrainian government passed the laws about Banks and Banking. 3 out of 4 stated banks have been acquired by foreign groups in the period 2004-2006. In analyzing those banks, we expect to see a trend of movement towards accepting business philosophy and approaches of those groups.

Table 10 *Non-Financial Indicators in Four Biggest Ukrainian Banks* presented below shows a checkmark by the area of non-financial indicators that each banks shows concerns about.

***Table 10**: Non-Financial Indicators in Four Biggest Ukrainian Banks*

	PrivatBank	**Raiffeisen Bank Aval**	**UkrsibBank**	**UkrsotsBank**
Customers				
Number of customers	√	√	√	√
Customer satisfaction Quality				
Number of complaints				
Availability of call center[35]				
Expansion and market share				
Number of new products				
Number of branches (total)	√	√	√	√
Number of new branches (per year)		√	√	
Number of ATM users	√	√	√	√
Number of users of Bank's internet service				√
Changes in card transactions				√
Market share position	√		√	√
Employees				
Headcount	√	√	√	√

[35] In different languages

Average age	√		√	
Male/female ratio				
Education level	√			
Satisfaction				
Internal promotion	√			
Commitment				
Average working period			√	
Employee turnover			more or less	
Sick leaves				
Health index				
Training				
Investment in training		√		
Amount of employees attending		√		
Hours of training per employee		√		
Productivity				
Increase in productivity level				
Environment				
Environmentally certified cars[36]				
Total paper consumption				
Real estate related measurements [37]				
Travel related indicators [38]				
Environmental brand perception				
Additional				
Rankings & awards by various institutions	√	√	√	√
Reward schema				
Brand perception				√
Concern to be seen as attractive employer	√		√	
Diversity index				
Financial support to social projects	√	√	√	

To analyze the presented results, we will proceed with discussing each section separately.

4.3.1 Customers

None of the analyzed Banks showed any indicators of measuring the levels of its service quality or customer satisfaction. All of the banks, in their annual reports and corporate web pages, state that customers are essential to banking business. Even more, one of the banks, Raiffeisen Bank Aval, when discussing its general values stated:

Raiffeisen Bank Aval, mission statement

- *“Highest perceived service quality for retail clients*
- *We understand our clients and aspire to maintain a lifelong relationship with them. The relationship with the clients are developed and supported by the best qualified employees who provide superior quality of service in the best nationwide branch network.”*

[36] Share of company's vehicles
[37] Energy, water and waste consumption
[38] Air and train travel, CO2 emission

General values: "focus on customer needs

- *We provide the best quality financial service to our customers*
- *We adhere to the highest professional standards*
- *We show flexibility to ensure a rapid response to customers needs*
- *We build long-term relationships that create value for our clients, stakeholders, employees, and community where we operate.*" (Raiffeisen Bank Aval, Annual Report, 2007, pp 130-131)

However despite bank's statement to place emphasis on fulfilling customer needs, we did not find any indicators that Bank Aval actually conducts measurements to evaluate whether those targets are being met.

4.3.2 Expansion and market share

Being the biggest Ukrainian banks, those institutions face constant competition and need to improve and expand their services. All of four banks mentioned in their vision and mission statements that they are highly concerned for growing the expanding services and customer numbers. This desire was clearly stated in strategic objectives of Bank Aval and UkrsostBank, and is presented below.

Raiffeisen Bank Aval, part from a mission statement

- *"Our objective is to be number one in our chosen market segments by market share…*
- *Our recognition is based on:*
    - *All-around accessibility of our services, first of all through the best nationwide branch network…*
    - *We focus on satisfying the needs and maximizing the value of our relationship with the clients by offering them more products and services and activating cross-selling between our business segments."* (Raiffeisen Bank Aval, Annual Report, 2007, p 130)

Similar to Bank Aval, **UkrsotsBank** has a strategy to "strengthen position as leading Ukrainian bank by increasing its market share and market value" (Ukrsotsbank, 2009). In order to fulfill the strategy, this Bank has eight strategic dimensions, with three of them being related to increasing retail market, enlarging branch networks and sales channels.

Seeing the visions of those banks being so highly concentrated on increasing and strengthening market share and leadership position, we expected to find those banks constantly updating and monitoring growth data. We found that all of them continuously evaluate expansion of branch networks, ATM machines, and market share position.

An interesting result reached while analyzing growth and market share performance dimensions was that only one bank placed concern on how many customers and how frequently use banking internet service. Banks in developed economies are highly concerned for evaluating this aspect, and we expected to see more concern from the Ukrainian banks. To provide explanations for why this is not a popular trend yet, we think that this is a relatively new concept for Ukrainian market where only 13% of population use Internet services (Audience Scapes, 2008). As Internet usage continues to grow, we expect that in upcoming years more banks will introduce internet banking services and rely on this dimension to evaluate success and banking services usage.

4.3.3 Employees

All four analyzed banks presented the information related to the number of their employees and how much of them are employed at a central office. However, only two of the analyzed banks went on to present the average age of their employees. **PrivatBank** was the only one among analyzed banks that presented information regarding education level of its employees or the amount of internal promotions.

None of the banks placed any emphasis on promoting itself as an employer that strives for equality between genders. Therefore, analyzed Banks did not provide any information regarding how many female or male employees they have. To explain this tendency, we have analyzed information regarding gender equality in the country. Ukraine has several laws, which prohibit providing privileges or restrictions based on gender and ensure equal pay and condition for equal work, however the country does not have specific laws on promoting gender equality or non-discriminative behavior (Government State Committee for Family and Youth). According to the latest available statistics, average wage for a female worker in non-manufacturing industries was about 80% of average male wage occupying the same position.

Motivation and commitment

We were intrigued to find out that of four analyzed banks, only **UkrsibBank** evaluates and discloses employee turnover and their average working period. Moreover, this was the only analyzed Bank that placed high emphasis on retention and concern for motivation of its employees.

UkrsibBank states that it places Human Resource management to be one of key strategic dimensions of its activity. The Bank noted in its Annual report (p. 13) that after adopting business philosophy and perspectives of BNP Paribas Group, the Bank realized that its employees are most valuable and attractive resource within the company. Therefore it committed itself to improve its HR position, creating a proper work environment to stimulate responsibility and commitment of current employees and attract new personal with high potential. Starting 2007 the Bank has reshaped its old compensation scheme and introduced a new incentive policy in order to motivate employees and lower the employee turnover rates (UkrsibBank, Annual Report, p. 13. The Bank proudly presented that it was awarded at Top 10 best employers in Ukraine for 2007.

Another interesting aspect, which we observed relates to the Managerial Values presented by one of the Banks.

> ***Raiffeisen Bank Aval managerial values***
>
> *"Lead, motivate and empower employees:*
>
> - *We set strategic and operational goals and lead our team to their successful implementation*
> - *We encourage entrepreneurship and initiative and hate bureaucracy*
> - *We empower employees by creating an atmosphere that motivates them to achieve best results*
> - *We promote development, satisfaction and loyalty of our employees*
> - *We see teamwork as the basis for successful cooperation within the Group and for its future development*

- *We provide equal opportunities in response to merits and rewards performance"* (Raiffeisen Bank Aval, Annual Report, 2007, p 131)

We found highly confusing to see those values stated by **Raiffesen Bank Aval**, however not to find any measurements or indicators which could reflect on how the Bank is keeping up with its objectives. Moreover, the Bank says to be placing high concerns on encouraging entrepreneurship and having negative attitude towards bureaucracy, however when analyzing its organizational structure, we found it to be very vertical, which in reality stimulates bureaucracy and discourages entrepreneurship and innovative behavior.

Training and productivity

All of four Banks had aspects in their vision and strategic objectives that related to training employees and increasing their productivity. For example, two out of eight strategic tasks of **PrivatBank** were:

- *"Effective usage of the main competences of bank, including high level of management*
- *To increase labor productivity at the expense of optimization of number of personnel and business processes."* (PrivatBank, web page 2009)[39]

Another example is **UkrsotsBank**, which had eight dimensions for strategic goals, with one of the dimensions being Personnel Development and its objective to enhance corporate culture within the bank and stimulate programs aimed at developing employees (UkrsotsBank corporate presentation, 2007).

All of the analyzed banks recognized the essential need to train and develop its employees in order to improve banks' performance and boost productivity, however only two of them (Raiffeisen Bank Aval and UkrsibBank) actually disclosed data related to the actual measurement. Despite almost all four banks placing emphasis on increasing productivity levels as a strategic objective, none of the banks actually disclosed where and how they measure this.

Raiffeisen Bank Aval stated in its Annual Report (2007) that it places a lot of emphasis on training its employees in order to maintain its strong leadership position. During the year or 2007, the Bank introduced several different training programs in order to stimulate further employee development, such as trainings to improve skills of retail business employees, develop English language knowledge, harmonize Aval in Ukraine with goals of Raiffeisen International, etcetera. Aval highlighted that in comparison with 2006, it had increased the number of training participants by 10 times (equaling to almost 20,000 attendants). The bank had significantly improved its training plan; each employee received about 3 training days in contrast to 0.2 in a previous year. Moreover, the company presented information about introducing Performance Management System in 2007, aimed at aligning and harmonizing corporate vision, mission and objectives with targets of individual teams (Annual Report, p.18).

On the other hand, **UkrsibBank** places concerns both on training and developing its current and potential employees. As mentioned earlier, the Bank places Human Resource management to be one of key strategic dimensions of its activity. In 2007 the Bank introduced *Stars are Coming*

[39] http://www.privatbank.ua/info/index3.stm?fileName=2_2e.html

Up, which is a program aimed at creation of managerial reserve for the bank. UkrsibBank also introduced an internship/trainee program to attract recent graduates and students. In its Annual Report (p. 12) the Bank also stated that it hold systematic staff assessment programs, which provides each employee with an opportunity to receive feedback from the management team and necessary areas for development. The Bank also has *Development Centers,* which provide each employee with a feedback and development plans for trainings and improvements.

4.3.4 Environment

We found that none of the analyzed banks showed any signs of concerns for environmental impact of its activities. We believe this to be due mostly to historically shaped negligence towards importance of sustaining the environment. Soviet Union period brought intensive farming and rapid industrialization into the country, but failed to establish proper pollution controlling organizations and regulations. This resulted in significant damage and degradation of Ukrainian environment, creating several of world's most polluted areas (Britannica Encyclopedia, 2009). Moreover, an accident in Chernobyl nuclear plant in late 80s significantly contributed to creating severe environmental pollution. Despite environmental pollution, the government of the country has not established strong environmental protection policies. As banks do not have a direct impact on the environment, they are not held accountable to care and evaluate its environmental impact.

4.3.5 Additional dimensions

As we had expected, all of the analyzed banks provided a list of awards and recognitions[40] given by various institutions and three out of four banks had more or less stated that they participate in various social programs and charities. We find these dimensions to be essential in image creating strategy to be perceived as the "best bank" and active in caring for society. Further, two banks noted several times in their annual reports and corporate web pages that they are taking actions to be perceived as an attractive employer. Therefore, they develop HR policies that recruit young specialists with high potential, ensures constant appraisals and upgrade of knowledge (UkrsibBank, Annual Report, 2007). Moreover, they offer internship positions and participate in career fairs and employment forums.

We found that only one bank, **UkrsostBank**, place concerns on its brand name value. The bank was named to be in world's top 500 financial institutions due to the value associated with its brand name (UkrsotsBank, 2009). Something that was unexpected to find on the web page of a country's top financial institution was the list of funny stories that occurred in the bank, such as questions and suggestions by clients when visiting or calling to the bank's call center. Having analyzed a number of banks in Ukraine, Sweden and Romania, this was the first time when we have encountered something like this. We believe that this is a bank's creative approach to valuing well being of customer's sense of humor and satisfaction with polite logical answers to absurd questions and requests.

[40] Such as Best Employer of the year, Most Reliable Bank, etc.

4.3.6 Comparison within the country

Analyzing information presented in annual reports and corporate web pages, we did not find major changes in PM systems of analyzed Ukrainian banks in the last five years. We also found that analyzed banks did not provide much information about their non-financial performance.

While analyzing annual reports of those organizations, we have found their mission and strategy statements to have place high concern on customer relationships and value of employees. However, while analyzing the actual performance indicators we found limited information related to these positions, which indicates that analyzed Ukrainian banks are not placing enough effort in measuring and disclosing these indicators. This aspect made us doubt the strength of banks' commitment to these areas.

Majority of strategic aspects, as well as vision and mission of analyzed banks placed strong emphasis on showing high financial performance and being a leader in terms of financial data. Annual reports of two analyzed banks presented only financial data, therefore information about non-financial indicators was retrieved from corporate web page and company's presentations. This trend can be explained by the fact that banking industry within the country is relatively new and growing, hence, banks are still fighting for establishing their positions and grabbing a big market share of customers and revenues.

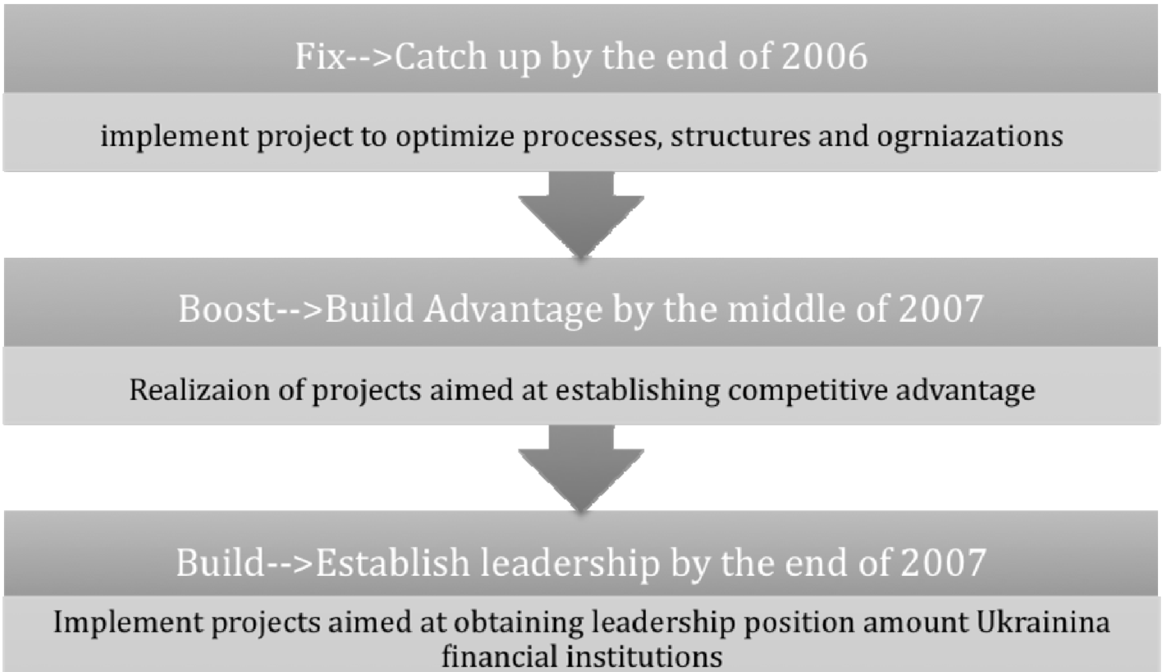
Though majority of analyzed banks stated about the importance of customer relationship, none of them disclosed related performance measurements. Similar applied to evaluation of employee motivation, commitment and development. Only two banks talked about training programs and the development of their employees. Even more unexpected was to find only one bank, UkrsibBank to state that it is reforming its Human Resource management and highlighted Bank's crucial dependency on its personnel.

We offer several reasons to explain such results. We can attribute vertical organizational structure and changes in ownership composition to contribute in shaping current performance measurement systems of Ukrainian banks. Being highly centralized with major decisions coming from head quarter level, Ukrainian banks are slow at changing their PM and adopting non-financial perspective. Moreover, the fact that starting 2004 Ukrainians banks have been rapidly purchased by foreign groups indicates that they are still going through adjustment stages and trying to adopt business philosophy of the group they belong to. To illustrate this, we would like to refer to UkrsibBank that joined BNP Paribas Group in 2006. After joining the group, UkrsibBank started a *Transformation Program* aimed at the Bank's adhesion to the Group's business philosophy and targets. The program consisted of three major stages:

- Catching up with most troubling areas;
- Gaining and establishing a competitive advantage;
- Establishing Bank's leadership position in financial service market of Ukraine.

To fulfill these requirements and eliminate differences between Group's and Bank's level, UkrsibBank launched about 200 projects, with over 60 of them being successfully completed in 2007. The Figure 2 *Stages of Transformation Program for UkrsibBank* presents the objective and deadline for each stage.

Figure 2: *Stages of Transformational Program for UkrsibBank*



Considering that three out of four analyzed Ukrainian banks have foreign owners as major shareholders, those banks are still involved in the transition process and are working towards adopting their corporate culture and business positions to foreign owners. We think that after completing the transformational period and adjusting their business perspective to fit foreign international owners, Ukrainian banks would change their corporate culture and start considering non-financial indicators as a complementing data to financial ones. However, the process of changing corporate culture require long-term commitment, hence we think that there is a need to have another 5-7 years to pass in order to see significant improvements in the way Ukrainian banks consider non-financial data.

4.4 Comparison between the countries

We attribute the differences between performance measurement systems of financial institutions from Sweden, Romania and Ukraine to be based on criteria such as country's economic development, national culture, banking market maturity, banks' ownership, organizational structure, age and size.

The three countries are situated in different stages of economic development. Sweden, which joined EU in 1995, has a developed economy while the other two countries have emerging economies. In the last years, Romania showed constant economic growth which led to development of the banking industry and also to the EU membership since 2007. On the other hand economy of Ukraine is still promptly developing but was severely affected by the current global economic crisis.

4.4.1 Cultural differences

The cultural differences contribute to explaining the divergences in usage of non-financial indicators by financial institutions of analyzed countries. Comparison based on Hofstede's cultural dimension reveals that Romania (IDV 49) and Ukraine (IDV 51) have similar low individualism level showing that the group opinions prevail over the individual ones while Sweden (IDV 71) has a higher level of individualism showing that the ties between individuals are loose. On the masculinity / femininity dimension Sweden has an extreme low level of masculinity, MAS 5, followed by Ukraine with MAS 13 and Romania with MAS 39. Low masculinity level represents countries focused on welfare society, tolerance and solving conflicts through cooperation. Higher level of individualism in Sweden would contribute to explaining an increased concern for employee motivation and employees' rights while the lower level in the other two countries suggest a more rigid relationship between employer and employees in which conformity is expected and perceived positively. The low level of masculinity, especially in Sweden case, could explain the concern for gender equality, environmental protection and an increased usage of non-financial indicators in general.

The cultural differences between the three countries can be observed on the banks' relations with the employees. In Sweden, where the masculinity level is extremely low, the majority of banks emphasize the equality of opportunities between male and female. In this regard the proportion of male versus female managers should match the overall gender distribution of the bank. In the other two countries only one Romanian bank measures the male / female percentage.

Regarding the employees development a lot of focus is placed on training or personal development plans especially in Sweden and Romania. A special attention is placed on the leadership trainings. This fact that can be explain in Romania and Ukraine by the cultural dimensions, with both countries having a low level of individualism, resulting in less individualistic actions and higher need to have actions plans imposed by authority in order to avoid the risk of making mistakes.

4.4.2 Variations in market maturity stages

Another explanation for divergences comes from the different stages of market maturity in the three countries. Swedish banking market reached the developed stage of the life cycle; its main services are linked with the level of wealth and are related to mortgages, insurances and fund management. On the other hand banking markets in Romania and Ukraine began their modern development after 1990. Although in the last years they developed considerable they did not reach the level of Swedish market maturity. Another important aspect is the low average level of population's wealth which makes loans covering personal needs to be the main banking service, while insurances, for example, are not perceived as important due to the fact that they were government's responsibility previously. Also, before the current financial crisis, the over evaluated real estate market combined with high loan costs made mortgages available only to middle and upper class citizens.

Although the analysis revealed that all of the twelve banks have similar vision and mission, we found that there are differences in their strategic focus. In Sweden, due to the market maturity, the main focus is placed on the customer loyalty and satisfaction in order to maintain and increase the profitability and the market share. On the other hand, in Romania and Ukraine the market is not fully developed in relation to both the banking products and the pool of customers.

Therefore one of the main focuses of banks in those economies is placed on growth and expansion. In this respect Swedish banks are concentrating more on their relationships with the customers and the quality of service while Romanian and Ukraine banks are focusing on implementing new products and developing networks of their branches.

Another interesting dimension of the differences between the banking services market in developed countries like Sweden, and emerging economies like Romania and Ukraine is that the banks operating in the developing countries are more profitable than the subsidiaries of the same group which function in matured markets. Due to the higher level of risk perceived in emerging economies the banking services there are more expensive than the ones offered in a stable environment. Before the current financial crisis the financial groups which owned banks in Eastern Europe reported high profits earned on these segments, while the crisis' influence made the Eastern European banking market a very unstable environment with high level of risk which can cause important losses for the groups.

4.4.3 Ownership and organizational structure

Taking into consideration the banks' characteristics, we observe similarities between Romanian and Ukraine banks and, on the same time, differences between these ones and Swedish banks. Regarding the ownership Romania and Ukraine have in the top four banks only one bank with domestic ownership and the others with foreign majority shareholders. In contrast to those, all top four Swedish banks have Swedish majority ownership, with one of them having the Swedish state as the larger shareholders.

Due to the fact that the majority of Romanian and Ukraine banks are owned and are a part of important Western European banking groups we can stipulate that at corporate level (which dictates the strategy and measurement system) all of the studied banks correspond to groups similar in age and size. The difference between Sweden on one hand and Romania and Ukraine on the other hand is that the Swedish banks constitute the mother companies of their established financial groups while Romanian and Ukrainian banks are only subsidiaries of European banking groups. In this respect the Swedish centralized banks will be the starting point of the changes and development in strategy and management control for their groups while the Romanian and Ukrainian banks have to adopt outside benchmarks of their foreign owners in order to implement the developments in strategy and measurement system. We can assume that Swedish banks will always be a step ahead from the banks in other countries' in their usage of the latest management and control techniques due to the communication and implementation gap between headquarters and subsidiaries.

Regarding the banks' organizational structure, Romanian and Ukrainian banks are integrated in very hierarchical organizations with strategy and decision power imposed top down. On the other hand in Sweden, from the top four banks, two have a centralized structure. The other two Swedish banks have a strongly decentralized structure with networks of branches that have own responsibility over their clients and flexibility on management control.

Ukrainian and Romanian banks are highly centralized therefore at a regional level they offer standard services and do not perform evaluation processes. In Sweden, a more decentralized structure allows the use of personalized offers to particular clients to assure their loyalty. Therefore local branches in Sweden have more flexibility that Ukrainian or Romanian ones.

4.4.4 Differences in the actual use of NFP

There are also differences in the actual practices and approaches to using non-financial measurements. All banks emphasize the importance of customer satisfaction but the measurement process is performed differently. In Sweden, the decentralized banks use Swedish Quality Index, which is an annually conducted national survey that measure customer satisfaction for several industries, while the centralized banks use more complete and adapted to their needs evaluation. In Romania only one bank actually measures customer satisfaction but through simplified procedures like focus sessions with the most important clients or mystery shopping practices, while none of the Ukraine banks revealed the measurement of customer satisfaction. The differences can be explained by the economic development level which makes possible the existence of a national quality index in Sweden but not in the other two countries. Another explanation can be the banking market development stage. In Sweden, on a mature market with low level of new customers, the client's satisfaction becomes a key target, while in the emerging economies where the market is not yet saturated the emphasis on customer satisfaction is lower, the banks concentrating also on gaining new clients.

The incentive system is not used as a proper instrument for behavior influence and performance increase in the majority of studied banks. As a general rule performance based bonuses are rewarded only to the top management. For the other employees the Swedish banks developed basic profit sharing schemes, while in Romania and Ukraine, former communist countries, the concept of participation on profit sharing is not a popular one. In Romania only one bank has a special rewarding program for sales personnel based on the individual performance destined to increase the employees motivation and sales level.

The concern for environmental issues is emphasized differently in the three studied countries. Banks in Sweden have a higher commitment to the environmental cause and also use specific measurements to evaluate banks' impact on carbon emissions and action plans to reduce it. This greater emphasis can be explained by the society's development level higher that the one in the other countries, which can generate a greater care for the environment. It can also be explained also by the cultural dimension; Sweden having an extreme low masculinity that indicates among others that the people care for the welfare society and tolerance.

In Romanian banks environmental care exists more at a statement level that on the practical one. Only one bank, which has as a strategy closely linked with the local community, measures the decrease of the bank impact on pollution. One explanation of the declarative care for the environment is that, as EU listed companies, Romanian banks have to implement the guidelines of corporate governance codes, which cover the environmental issues also. On the other hand, Ukraine has no formal institutions or regulations, which encourage business to invest in environmental protection. Therefore Ukrainian banks do not show any concern for environment safety despite high environmental pollution and latest environmentally devastating disasters.

In conclusion we can state that the performance measurement systems used in Swedish financial institutions are far more advanced that the ones used in Romania or Ukraine, offering a broader view of the organization's performance and non-financial dimensions. However, the analysis made on Romanian and Ukrainian banks indicates that they are on the right track and in the future they could benefit from a complete performance measurement system.

Chapter 5

Understandin banks’ perspective on non-financial measurements

Based on primary data collection with representatives of Swedish banks

5.1 Interview analysis data

To get more in-depth explanations as to why banks have such position towards non-financial measurements, we have conducted interviews with three out of four analyzed Swedish banks. The interviews were conducted with representatives from different levels of the banks. Due to requests to maintain confidentiality of banks, we had to code their names. The names we use are Alpha, Beta and Gamma.

As mentioned in methodology section, we have conducted semi-structured interviews using open-ended questions. As the objective of the interviews was to gain insights and explanations regarding bank's position in usage of non-financial dimensions, we had to use open-ended questions and conduct qualitative interviews, searching similarities and differences in banks' approaches and explanations to their positions. Using a semi-structured approach allowed us to employ already prepared topics that we wanted to discuss in the interviews, while giving the interviewees some freedom to expand and elaborate on the subjects that came up during the interviews and sounded highly relevant but where not included in the list of questions.

Interview settings

The interview with **Alpha** representative took place at May 8th 2009 in the office of one of Alpha's branches. The interviewee currently occupies the branch manager position and has a long experience working at the Bank and being familiar with the way organization functions at different levels.

The second interview was conducted on May 15th 2009 over the phone with a representative of the Performance Management department at head quarter level of **Beta**. The person we have interviewed is a part of the team that works with performance management and is one of employees that are responsible for this area.

The last interview took place on May 15th 2009 at a regional office of **Gamma** with the marketing director of the region. Even though currently the interviewee wasn't directly involved in the performance evaluation, her long experience working at Gamma in different positions helped us find some insights of Gamma performance measurement system.

5.2 PM systems used by the banks

All of interviewed banks emphasized that most parts of their PM is functioning in a formal system, while Beta stated that that some parts of its PM system have developed as a tradition. Beta's representative said that for the Bank to achieve the desired performance results, it is important to stimulate performance driven culture. Within this culture, the Bank works with its performance management system that consists of strategy and business planning, target setting and rewards and recognition system.

5.2.1 Usage of Balanced Scorecard

All of three analyzed banks are using Balanced Scorecard or its analogies. We have observed that each bank modified BSC to fit specificities of its business, however the essence of it stays similar: there is one dimension related to financial performance, while other relate to non-financial areas. All three interviewed banks have introduced an employee-related dimension in their BSC.

<u>Alpha and BSC</u>

Bank **Alpha** has a Balanced Scorecard that is used throughout the Bank levels. This PM system incorporates both financial and non-financial perspectives and has been used to measure performance over last several years. BSC in Alpha Bank is used starting with local branch manager, regional branch manager and higher, however it is not imposed on the lower level employees. Alpha uses BSC not only on its local branches but all over its organization with some slight differences in Baltic States countries; in Nordic countries Alpha has exactly the same PM measurements and targets. This specificity of Alfa's approach to PM and attempts to have transparency and consistency between countries is not common among the other banks. It demonstrates a high level of centralization within the Bank.

Balanced Scorecard used by Alpha has three main dimensions adapted to fit Bank's specifics of business position. The dimension related to customers is divided into two categories, which correspond to private and corporate clients and are adapted to their specific characteristics. Table 11 *Alpha's BSC* presents dimensions and measurements used by the Bank

Table 11: Alpha's BSC

Dimensions	***Measurements***
Financial position	Income increase
	Increase in risk weighted assets
	Direct expenses increase
	Employees number
	Loan losses
Customer experience - private level	Increase in gold customers
	Fulfillment of contact policy
	Evolution of dedicated staff number
	Sales of different products
	Customer satisfaction index
Customer experience - corporate level	Customer meetings
	Share of relation managers
	Sales
	Customer satisfaction index
One team – it's all about people	Employee satisfaction index

The last three dimensions (non-financial ones) are included in Alpha's PM to analyze Bank's performance. This BSC does not contain dimensions related to employee learning and development or innovation, because they are not considered as essential to the Bank as the dimensions included in BSC.

First dimension relates to financial perspective and measures the increase in income, increase in weighted average assets, direct expenses and their increase, as well as the difference between income and expenses. The Bank also includes the number of employees and loan losses under this dimension.

Speaking about measuring customer experience in household level, the Bank measures the increase in Gold customers of this sector and the fulfillment of contact policy[41], change in number of sales personnel (dedicated to household customers). This dimension also includes sales of non-collateral and lending, sales of investment products and sales of deposit products. Alpha also uses a customer satisfaction index for this dimension. The index is evaluated once a year by mail survey, which consists of about 30-40 questions for household customers. Alpha added that it is not the Bank itself that measures customer satisfaction, but an external company that the Bank contracts to conduct the evaluation in order to assure its objectivity. In Sweden there is a national conducted customer satisfaction index, SKI, directed to several industries including the financial services one. Alpha opted for a more specialized survey, designed for its special needs, because they attend a very diversified pool of customers and the relevance of their opinions about the banks services depends also on their bank profile.

The Bank showed us the customer satisfaction report used. The report includes a comparison with previous years and draws a trend in customer satisfaction. Alpha uses data from the other banks as a benchmark to obtain a picture about Alpha's performance in relation to competitors.

Another non-financial dimension relates to customer experience at corporate level. This has several performance indicators, such as the number of customer meetings[42], share of relationship managers and sales of total savings. Alpha also measures customer satisfaction index for medium and small corporate customers. Customer satisfaction for this category of clients is also measured by an external organization; the information being obtained trough a telephone survey.

The last BSC dimension is related to the employees and aims to unite the Bank's team. In this section Alpha looks an employee satisfaction index as the major dimension. Alpha surveys its employees annually regarding their opinion about the bank, managers, products, etcetera. The survey has about 60-70 questions in total. Alpha interprets this information and evaluates the employee satisfaction index. The Bank analyzes the obtained results and discusses with employees possible ways to improve their commitment level. After this process, Alpha takes 2-3 specific steps aimed at dealing with the employees' issues.

Beta and BSC

Speaking about the Balanced Scorecard, Bank's representative stated that **Beta** is using its own equivalent to it, which is derived from the Bank's vision. To fulfill its vision, Beta had identified four goal areas related to:

- Market and customers

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[41] Alpha has a contact policy which requires that specific customers have be contacted a certain number of times each year and they hold 360-degree meetings with them

[42] As a part of contact policy, the customers are listed into three different categories based on previous profitability and a prevision of the future one, and then the optimal number of meetings is decided based on the established categories

- Operational excellence
- People performance
- Financial performance.

Beta considers these target areas as its long-term objectives to fulfill.

Speaking about the strategy links, the vision at the top is broken into these four goal areas. They are further broken down into smaller Key Performance Indicators, which show whether the Bank is achieving its goals and moving in the right directions. These KPI are present both at upper level and then cascaded down to the further organizational levels. Therefore, in each of these four areas, Bank has different corresponding KPIs, which are further cascaded to each individual employee of the organization as his/her targets to achieve. The behavioral dimension of the performance system related to rewards and penalties[43] are linked to these individual targets. This way, all individual performances are aggregated at group level as Bank's performance indicators. The Beta's PM system has KPIs at each BSC area, which are incorporated into all levels of the organization aiming at one big goal and vision.

Gamma and BSC

Gamma evaluates its performance through a BSC adapted to its specific needs. The framework is based on the Bank strategy which links Gamma's vision and goals to specific targets. The target setting process consists in two sub processes, one at corporate level and the other at regional level, dividing the overall target into individual requirements.

Gamma's BSC includes five dimensions[44]:

Table 12: Gamma's BSC

Dimensions	***Measurements***
Profitability	Cost/income ratio before credit losses
	Result evolution before credit losses %
	Monthly interest margin
Sales	Sales increase
	Net interest margin %
	Products number / employee
	Customer meetings / employee

[43] To be accurate, we need to mention that Beta is not using penalties in its rewards and recognition system. When targets are met, employees are presented with certain awards. In case if targets are not achieved, the Bank takes on action plans to deal with this.

[44] Retrvied from Lund University Bachelor thesis, 2008

Risk	Calculated loss %
	Problem loans %
	Actual credit losses
	Number uncertain claims
Customer	Service leadership index
Employees	VOICE index – employee satisfaction
	Sick absences %

It was unexpected for us to see that BSC used by Gamma has three out of five dimensions related to financial performance, and that those three financial dimensions are leverages out only by two non-financial ones. The Bank emphasizes in its PM system non-financial dimensions like customers, employees and productivity however ignores other areas recommended by the theoretical BSC model like learning or innovation.

The *Sales* dimension incorporates measurements related to market share (e.g. sales increase) and also measurements which evaluate the productivity (e.g. number of products per employee, number of customer meetings per employees).

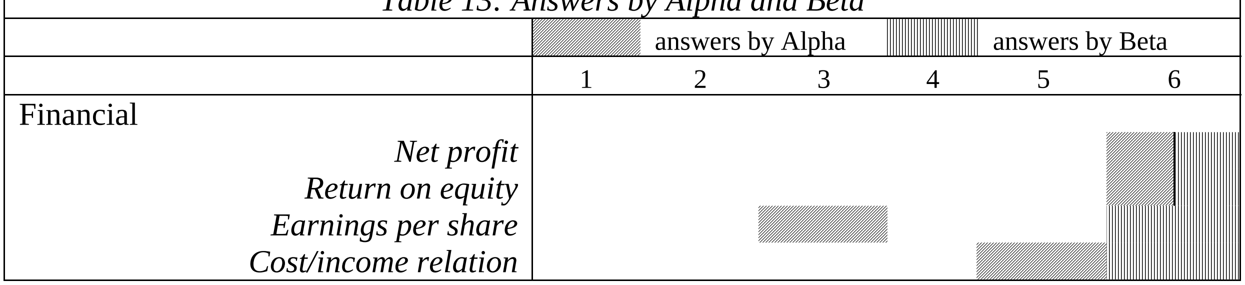
Related to the customer side, Gamma is evaluating the customer satisfaction index through SKI, Swedish Quality Index, a national conducted survey, which measures the customer satisfaction in several Swedish industries.

The last dimension, *Employees*, measures the employees' satisfaction level and their opinions about the Bank's activity through the VOICE index. This dimension also includes a commitment indicator, the sick absences percentage.

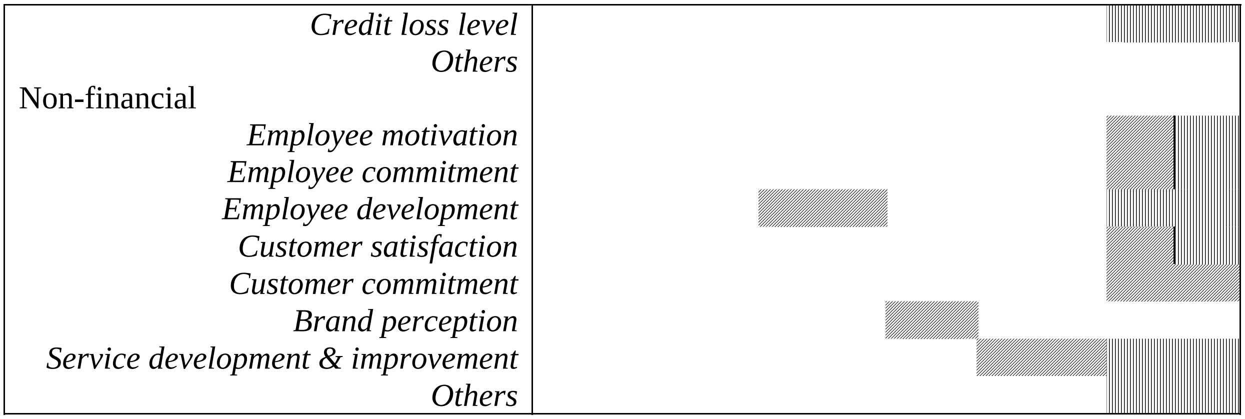
5.2.2 Banks' position regarding financial and non-financial dimensions

To analyze whether financial or non-financial dimensions are more stressed in measuring performance at interviewed banks, we have asked each interviewee to rank various financial and non-financial indicators on Likert scale from 1 to 6[45] The Table 13 *Answers by Alpha and Beta* provides replies given by the two banks. Gamma could not provide the ranking because the interviewee was not directly involved in the PM system design.

Table 13: Answers by Alpha and Beta



[45] With 1 being insignificant and 6 highly important



Financial and non-financial dimension at Alpha

Ranking financial indicators, **Alpha** representative stated that Net profit and ROE are very important and hence were given a 6; the Bank evaluates these indicators and uses peer bank's information as a benchmark. EPS was given only 3; Cost/income is also important, however currently first two indicators are more important. Credit loss data is also very important especially in times of financial crises because the risk is higher. The interesting case of this bank is that because its operations are not highly concentrated on foreign developing markets (such as Ukraine and Baltic states), credit losses have not been significant, therefore this indicator is not as important as for other banks.

When ranking non-financial indicators, Alpha stated that employee motivation and employee commitment are important and given 6, while employee development is given 3 and considered to be not so important. On the other hand, customer satisfaction and customer commitment are 6, very important. Brand perception was given 4, Alpha states that this measurement is important but not as other indicators. Service development and improvement are important and measured, but were attributed only 5 because motivated and committed employees and customers are more important.

Looking at the linkage of non-financial measurements with targets and strategy, Alpha has strategic goals related to both types of measurements. For example: increase in net profit, which is a financial measure, and customer satisfaction, which is a non-financial one. Alpha highlighted that a part of its targets come from the Bank's strong commitment to the market to have an increase in both of the target areas. If the Bank does not meet the requirements, the market will not value the Bank services as high as it was planned. Also the Bank has internal commitments linked with the rewards granted to the employees. The Bank has quarterly revisions of the targets.

Speaking about challenges related to understanding, measuring and interpreting non-financial results (that were stressed in Hussain (2005) study), Alpha stated that the key is to have clear objectives and goals that have to be met in relation to the targets. But it is highly important to align people with the goals.

Financial and non-financial dimensions at Beta

Analyzing bank's higher concerns for financial or non-financial measurements, **Beta's** PM system concentrates on both of them. The Bank has target fulfillment (for individuals and groups) and the behavioral perspective, which includes a lot of non-financial indicators. Evaluating the importance of financial areas, all five of stated areas (Net Profit, ROE, EPS, Cost/Income and credit losses) were given 6 and attributed to be highly important. Moving on to non-financial indicators, the Bank is not measuring customer commitment separately, instead is incorporating it in its measurements of customer satisfaction. The Bank is concerned with measuring service development and improvement; one of measurement examples is time to complete the loan; this dimension is also of high importance to the bank and was attributed 6. The other five dimensions (employee motivation, commitment and development, customer satisfaction and brand perception) were attributed 6 and recognized as highly important for the Bank.

Bank representative added another significant area to non-financial dimension and Bank's performance in general, which is operational excellence. As mentioned also in its annual report, the aim of the operational excellence emphasis is to *"work with the integration of the Group in order to increase cross-selling and extract cost synergies through a more efficient use of common resources"*[46]. The operational focus is highly interrelated with the communication within the organization: *"the co-operation and knowledge-sharing between divisions have improved since the introduction of the new organization on 1 January 2007"*[47]. The results of this program are seen in a number of restructurings in the way meetings within each department were organized.

Analyzing whether financial or non-financial dimensions are more important in measuring Beta's performance, the Bank does not place more emphasis on one over the other. Both dimensions are treated equally because they are essentially interconnected and important for the overall health of the Bank Beta. Bank's representative noted that for Beta to reach its goals, it has to focus on both financial and non-financial targets. Although high financial results are the sign of a good performance, in order to perform financially the Bank needs a high non-financial performance. Therefore, it is crucially important for the Bank to maintain a balance between the two dimensions.

Speaking about challenges in measuring and interpreting non-financial performance, the Bank representative stated that understanding non-financial performance is subjective and difficult to measure some times. However the Bank is trying to give as much support to managers as possible to ensure objectivity. Moreover, the Bank is trying to calibrate for reaching objectivity in a greater extent and provides instructions and guidance for managers to conduct a chain of events with as high quality as possible. Therefore, cooperation and guidance provided managers with help to insure that analyzed non-financial information is as objective as possible.

Financial and non-financial dimensions at Gamma

Gamma emphasizes the importance of both financial and non-financial measurements considering that the financial performance is based also on non-financial areas. The non-financial dimensions considered more relevant by the bank are:

[46 & 46] Annual Report 2008

- Customer satisfaction
- Quality of service
- Employees
- Environmental concerns

The customer satisfaction is evaluated at regional level using the SKI index. Based on the results there are action plans initiated in order to improve the performance if necessary.

5.2.3 Decision-making and communication

Alpha's targets are imposed from headquarters. Therefore majority of communication related to objectives and goals is a top down one. Alpha stated that previously the Bank had more bottom-up communication, however over the past 4-5 years this has changed. Alpha explained the change as a logical outflow of establishing a strong commitment to the market, and hence a high commitment from Alpha to meet the targets. Previously, the company did not have a strong market commitment, therefore after gaining this perspective Alpha had to modify its decision making process. Local branches are engaged in setting the targets, however majority of goals are imposed from HQ.

Information and decision flow at Beta

The department where the interviewed person works in is the major one responsible for setting PM measurements. Afterwards the information is cascaded to further levels in organizational hierarchy, providing local managers with the responsibility to break down those targets and communicate them to individual employees. An organizational PM planning starts at the top level, with the first set of actions (set by General Executive Committee) relating to translating vision and strategy into smaller dimensions. The second set of actions involves managers cascading those goals down to **Beta's** divisions, than within and between departments and further to individual employees. This way each individual employee within the organizational levels knows what is expected of his/her actions. A third set of actions involves follow up procedures, which are used to analyze how well employees understood and performed in relation to what was expected from them (feedback process and double-loop learning from the theory). Then the forth set of actions follows with rewards and recognitions.

Having this information flow, Beta has both continuous feedback and coaching present in first two sets of actions as well as formal follow up procedure reflected in the third and forth set of actions. This approach allows Beta's employees to receive a feedback at least 3 times a year: during target setting process; during an intermediary review in the middle of the year to see whether some targets need or be revised or modified; and at the final review process. In the third set of actions, the Bank has a full year review when employees are evaluated both according to targets and mindset and behavior model used in the Bank. Then the Bank has rewards and recognitions linked to the results from the annual review. This way Beta has both short-term and long-term motivations and incentives. Moreover, the incentives are not revolving only around monetary compensations, but intangible rewards such as competence planning and other types of recognition. The cases of poor performance are treated through action plans directed to solve the causes of improper results.

Reflecting regarding the decision flow during the target setting process, Beta has both top down and bottom up information flow. Every employee participates in this process[48]. The top down part is when General Executive Committee of the bank sets targets for Beta for a year long period. On the other hand, the bottom up information flow comes when each manager of a business unit or local branch has a responsibility to analyze the targets and communicate (or even negotiate if it's a bottom up process) them down to individuals in their team. The Bank provides workshops and small sessions with Performance and Development Discussions when the employees can provide their feedback.

Beta states that for their Bank it is very important to have an agreement between the employees and managers in terms of targets and ensure that the individual employees' opinion is included, as employee input is an important part in decision-making process. In this way the Bank ensures that the established targets are achievable and employees know what is expected from them. Also, during the workshops and meetings that the Bank arranges, managers from different business units and departments meet and get a chance to compare their results. This ensures internal benchmarking of performance within various departments.

Decision flow at Gamma

From the interview and the bank's web page we concluded that **Gamma** is a decentralized organization with the responsibilities delegated to regional branches. In the current year the bank intents to reorganize its structure in Sweden by increasing the number of regions and moving the decision power closer to the clients and therefore decentralizing the organization. The process of establishing targets takes place annually, with a five years horizon, in two steps:

- First at corporate level by introducing general targets for each region;
- Second, at regional level, where the targets are broken down and the managers together with the employees establish individual targets for each employee.

The bank places a great emphasis on its vision and goals as well as on involving and training the employees to act towards the vision. Having a decentralized structure, the bank has a tradition of involving every employee in establishing the company's direction. In this regard the communication of vision and goals is a both way process with information transferred from top to bottom and also from bottom up.

Rewards and penalties

In all of the three analyzed banks, rewards systems are linked to reaching and/or exceeding certain targets. However, each of the banks has different approaches related to which employees the rewards system applies to.

In **Alpha** rewards are linked with outperforming certain goals, however if the targets are not met, no punishment is associated with this. Alpha does not have individual compensation packages to lower level employees, however the Group has a common profit scheme, which grants a share of profit to the employees after exceeding certain targets. However, top-level mangers have individual compensation packages, based on their individual performance.

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[48] General Executive Committee sets targets for the whole organization, while individual targets are set during Performance and Development Discussions that take place between a manager and employee

Beta uses a short-term compensation plan based on pre-determined goals available to all employees and a long-term incentive plan destined to senior leader and other key employees. The Bank also focuses on aligning employees' interests with the shareholders' ones by granting the long-term incentives in the form of performance shares and also by implementing a project that encourages all employees to become Bank's shareholders. Similarly to Alpha**, Beta** does not practice penalties if employees do not fulfill their requirements. Due to the fact that bad results can be as consequences of causes not controlled by the responsible employee, the Bank treats each case individually.

In **Gamma** targets are linked with an incentive system based on the general bank's performance at country level. Employee performance is monitored constantly, especially in sales departments. Depending on the results, the necessary action plans are implemented and monitored. The rewards are represented by a basic profit share scheme available for all employees. There are no special rewards for top executives based on individual performance. Although there are no formal penalties linked with bad performance, each employee's performance influences the general result and also his/her future career in the bank.

The analysis of the rewards and penalties approach of the three interviewed banks indicated that all three use reward systems to reinforce positive behavior and none of them is actually practicing penalties associated with low performance. Although the banks do not emphasize sanction practices for unfulfilled targets, we can assume that poor individual performance has an effect on the reward received at individual and group level as well as an effect on the future career of particular employees. However, we believe that having a reward system based on profit sharing schemes and no penalties is a very appropriate approach to stimulate positive behavior in a long run. This approach promotes corporate spirit to strive for the best, without encouraging too much unhealthy competition between employees and departments, which might damage the organization in a long run

5.2.4 Banks' positions on employee-related aspects

Employee development, motivation and commitment

Regarding employee development, **Alpha** states that employee training and development are important for the company, but the Bank is more concerned with their motivation and commitment. Alpha states that for it to have motivated employees, the Bank must have strong development programs. Therefore Alpha invests a lot in training/development programs for its employees related to customer communication, service, understanding of products, etcetera. Alpha stated that it is paying much more attention to establishing a good corporate climate, promotion opportunities, compensation and development programs which contribute to establishing a strong employee motivation and commitment. Therefore, Alpha sees the training and development of its employees to be of high importance, but in Bank's perspective this is an essential part related to establishing a strong employee commitment and motivation.

Speaking about **Beta's** position on employee training and development, the Bank has a number of programs related to this issue. The Bank has a variety of internal and external programs and courses aimed at developing employees in order to help them meet assigned objectives. One of the examples is Performance and Development Discussions with each employee that takes place at the beginning of the year when the strategic points are set. Also Beta has a Talent Review concept designed to help analyzing the potential of employees and possible development areas for them. The Bank has programs regarding the treatment and further development of high performing employees. As for now, Beta does not have specific programs aimed at dealing with low performing employees, but the Bank implements specific action plans that deal with low performance. Beta has also defined actions aimed at enabling competence and career development, which help its employees to improve their performance. The Bank has also s Talent Management Group, which operates at the group level and develops ways to select and improve individual talents.

Beta has a variety of training programs, some of them being available to best performing employees, while others available to all employees. There are specific trainings based on positions and areas of competence, as well as general trainings aimed at developing leadership or managerial skills of employees with high potential in those areas. The Bank does not have a minimum requirement of training hours/days per employee, however there are specific training requirements based on job roles and responsibilities (with some of them being imposed from the Bank and other from outside standards).

Talking about measuring employee motivation and commitment, the **Beta** uses VOICE survey, which is conducted every second year and is the most formal approach in measuring employee satisfaction and commitment. About 90% of employees completed the survey, which makes it to be the most important tool in analyzing various employee perspectives from all levels of the organization.

Moving on to actions aimed at increasing employee commitment, the Bank does not have special programs targeted at this, however this dimension is a part of Performance and Development Discussions with individual employees. Performance Development Discussions and VOICE survey are helpful for Beta to evaluate employee commitment. They serve as a natural tool for motivating employees. Hence, the Bank does not have a specific program targeted at this; it is the responsibility of a business unit work with employee satisfaction and development.

Employees are considered very important assets at **Gamma** and the bank pays a lot of attention to employee development and commitment. The Bank uses a development plan for its employees. It involves communication between managers and employees in establishing and assigning tasks and roles (yearly rotation system for the team's roles) and appropriate targets. This plan also fulfills the role of motivating the employees to contribute to the bank's goals. The employee satisfaction is measured by the VOICE index, which register the employees' opinions regarding the bank's activity.

Gamma considers trainings as an important aspect of employees' development. There are no formal requirements for a certain number of training days for each employee. The education is based on the specific requirements for each position. The requirements can be established by the bank or by external institutions (e.g. for counselor position). There are also trainings aimed to develop the core competencies of employees like behavior, relationship with the clients, leadership skills, etc.

Communication with employees

Regarding communication with employees, **Alpha** representative stated that there are various meetings conducted on daily and weekly basis. There are short 10-15 minutes group meetings that happen every morning. On the other hand, a local brand manager has a meeting with employees once in two weeks; the meeting lasts about 45 min. During this meeting a lot of attention is given to reviewing branch performance of the previous month, providing feedback and establishing targets for next period. There are also long group meetings weekly that last about an hour. The group managers also have once a month meetings with every group member to provide individual feedback and comments regarding past performance and possible ways to improve it. There are also annual meetings with each employee to provide feedback related to individual performance during the period, discuss their concerns and objectives. Alpha also conducts Performance and Development Dialogs with its employees to help them set targets regarding their career goals and ways to reach them.

Speaking about communication of targets to employees, the Bank representative provided an example of a recent meeting related to customer satisfaction improvement. Alpha also conducts meetings related to targets setting and roadmaps for achieving them.

Communication with the higher-level management is carried on a couple of times during the week. Also, face to face meetings with branch managers and area managers are happening usually once a month.

Analyzing whether **Alpha** could observe positive improvements in employee performance after improving communication with them, the Bank stated that there seem to be positive results, however it is hard to measure exactly the improvements. The Bank has a Coaching program, which involves monthly individual meetings with employees to provide feedback regarding their performance. Alpha thinks that such improvements in communication have a positive influence on employees and Bank's performance.

Speaking about communication channels used in the **Beta**, they are dependent on the Business Unit and organizational level. At local branch levels, employees have short daily morning meetings in their groups, where targets and responsibilities are assigned between individuals. While at headquarter levels goals and responsibilities are more long-time oriented, hence the meetings take place less frequently. At this level, there are small group meetings taking place once a one or two weeks based on the assignments. Larger meetings are usually taking place every month, when all of the teams report their progress and achievements in assigned areas.

Analyzing the communication flow in the Bank, we have to consider that the HR department within the group is divided into three major functions: strategic development, service delivery and local HR business partners who are located in each Business Units and are directly linked to them. The most frequent communication channel is email, which is widely used within teams and among business units; there is also a lot of telephone communication present. The Bank is working a lot with continuous coaching and feedback between employees and managers to ensure that there is information exchange taking place on continuous basis, not only during personal development meetings. The Bank perceives itself to have a good communication flow inside the organization.

The communication flow at **Gamma** includes direct meetings between employees and their managers at lower levels and also regular meetings between managers at local, regional at national level. The bank also uses an internal web page to communicate to employees the latest news regarding the bank and the financial environment and also about career changes. The Bank considers this information channel to be highly effective in communicating general information and also in building its corporate culture and team adhesion.

5.2.5 Environmental and social concerns

Alpha's position regarding environmental care is that it is important for the society and Bank's customers, therefore Bank has to take actions to show its concerns regarding this issue. The Bank has an environmental plan. Alpha stated that some customers even demand the Bank to have an environmental plan in order to conduct a business together. Therefore, Banks concerns for environmental issues are driven from society and business demands and also from the Bank's concerns to ease its environmental impact.

Analyzing **Beta's** commitment and concerns for environment, the Bank has strong values that it operates on:

- Commitment
- Continuity
- Mutual respect
- Professionalism

They serve as a foundation and basis in shaping the way the Group looks at its business operations and decisions. Those four values stimulate the Bank to be seen as a good social citizen that takes responsibility for its impact on society and environment. The Bank believes that all companies should be aware of their responsibility for the long-term development and influence on outside stakeholders, such as environment and community, and also should be seen as active social inhabitants.

Related to the care for the environment, the **Gamma's** perspective is that the environmental issue is highly emphasized based on two motives. First, the Swedish society is focused on this problem and second the environmental care is important also for the business success. The bank considers the environment protection as a criterion for establishing the level of risk of large companies when requesting financial services. In this way the bank contributes at the environmental protection in two ways: by its actions and also by insufflating the same care to its customers.

5.3 Conclusion

The interviews conducted with the three Banks offered an insight view regarding the practical use of the performance measurement system. Although the interviewees represented different organizational levels, they provided a general view and insights regarding the PM systems used in the Swedish banks.

The main result related to our research topic is the use of non-financial performance measurements. Swedish banks seam to have an in-depth understanding of the importance of non-financial measurements in determining the long-term financial performance. The fact that the interviews included employees from both headquarters and local offices indicates that employees at different organizational levels emphasize the role of non-financial indicators. This also indicates that a well-designed PM system succeeds to influence the mentality of employees at different levels towards the bank's vision and targets.

The interviews revealed Beta as the most advanced studied bank in relationship to PM system and non-financial measurements. Its approach to PM resembles the most to the theoretical reviews and perspectives on importance of non-financial measurements. In particular, Bank's position is that in order to succeed, it cannot distinguish between the importance of financial and non-financial measurements, as both of them are highly important and needed to maintain high performing culture.

Typically for the Swedish society the main non-financial focus is based on stakeholder dimensions like customers, employees and environment, while only one bank emphasizes a high concern for operational excellence.

The successful use of PM system is closely linked with the incentive system. Although the Swedish banks use in general basic common reward schemes, these together with employees' development plans succeed in ensuring the needed behavioral influence and employees' commitment.

In conclusion we can state that although the interviews portrayed performance measurement systems at different development stages, all three banks have established strong culture of evaluating and improving performance as well as understanding indispensable role of measuring non-financial dimensions.

Chapter 6

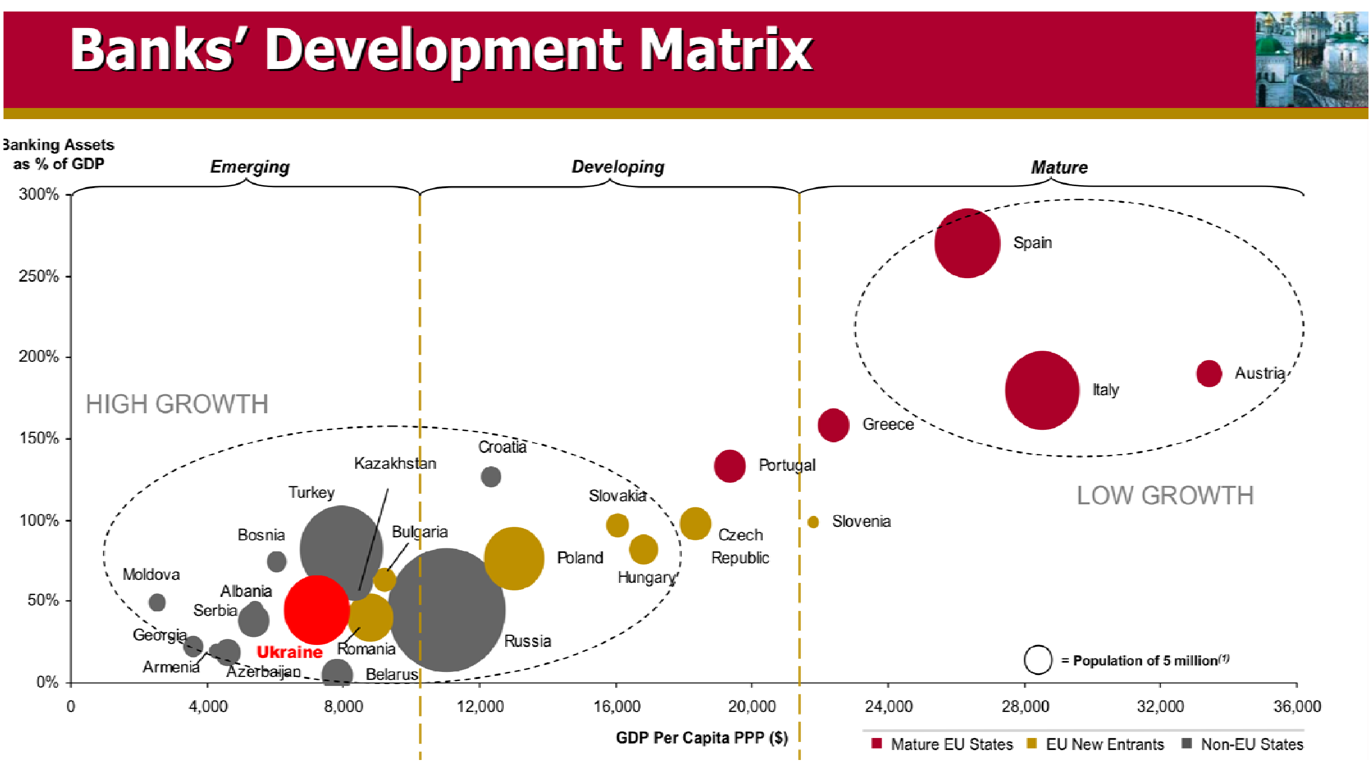
Comparison of current findings with theoretical analysis

6.1 Introduction

Design of the performance measurement system depends to a great extent on the corporate governance system by which the company operates: the shareholder or the stakeholder approach. The shareholder model is based on a property conception of the company, meaning that the shareholders, although don't have legal rights over the company's assets have proprietary rights over the firm. This approach is representative for the Anglo-American companies, financed mainly on equity. In the last years this approach began to impact European and Asian economies due to the influence of globalization and convergence. The shareholder value perspective of performance measurement emphasizes the idea that the company operates to serve the only purpose, which is increasing shareholders' wealth.

In continental Europe, in general, the companies are financed more by debt than by equity. Those companies also emphasize a stakeholder approach in their corporate governance, meaning that the company represents the interest of a larger group of stakeholders formed not only of shareholders but also employees, customers and national government. In Sweden, for example, a great attention is paid to the employees' interests who have the right to appoint representatives in the board of directors. The performance measurement system is also influenced by the cultural dimension. In this respect, Sweden is one of the most "feminine" countries, which shows a tendency towards care for welfare society and tolerance as well as cooperation rather than confrontation. Considering all this we can assume that Swedish companies are more likely to use a stakeholder approach to performance measurement system, a multidimensional framework which can include financial and also non-financial indicators.

Figure 3*: Bank's Development Matrix*



On the other hand, Romania and Ukraine have a moderately small experience of corporate governance and performance measurement systems. As former communist countries, they have a history of planned economy, where determining costs and meeting the budgets was more important than evaluating performance. Over the last 20 years, the two economies had a great development, largely based on foreign investments, stock exchanges development and equity financing evolution. However, the financial markets of these countries are still in an emerging point as illustrated in the Figure 3 *Bank's development Matrix*[49]*;* both Ukraine in Romania are in emerging stage of market development with a high growth rate. On the other hand, Swedish banking industry is already in its mature stage[50]. In this context we can assume that Ukrainian and Romanian companies with foreign majority owners will adopt the mother company's performance measurement system while the companies with local ownership will use more traditional measurement systems.

6.2 Sweden

The performance measurement systems used in Swedish companies depends on a series of factors like: culture, industry, ownership, tradition, organizational structure, etc.

The Swedish cultural dimensions, according with Hofstede (power distance 31, individualism 71, masculinity 5, unsecurity avoidance 29), indicate tendencies towards decentralization, democratic decision-making, citizens with relative much power, conflicts solved through cooperation and care for a general welfare of society and tolerance. These cultural specifics are translated in high standard social protection, special care for employees (allowed by the law to be represented in the board of directors) and for environment. Viewing the performance measurement system through the cultural perspective we can assume that the Swedish companies are incline to use a stakeholder approach, a multidimensional framework which combine financial and non-financial measurements, like the Balanced Scorecard, for example. Such cultural dimensions also indicate a tendency towards high usage of non-financial measurements and a high degree of employees' involvement in achieving the banks' goals.

The design of the performance measurement system of the four Swedish banks can also be explained by the ownership and organizational structure. Nordea and SEB have a more centralized, hierarchical structure with a top down decision making process, while Swedbank and Handelsbanken are more decentralized, with the responsibility being delegated to the local branches. From the ownership point of view Swedbank and Handelsbanken have a more diluted ownership, with the majority on shares being owned by Swedish institutions. On the other hand, Nordea has the Swedish government as its main shareholder with 20% of the shares while SEB's major shareholder is Investor AB controlled by the Wallenberg family.

Previous researches made on the management accounting system of Swedish banks (Hussain, 2005) revealed that the major focus of PM systems used by Swedish banks is concentrated on the financial performance. Hussain's study revealed that the organizational management acknowledged the importance of non-financial performance but failed to measure it on constant

[49] Retrieved from UkrsotsBank corporate presentation, 2007
[50] Though Sweden is not on the graph, its economic and industry conditions are similar to ones in Spain and Italy, hence Swedish banking industry has already reached its maturity stage

basis. His findings also revealed that managers are not satisfied with the current performance measurement system used and that a stable economic condition and competition would increase the need and the importance of the non-financial indicators.

The findings of our analysis indicated a trend in preference of the Swedish banks towards the multidimensional frameworks of performance measurement system. In general we found that all banks integrate their vision and goals into the measurement system by breaking them into smaller financial and non-financial targets. For example, Nordea draw on its web page a simplified version of a strategy map with the vision and mission broken down into values[51]:

Figure 4 ***Nordea's Strategy***

The values are translated into measurements and presented below[52]:

Great customer experiences
- *income growth*
- *increased market share and savings*
- *growth in corporate lending margins*

It's all about people
- *change in number of Gold and Private banking customers*
- *employee satisfaction index*

One Nordea team
- *relative customer satisfaction improvement*

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[51] Retrieved from Nordea corporate web page, http://www.nordea.com/About+Nordea/Mission+vision+and+values/51342.html
[52] 2008 Annual Report, p 9

- *delivery satisfaction index*

Profit orientation – cost, risk and capital

- *cost change*
- *economic profit*
- *growth in risk weighted assets*
- *funding gap*

Those findings indicate the use of a performance measurement system similar with the Balanced Scorecard and the strategy map, which links together the bank's vision, mission, values and measurements and also creates close links between the dimensions of the BSC. For example, we can assume cause and effect links (lead and lag indicators) between measurements like: relative customer satisfaction improvement, change in number of Gold and Private banking customers, increased market share and savings and economic profit.

The SEB answer to achieve maximum performance was to develop a roadmap, "Road to Excellence" which integrates its vision, goals, targets and measurements. The "Road to Excellence" has three main dimensions similar to the BSC: operational excellence, customer satisfaction and balanced growth. SEB annual reports present a map of their strategy[53]:

> ***SEB's business purpose***
> *SEB provides financial services and manages financial risks and transactions in order to help its stakeholders to realize their full potential – customers achieving their objectives, shareholders earning a competitive return, employees performing with pride – and to make SEB a good corporate citizen of society.*
>
> ***SEB's vision***
> *SEB's long-term objective is to be the leading bank in Northern Europe in terms of financial performance and customer satisfaction within chosen segments.*
>
> ***SEB's goals***
> *…achieving a higher return on equity compared to relevant Nordic and European peers over the business cycle, while attaining sustainable and profitable growth. It is SEB's target to achieve a AA rating.*
>
> ***SEB's key priorities***
> *… a strong commitment to reach superior productivity and quality, increased integration of SEB, intensified activity with its attractive customer base and focused growth within core areas of strength; primarily corporate and investment banking, wealth management and unit-linked insurance.*
>
> ***SEB's short-to-medium term priorities***
> - *Grow revenue with existing customers through high interaction and increased share of wallet.*
> - *Continue to focus on cost efficiency-enhancing measures and savings in areas not directly related to customer interaction.*

[53] Retrieved from SEB Annual Report, 2008, p 4

- *Support customers' long-term financial needs while maintaining sound risk management.*
- *Take actions in order to maintain its strong capital and liquidity position.*

The measurements used to evaluate the performance cover the short to medium term priorities (e.g. cost reduction, market share or risk management) but also the long-term ones (e.g. the target: highest among its pears banks, measured by return on equity).

The other two banks also present multidimensional frameworks for performance measurements. Swedbank, for example, indicates specific targets for each performance dimension[54]:

- Increased customer satisfaction (e.g. reach SKI 75 at private customers),
- Developed channel availability (e.g. opening hours, branches),
- Enhanced competence (e.g. expert knowledge, results orientation),
- Improved cost efficiency (e.g. 1 SEK cost should correspond to more than 2 SEK of revenue)
- Continued growth (for prioritized segments)

Handelsbanken describe, in relation with its performance, its corporate philosophy[55]:

- *"A strongly decentralized organization - the branch is the Bank;*
- *The customer in focus;*
- *Profitability is always given higher priority than volumes;*
- *A long-term perspective;*
- *Oktogonen - the Bank's profit-sharing system."*

Observation of those results entitles us to conclude that the studied Swedish banks follow the theory lead to integrate the organization vision and goals into daily targets and measurements.

The findings related to the use of non-financial dimensions indicate that Swedish banks emphasize the importance of these indicators as a direction to strong long-term financial performance and competitive advantage. In this regard our results indicate the banks' focus on customers, market channels, employees or productivity as drivers of financial results. The main areas of non-financial measurements presented in the Swedish banks' annual reports are: customer satisfaction, market share, employees' related measurements, productivity, and environmental care measurements.

Our analysis shows a great emphasis on the employees' contribution to organizational performance. In general, the banks implemented personal development plans that have the role to assign task, determine individual performance, follow the employees' career, motivate and where applicable establish the rewards. These plans are important for employees because they establish the organization expectations and the actions needed in order to achieve individual success.

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54 Retrieved from Swedbank corporate web page, http://www.swedbank.com/sst/inf/out/infOutWww1/0,,87483,00.html, Swedish Banking, Kjell Hedman presentation

55 Retrieved from Handelsbanken corporate web page, http://www.handelsbanken.se/shb/INeT/IStartSv.nsf/FrameSet?OpenView&id=HandelsbankenSEEnglish

According with the theory, decentralized organizations should focus more on the incentive system in order to motivate the responsible managers to use their decision power towards the organization's goals and mission. Our findings didn't support this idea, the banks having in general the same basic profit share scheme applicable to all employees and special bonuses rewarded to top management based on their performance. The most advanced inventive system functions at SEB, a centralized organization, with a short-term compensation plan based on pre-determined goals available to all employees and a long-term incentive plan destined to senior leader and other key employees. The bank also focuses on aligning employees' interests with the ones of the shareholders by granting the long-term incentives in the form of performance shares and also by developing a project that encourages all employees to become SEB shareholders (SEB annual report 2008). These findings indicate that only at SEB the incentive system is playing its entire role of shaping behavior and motivating the employees to act towards the bank's goals.

Comparing the results with the performance measurement system roles described by Franco-Santos et al. (2007), we can observe that all banks fulfill at least four roles. First, the basic role of measuring performance is present in all banks. Second, the strategy management role, referring to planning and strategy formulation, implementation and alignment is fulfilled in all banks with greater emphasis in SEB and Nordea. The third role, internal and external communication was observed in different stages at all studied companies. Fourth, the influence behavior role was found especially at SEB, which has a more advanced incentive system. The fourth role exists at a more basic level in the other banks also. The last role, learning and improvement, was observed in all the studied banks, performed, for example, at lower levels through the personal development plans.

We can conclude that the Swedish banks' management accounting and control system is developed in accordance with literature research on the subject which assured a good performance on stable environment. The next period will show if a well designed management accounting and performance measurement system can assure a good performance in an unstable economic environment also.

6.3 Romania

A major determinant of the performance measurement system used in Romanian companies is the ownership. The banks included in our study have either European majority shareholders (BRD – French, BCR and Raiffeisen - Austrian) or Romanian ones (BT). They have also high debt/equity ratios, fact which indicates that the banks are financed more through debt than equity. Considering that in general the European companies prefer the stakeholder approach of the performance measurement system (for example, in France the "*tableau du bord*") and the fact that the four banks have high levels of debt finance we can assume that the performance measurement system used in Romanian banks relates more to the stakeholders approach (multidimensional framework with both financial and non-financial indicators) than with the shareholders one (residual income type of measurements). Further we will discuss some important aspects to support our point.

The vision and mission of all four banks emphasize the importance of non-financial dimension like:

- Customers

"BRD is committed to developing its goodwill on these three markets (retail banking, corporate banking, investment banking), by adopting a strategy of long-term partnership with its customers."

BRD main strategy[56]

- Employees

  "To be an employer of choice for all its employees"

  *Transilvania Bank mission statement (*2007 Annual Report, p 23*)*

- Innovation

  "In 2008, BCR will focus on business development, implementing new systems and continuing the improvement of its products and services portfolio, especially for retail customers, while the corporate business is being entirely restructured, concentrating on a better customer relationship management, facilitated by the new corporate customer segmentation."

  BCR's strategy[57]

We discovered that though the analyzed banks emphasize the importance of non-financial measurements, they fail to evaluate and monitor them. The results showed a greater emphasis on financial measurements using more traditional accounting measurements like: profitability, ROE, ROA, cost/income ratios or EPS. By using these measurements, banks are concentrating more on evaluating the effects (financial performance and competitiveness) than the cause of performance (e.g. quality, innovation). Although the results indicate a greater focus on financial indicators they don't place the four banks under the shareholder approach because they don't evaluate the shareholder wealth using residual income like measurements or calculating the cost of capital. In contrast the results indicate a traditional accounting system and an incipient performance measurement system. The use of accounting measures to evaluate performance can have a series of downfalls, from the negative influence over the results of investments in R&D, to the fact that the accounting figures are established based on accounting conventions and they may not reflect clearly the company's performance.

Studying the annual reports of the four banks we can observe a tendency towards the stakeholder's model of performance measurement, mainly a multidimensional framework resembling the BSC because all treat the evolution and development of customers, employees, market share, innovation. The issue is that the focus on non-financial dimensions is mainly at declarative level, there are few cases in which the banks actually evaluate non-financial measurements. For example, all the banks focus on their relations with the customers and its effect on the financial results, however BCR is the only one calculating a customer satisfaction or quality of service index.

Regarding the employee-related measurements, the banks seem to skip their linkage with strategy. For example, they evaluate the level of trainings offered to the employees (trained

[56] Idem, supra note 26

[57] Idem, supra note 32

employees, hours of training) but don not link the professional development of the employees with financial results, increase in quality or customer satisfaction.

Our findings indicate the Romanian banks' inability to translate their visions and goals into the performance measurement system. Also they fail to determine the linkages between different dimensions of performance. For example, the banks present basic measurements related to employees, market share, number of customers, new products and the expansion of the organization but do not make any connections between them as well as fail to provide cause-effect links between them and the financial results.

An important part of a proper performance system is the rewards used to create incentives to increase performance. In the studied banks only BCR has a reward scheme, but only for a fraction of the personnel, the sales employees, which are rewarded based on their performance. The rest of analyzed bank failed to present any indicators related to positive behavior inducing.

As a conclusion we can compare the five roles of a performance measurement system described by Franco-Santos et al. (2007)[58] with our results. The performance measurement systems of the four Romanian banks fulfill mostly only the basic role, to measure the performance. Only one bank, BCR, showed limited signs of strategy management and influence behavior roles (by having a reward scheme for sales personnel based on the quality of their service and also by measuring the customer satisfaction and market share linked with a strategy of a leading position). From the annual reports we could not detect any signs of communication or learning and improvement roles. Although one can assume that the references to these two roles are missing from the annual reports because they are not considered public information, from the lack of representation of the other roles we can also assume that the performance measurement system of the four Romanian banks does not fulfill these two roles.

We can conclude that the performance measurement system of the studied Romanian banks is in its early stage of development. It can't be considered a proper management tool for control and decision making because it lacks the attributes to fulfill all the roles of a proper measurement system.

6.4 Ukraine

Analyzing performance measurements indicators, we expected to find that Ukraine would have a balance of both financial and non-financial measurements. Instead, we discovered heavy concentration on evaluation of financial sides of performance and only slight concerns for non-financial data. We found that PM perspectives of Ukrainian banks are dominated by traditional management accounting systems with heavy concentration on accounting indicators such as ROE, ROA, liquidity and liability-related ratios. We also got an impression that PM used by analyzed Ukrainian banks overlook indicators related to customer satisfaction and importance of investment in intellectual property, such as employee development and commitment.

To explain observed results in Ukraine, we refer to Hofstede study of cultural dimensions in Ukraine (power distance 23, individualism 51, masculinity 13 and uncertainty avoidance 57). Considering specificities of Ukrainian culture, we were not expecting to see that a culture with so low power distance, hence high concerns for equality and egalitarianism, has a lot of centralized

[58] See chapter 3, Theory overview , page 13

decision making in analyzed organizations. We also have expected to find that having low masculinity and mid results in individualism should indicate high concerns for group welfare and interpersonal relationships. From a cultural point of view, PM systems in Ukrainian should look somewhat similar to the ones practiced in Sweden. However, our results indicated the opposite. The results can indicate that because the PM system is in an incipient stage in Ukraine, it does not present yet cultural marks. We have to keep also in mind the powerful influence of the owner bank groups which can have sometimes a greater influence on the measurement system design than the Ukraine culture.

Looking at whether Ukrainian banks adopt shareholder or stakeholder perspective in their organizational management, we have arrived to similar conclusion as in Romanian banks. Though the majority of measurements in analyzed Ukrainian banks relate to financial dimensions, and only few reflect non-financial ones, they do not evaluate shareholder wealth using residual income measurements. Therefore our findings indicate that performance measurement approaches and systems are still at the developing stage in this economy and can not be clearly defined as projecting a shareholder or stakeholder approach.

We also got an impression that Ukrainian banks have problems in taking proper actions to identify and implement non-financial indicators, in particular to link them with organizational strategy. We have found mission/vision and strategy of all four analyzed banks in Ukraine have non-financial areas related to customer service and employee empowerment. One of such examples in Raiffeisen Bank Aval, with some of the aspects of its vision, mission and values[59] presented below:

- *Highest perceived quality for retail clients*
- *Understand our clients and aspire to maintain a life-long relationship with them. Relationships with clients are developed and supported by best qualified employees who provide superior quality or service in the best nationwide branch network.*
- *We empower our employees by creating an atmosphere that motivates them to achieve the best results.*

However while analyzing Bank’s corporate web page and annual report, we did not find measurements to support those areas. Based on those observations we arrived to understand that analyzed Ukrainian banks are not properly informed on how to link strategic objectives with non-financial measurements. Considering the fact that majority of them have been recently acquired by foreign financial groups, we think this should contribute in assisting Ukrainian banks to link its major objectives with non-financial indicators.

We found majority of indicators used by Ukrainian banks to be linked with competitiveness and financial performance, which according to *The Foundation for Performance Measurement* fall in the category of measurements that reflect ends and consequences of made decisions. Analyzed banks are only starting to introduce measurements related to evaluation and stimulation of innovation, quality of service, productivity, etc. We found that Ukrainian banks have not yet realized the importance of those measurements in causing results related to financial and competitive positions.

[59] Retrieved from Raiffeisen Bank Annual Report 2007, pp 130-131

We found that non-financial indicators are given only slight level of significance, while majority of attention is draw to analyzing “bottom line” figures like expenses and quarterly profits. Ukrainian banks seem to ignore the advantages provided by having non-financial indicators in their PM systems, as well as neglect the importance to have a proper balance between financial and non-financial indicators. We also got a perspective that Ukrainian banks underestimate or are not fully aware about the financial improvements that can be generated by implementing non-financial areas of measurements.

While analyzing annual reports of selected banks, we have not encountered PM systems that were described by Hussain (2005) in his study of Swedish, Finish and Japanese financial institutions. We were looking to find some PM indicators that could be close to BSC, however we did not find persuasive evidence to support this. In stead, we found that if practiced, non-financial indicators are not linked with each other or strategy.

To conclude analysis of Ukraine, we compared obtained results with a model presented Franco-Santos et al (2007). Our compared results for Ukraine are similar to the ones regarding Romanian banks. We have found that the main role of PM systems practiced in Ukrainian banks is to measure performance aimed at monitoring progress and evaluating performance. We have found some indicators that two of the analyzed banks use performance measurement systems to monitor learning and improvement in the organization (by investing in employee trainings and development programs). We have not found significant indicators regarding using PM to manage strategy and influence behavior. Analyzing annual reports of Ukrainian banks, we found only limited information regarding rewards and compensation to the top-level management of the banks, and none to lower level employees. Meanwhile, only one bank, UkrsibBank, stressed the importance of motivating and appraising its employees, as well as investing in their commitment to the bank, which indicates efforts to use performance measurement to influence behavior of its employees.

While analyzing Ukrainian banks, we have come to a conclusion that they fail to establish and project the links between financial and non-financial performance and implement non-financial dimensions into its PM system. We found performance measurement systems of Ukrainian banks to be only at its developing stages. However we are confident that it will be developed and improved during the next 5-7 years considering the fact that 3 of these banks have been recently acquired by foreign owners and are still in the process of transforming and adopting business perspectives of foreign owners.

Chapter 7

Discussion of results

7.1 Summary of findings

As stated at the beginning of the thesis, the purpose of this research was to explore the use of non-financial measurements in financial services industries in Sweden, Romania and Ukraine. The analysis focused on the use in practice of the latest theoretical developments, the non-financial indicators link with the banks' strategies and the financial measurements and the differences in use between the three countries found at different economic development levels.

7.1.1 Use of non-financial measurements

Regarding the use of non-financial measurements, the findings indicate that Swedish banks emphasize the importance of these indicators as a direction to a strong long-term financial performance and competitive advantage. In this regard our results indicated the banks' focus on customers, market channels, employees or productivity as drivers of financial results.

The analysis on Romanian banks revealed that although they emphasize the importance of non-financial measurements, Romanian banks fail to evaluate and monitor them. The focus on non-financial dimensions is mainly at declarative and descriptive level with few cases of actual measurements. The results showed a greater emphasis on financial measurements using more traditional accounting measurements like profitability, ROE, ROA, cost/income ratios or EPS.

The findings also indicate that Ukrainian banks' performance measurement is heavily concentrated on accounting indicators such as ROE, ROA, liquidity and liability-related ratios. Analyzed banks are only starting to introduce measurements related to evaluation and stimulation of innovation, quality of service or productivity. The non-financial indicators are given only slight level of significance, while majority of attention is draw to analyzing "bottom line" figures like expenses and quarterly profits.

7.1.2. Performance measurement system – links with the theoretical developments

The findings of our analysis indicated the preference of Swedish banks towards the multidimensional frameworks of performance measurement system. The results indicate the use of a performance measurement system similar with the Balance Scorecard and the strategy map, adapted to the banks' needs. They link together the bank's vision, mission, values and measurements, and create links between the dimensions of BSC. Regarding the roles fulfilled by the performance measurement system, all the banks present more or less all the roles, however the behavioral role is not as stressed as others.

Romanian banks present a more traditional accounting system and a still developing performance measurement system. Studying the annual reports of the four banks we can observe a tendency towards the stakeholder's model of performance measurement, mainly a multidimensional framework resembling the BSC because all treat the evolution and development of customers, employees, market share, innovation. The issue is that the focus on non-financial dimensions is mainly at declarative level; there are few cases in which the banks actually evaluate non-financial measurements. Regarding the roles fulfilled by the performance measurement system, all the banks present mainly only the basic role, to measure the performance, while only one bank showed limited signs of strategy management and influence behavior roles. On the other hand from the annual reports we could not detect any signs of communication or learning and improvement roles.

The findings indicate that the Ukrainian banks are dominated by traditional management accounting systems and that the performance measurement systems are still at the developing stage in this economy. It cannot be clearly defined as projecting a shareholder or stakeholder approach. Regarding the roles fulfilled by the performance measurement system, like in Romania case, Ukrainian banks indicate mainly the measuring performance role and limited signs of the influence behavior one.

7.1.3 Strategic links

Regarding the strategy links between the measurement system and the bank's vision our findings show that the Swedish banks integrate, in general, their vision and goals into the measurement system by breaking them into smaller financial and non-financial targets and assigning them specific measurements.

The analysis on Romanian financial services industry indicates banks' inability to translate their visions and goals into the performance measurement system. Also they fail to determine the linkages between different dimensions of performance.

The Ukraine analysis also indicates difficulties in linking the measurement system with the strategy. Although all banks' strategy includes non-financial areas like customer service or employee empowerment, they are not supported by measurements.

7.2 Discussion

The findings indicate that Swedish banks use a more mature and developed performance measurement system, which includes non-financial measurements besides financial ones. The study indicates that banks from the other two countries use a performance measurement system in its early development stages with strong influences from traditional accounting systems.

The study also reveals a general emphasis for the non-financial dimension on all banks, with a higher measurement level in Sweden and a more declarative focus in the other two countries. Still, this emphasis indicates that the banking industry in the analyzed countries favor the multidimensional frameworks of measurement systems like the BSC.

The comparative analysis between the countries indicates that the performance measurement system have different major influences in the three countries, being based mostly on the economic development level, market maturity, ownership structure and culture.

In Sweden, a country with a developed economy and a mature financial services market, the main influences are based on industry and culture related dimensions. Having a mature market the emphasis of competitive advantage is placed on the customer satisfaction and level of services. This in turn affects the measurement system by placing more concerns on non-financial dimensions. The cultural influences, especially the "feminine" ones, are displayed by a strong emphasis on environment issues, for example.

On the other hand, Romania and Ukraine have just a 20 years old modern history of corporate governance and performance measurement systems evolution. As former communist countries, they have a 50 years history of planned economy, where determining costs and meeting the budgets was more important than evaluating performance. This annihilated the management control system evolution before the Second World War and contributed to maintaining a low development level for the financial services market. Over the last 20 years, the two economies had a great development, largely based on foreign investments, stock exchanges development and equity financing evolution. However, the financial markets of these countries are still in an emerging point.

In the context of financial services market expansion in economies of Ukraine and Romania, a greater focus is placed on the growth in terms of both customers and services level, however lesser emphasis is assigned to customer satisfaction and quality. The main influences on the management control systems derive from the ownership factor, due to the major level of foreign investments (three out of four banks have foreign majority shareholders). In this regard, the multinational financial groups are integrating the East European subsidiaries in their corporate culture and control system.

The culture has a smaller contribution to the performance measurement system, for example a low masculinity level in Ukraine (MAS 13), does not induce the same influences as in Sweden. On the other hand, the companies in the two countries were less exposed to the latest theoretical developments in the management control and performance evaluation area. Management consulting companies in Romania and Ukraine have started introduction of BSC and other management control frameworks only in last couple of years.

These results indicate a possible further development of the performance measurement system in Romania and Ukraine considering mainly the great influence of the foreign ownership, latest theoretical developments exposure and also the interest showed at declarative level for the non-financial dimensions.

7.3 Suggestions for other studies

The focus of this thesis was placed on the four largest banks in Sweden, Romania and Ukraine, with majority information obtained from annual report analysis. The interviews were conducted only with Swedish banks. It would be interesting to explore how other methodological choices would influence the results.

First, a primary data collection in Romania and Ukraine would provide an insight view of the performance measurement practices in these countries and will result in a deeper comparative analysis.

Second, a more accurate perspective can be gained by interviewing more employees in the same bank at different organizational levels and also by interviewing similar representatives in each bank.

Third, including more banks in the analysis, in particularly banks with domestic ownership, can alter the results especially by diluting the multinational financial groups influence and increasing the culture dimensions’ one.

Other study extensions can include the use of more countries in the research. This would offer a more general view of the financial services industry or can include the financial indicators alongside the non-financial ones which can complete the view of the performance measurement system.

Abbreviations used

ABC/ABCM Activity based costing [management]

BFI Banks and financial institutions

BSC Balanced Scorecard

MAS Management accounting system

NFP Non-financial performance

PM Performance measurement

ROA Return on Assets

ROE Return on Equity

Appendices

Appendix 1

List of Interview Questions

Does the Bank have formal (written) company policies regarding the performance measurement or informal ones (e.g. tradition)? Please give examples if you have a mix of both.

How do you evaluate the performance? Are the measurements based more on financial or non-financial indicators?

How important are specific indicators (financial and non-financial). Please rank them on a scale from 1 to 6, with 1 being insignificant and 6 highly important.

	1	2	3	4	5	6
Financial						
Net profit						
Return on equity						
Earnings per share						
Cost/income relation						
Credit loss level						
Others						
Non-financial						
Employee motivation						
Employee commitment						
Employee development						
Customer satisfaction						
Customer commitment						
Brand perception						
Service development & improvement						
Others						

What are the major non-financial areas that you pay attention to or include in your performance evaluation system?

Are the measurements linked with certain targets?

If yes, how often are the targets revised and also who sets them (are they imposed hierarchically or the employees /middle management are involved in the setting process)?

What are the major challenges you face when you measure and interpret non-financial information about Bank's performance?

How are the measurements established: imposed from headquarters or flexible, how often are they revised (annually, once at a certain number of years), under which circumstances are the indicators changed?

Customers

How frequent and what tools do you use to measure customer satisfaction? How do you interpret it?

Employees

Training

How often do you conduct employee training?

Communicating objectives

How frequent do you have meetings with employees? Ex. morning/ weekly meeting with the team of employees.

What are the major communication channels for you and your subordinates?

How do you provide feedback to employees about the results of their actions? Ex. communication with individual employees or group meetings.

Have you observed positive relation between Bank performance and improvement in communication with employees?

Are the performance measurements linked with certain rewards offered to employees (if yes, all employees or only certain categories (e.g. managers)?

Are there any rewards and penalties for lower level employees?

Motivation

How do you evaluate whether employees are motivated to work for the Bank?

How do you promote employee commitment to the Bank? What practices do you offer to ensure that employees are satisfied with working at the bank and like the job they perform?

Environmental and Social Programs

Analyzing Annual Report of the Bank, we have seen that there is a lot of attention given to social and environmental care. What motivates the Bank to care for environment and participate in social programs?

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