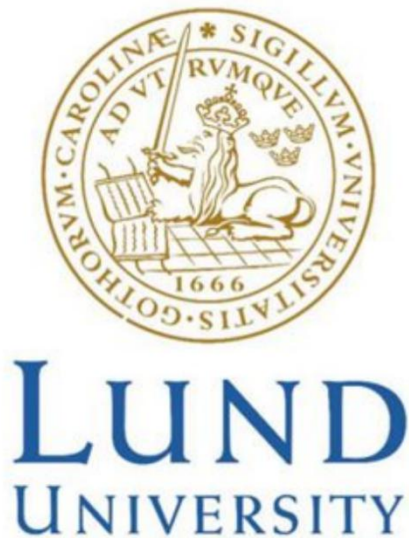# Implementing Strategy through Performance Management

A case study about how to design a Performance Management Systems in the cost centers of large international companies

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Abstract

Performance management systems (PMSs) are tools that connect a company's strategy and daily operations, play an essential role in achieving company goals, and have received more and more attention. However, current studies on PMSs focus more on the macro company perspective and pay less attention to cost centers that do not directly contribute to the company's strategy implementation and goal achievement. How to link cost centers' activities with the company's strategy by designing suitable PMSs has therefore become a topic worth exploring.

For international companies, cultural differences between countries or regions could have essential impacts on PMSs' design and should be considered. Therefore, the purpose of this thesis is to explore how to design PMSs for cost centers of international companies to promote the implementation of corporate strategies. This research is based on a single case study using a leading manufacturing company operating in various countries and regions. Semi-structured interviews were conducted with relevant staff of different management levels in five cost centers from Germany and Vietnam.

Our findings involve the entire process of PMSs design and improvement. Considering cultural differences, we put forward the focus of each step in the PMSs design process, including goal alignment, target setting, measurability, performance evaluation and feedback, and rewards and motivation. These findings deepen the understanding of PMSs' usage by exploring the connection between PMSs, cost centers, and cultural differences and supplementing the fields neglected in the previous literature. The findings could also give managers a hint on how to apply PMSs on cost centers to improve the overall company's strategy implementation.

Keywords: Performance Management Systems, Cost Centers, Cultural Differences

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1. Introduction

> Building an organization of top performers is the goal of every business. However, you can't develop and promote your "star players" if you don't have a reliable way of identifying them and understanding how their talents and skills can contribute to your organization (Jueneman, 2016, n.p.).

Strategy, an important concept for companies, is considered the plan or guidance to achieve performance goals or targets (Anthony & Govindarajan, 2007). Generally, the performance goal of a company is to maximize shareholder value through appropriate and desirable means (Brigham & Gapenski, 1996). The definition and measurement of performance are based on the company's strategic goals (Kaplan & Norton, 1992). They can be managed through a performance management system (PMS), which can be described as a tool that builds a bridge between the strategy and the daily operations (Micheli & Manzoni, 2010). It supports the implementation of strategy and ensures that performance goals are achieved (Marchand & Raymond, 2008).

Specifically, by embodying a set of organizational activities centered on measures to focus employee attention and corresponding incentive behaviors, PMSs ultimately help realize the implementation of companies' strategies (Otely, 1999). Therefore, a PMS aims to help a company to define targets and plan their implementation strategies, evaluate the implementation results and provide feedback to encourage corrective actions (Anthony & Govindarajan, 2007), and provide appropriate rewards or incentives for organization members based on the results (Otely, 1999).

Compared to the past, the function of PMSs is no longer equal to the function of control (Sinclair & Zairi, 2000). According to Ferreira and Otley (2009), a key function of PMSs is employee motivation, which is driven by one of the key success factors of most companies: the employees (Hopwood, 1972). Humans are goal-oriented by nature, so it is fundamental that all employees in a company know their contribution to its profitability (Barr, 2018; Grant, 2018). However, awareness of one's contribution implies awareness of one's goals at the workplace. By setting

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targets and measuring them, employees get a clear picture of what is expected of their work, and they see how well they succeed in performing according to the expectations (Grant, 2018).

Additionally, when managers evaluate the measures, rewards can be adapted accordingly, hopefully leading to higher motivation and more productivity since, according to Grant (2018), happy employees are more productive. But without visible measures, employers cannot objectively reward job success and retain talented employees (Hamilton, 2021). PMSs, therefore, help achieve and improve actual results more objectively than what can be expected of human perception (Barr, 2018).

There are many cases about how to achieve organizational goals and targets through PMSs. For example, Anthony and Govindarajan (2007) pointed out that companies implementing low-cost strategies should design PMSs based on financial indicators. Companies pursuing differentiated strategies should pay more attention to qualitative goals and evaluate performance based on subjective evaluation. However, this view is based on a macro company-level perspective and lacks attention to specific departments, such as cost centers. This is also a problem faced by many managers in managerial practice because different departments may have different targets and strategies, and they may also face different strategic uncertainties (Simons, 1994). Thus, PMSs suitable for the characteristics of each department or organization should be designed accordingly.

Besides, it is worth noting that among many companies, international companies are undoubtedly worthy of attention. According to Dunning and Norman (1987) and Paci, Marrocu and Usai (2014), in the overall economic activities of many countries, the proportion of the economic activities carried out by such companies is continuously increasing. So especially for international companies that operate in several countries and regions, cultural differences between different countries and regions should be the focus of attention when designing and improving PMSs, since international companies often make strategic choices in response to their external environment (Fleming, Chow & Chen, 2009). Culture has an important impact on the business environment (Gesteland, 2012). Companies need to adapt to the local culture and external business environment of different countries to achieve strategic success (Gesteland, 2012). Companies in different countries have ethnic differences in work values, beliefs, and

orientations (Trompenaars, 1994; Inglehart et al., 1998), which could further affect the design of PMSs.

1.1 The Hidden Performance of Cost Centers

While goals and targets related to an employee's sales turnover or the number of meetings leading to a deal are easy to measure, some jobs are more difficult to quantify. The results of a company's supporting departments, referred to as cost centers, are not as easily visible since these departments aim to provide internal services to other departments (Simons, 1994; Melumad, Mookherjee & Reichelstein, 1992). Even though cost centers do not directly provide products or services to the outside world, they can help to improve efficiency and profitability, promote the relationship to customers, and contribute to better communication within the organization. This means that their work must be aligned to the company's overall strategy (Kaplan, 2006). For example, the Media department is responsible for better publicity for the company and helping it get closer communication with customers. The function of the HR (Human resources) department is to take responsibility for the talent management-related work such as employee recruitment and talent training. In this way, cost centers can help the company implement the strategy.

A basic guide by Jensen and Meckling (1998) provides three alternative forms for a cost center performance measurement and evaluation system: minimize costs for a given output, maximize output for a given total cost, and minimize average costs (with no quantity constraints). These costs and outcomes are in traditional PMSs usually measured through costing and accounting systems (Lohman, Fortuin & Wouters, 2004). Kaplan (1998) demonstrates how the principles of activity-based costing and other advanced cost management techniques, such as target and kaizen costing, can drive business performance from the micro accounting perspective. However, a vast number of outcomes of cost centers are difficult to quantify in money, such as the timeliness of work completed and employee satisfaction, while still having a significant impact on the company's overall success (Ghalayini, Noble & Crowe, 1997). Thus, the existing research

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is not fully aligned to PMSs for cost centers, which forces us to apply non-traditional PMSs on cost centers.

To summarize, until today, we are not aware of any existing modern PMS designed particularly for cost centers. Previous literature paid more attention to how to design and evaluate PMSs from the general company level while neglecting to explore the specific cost centers. Even if some studies focus on the PMSs of cost centers, they still start from a lagging accounting perspective, which cannot reflect the future value of cost centers and does not capture key business changes until too late (Bontis, 2001).

1.2 Cultural Aspects of Performance Management

Today, many companies operate globally, making different departments spread out over different countries or even continents. According to Gesteland (2012), international companies need to "enter village, follow customs" (p.22) to communicate effectively in different business regions and integrate their businesses organically.

The differences in geography, culture, society and other factors between different countries and regions have different impacts on the values, thinking patterns, decision-making habits, and work styles of both management and employees (Gesteland, 2012). Hence, the cultural aspect of performance comes into play. What impact has culture on performance management? Would the same PMS work in all of a company's locations?

Business culture is defined as the expectations and assumptions a company is exposed to from its business environment that clarifies how to do business (Gesteland, 2012). A company's business environment is composed of many factors, which can exceed the company's management control (Ward et al., 1995). However, the company needs to make strategic adjustments according to changes in the external environment (Fleming, Chow & Chen, 2009) and adjust the PMSs accordingly. For instance, a key to foster intrinsic motivation is consistency between the way a company motivates employees with the values of those employees (Peterson & Quintanilla,

2003). Consequently, cultural value differences should be adopted in the process elements of a PMS, such as how to reward employees (Mehta, Dubinsky & Anderson, 2003).

Although previous research shows the impact of cultural factors on corporate development and how international companies operate overseas (Fleming, Chow & Chen, 2009), most of the literature focus on Western developed economies (Silvi et al., 2015), and the research on the impact of cultural differences on PMSs is lacking. However, previous studies have shown that employees' thinking habits and work styles can be used as intermediate variables when exploring this field. Especially for cost centers closely related to the company's business and internal structure, it is difficult to set goals for them through external benchmarks since these departments mainly contribute to providing internal services (Melumad, Mookherjee & Reichelstein, 1992).

1.3 Research Questions and Purpose

Based on the background and the problematization of performance management of cost centers in international companies, the purpose of this thesis is twofold. Firstly, it aims to narrow existing research gaps and contribute to academia by studying how to promote the implementation of strategies through PMSs in cost centers within companies operating in locations with cultural differences. Secondly, the research attempts to practically explore how cost centers of international companies can design and improve PMSs to better help implement strategies. The following research question was formulated:

How can the PMS for cost centers in a large international company be designed to improve strategy implementation?

To address the research question, a large company with locations in Germany, Southeast Asia, and the USA that does not have a coherent PMS has been used as a case company. The examined countries will be Germany and Vietnam, and these choices will be elaborated on in Chapter 3. Methodology.

2. Literature Review

Strategy is an important concept, whether it is for companies, the military, or games. For companies and organizations, according to Mintzberg (1977), it could be defined as a well-thought-out guideline or plan oriented toward achieving the company goals, which can be referred to before making a decision. To support and ensure the implementation of the strategy (Marchand & Raymond, 2008), PMSs have received extensive attention in academia. However, previous literature focused mainly on the company as a whole and not on cost centers, as mentioned in the introduction chapter, meaning that it can only provide us with limited background information. Thus, the literature review chapter aims to select helpful theoretical frameworks as the beginning of the research, clarify the reasons for the selections, and explain the key elements of the models.

A PMS does not automatically improve performance and is highly dependent on a suitable design and use (Franco-Santos, Lucianetti, & Bourne, 2012). Therefore, it is necessary to design PMSs suitable for cost centers. This chapter briefly discusses in 2.1 the approaches existing before the 1980s, emphasizing the main drivers and the weaknesses, which make them unsuitable for the application on cost centers. In 2.2, it will be introduced how modern approaches differ in their characteristics from the old versions. Two modern approaches of performance management frameworks will be presented, which are, together with complementary literature, examined regarding applicability on cost centers. The examination is divided into the five typical steps of a PMS: goal setting, targeting, measuring, evaluating, and rewarding. Finally, in 2.3, cultural differences that could influence the design of a PMS for cost centers in an international company are pointed out.

2.1 Traditional Performance Management

From the 1880s to the 1980s, the literature on PMSs paid more attention to financial performance, using indicators such as profit and return on investment as the main performance evaluation basis (Ghalayini, Noble & Crowe, 1997). According to Melumad, Mookherjee, and Reichelstein

(1992), researchers focused on targets and performance evaluation of cost centers based on cost minimization from a pure accounting perspective. Since this perspective is only converted backward, it cannot be used to predict the future performance of the department, which may lead to short-term behavior (Bontis, 2001). Especially service-oriented cost centers should not only emphasize cost reduction and use measure and evaluation data from a backward perspective. Therefore, it is necessary for cost centers to design a modern PMS with some specific characteristics based on a strategic perspective.

2.2 Modern Performance Management

Since the 1980s, with the emergence of global competition and continuous changes in customer needs, factors such as higher quality and reliable delivery have also become important considerations for the company when designing and improving PMSs (Ghalayini, Noble & Crowe, 1997). A modern PMS can perform accounting treatments, support strategy implementation with operational practices, and have an incentive or informational function at any management level (Franco-Santos, Lucianetti & Bourne, 2012). Moreover, it is flexible, dynamic, and situation-dependent with the purpose to improve includes all employees from all levels (Ghalayini, Noble & Crowe, 1997), is guided by strategy and targets (Thompson & Strickland, 2003), and driven by the organization's key success factors (Ansoff, 1965). The design should include both financial and operational aspects from internal and external perspectives of the organization (Ghalayini, Noble & Crowe, 1997). Fulfilling all these aspects, the Twelve Question Framework by Ferreira and Otley (2009) and the St. Gallen Performance Management Model (SPMM) by Möller, Wirnsperger, and Gackstatter (2015) serve as examination objects to learn how a contemporary PMS for cost centers could be designed in detail, particularly what criteria are to be considered.

The Twelve Question Framework is based on a literature review of the field of performance management and covers a broad perspective of the topic (Ferreira & Otley, 2009). It can be considered as a research tool to describe the existing PMS structure and operation more comprehensively. The framework integrates aspects of Simons' (1994) levers of control

framework and divides the performance management framework into twelve questions (Ferreira & Otley, 2009). The model covers almost all aspects of PMSs design, evaluation, and change, such as vision and mission (Q1), key success factors (Q2), organization structure (Q3), strategies and plans (Q4), key performance measures (Q5), target setting (Q6), performance evaluation (Q7), reward systems (Q8), information flows, systems and networks (Q9), PMSs use (Q10), PMSs change (Q11) and strength and coherence (Q12) (Ferreira & Otley, 2009). For our purpose, we are focusing on Q4-8.

The SPMM is a modern framework that claims to have a broad implementation potential. It is not designed for specific industries or firm sizes but has a bigger effect on medium-sized and large organizations. The framework has successfully been implemented in many firms, increasing effectiveness and efficiency, resulting in increased financial performance (Möller, Wirnsperger & Gackstatter, 2015). Möller, Wirnsperger, and Gackstatter (2015) argue that while old steering systems, such as diagnostic control, might be useful in stable environments, most businesses do not operate in a stable world anymore. In today's VUCA (volatility, uncertainty, complexity, and ambiguity) world, different leadership types are required to keep a competitive advantage. The SPMM is a holistic and contemporary model focusing on guided self-control, which allows for more agility among a company's employees and in the organization as a whole, which further ensures more transparency and predictability of the control instruments. While reliance on dynamic (pure) self-control provides much flexibility for a company, it is not suitable for well-established firms.

On the other hand, traditional hierarchical performance management systems (diagnostic control) should be avoided in today's environment since they are too slow to handle change. Therefore, the SPMM positions itself in the middle, where the approach of guided self-control partly erases the traditional border between instructions to executions while relying on the assumption that trust equals speed (Möller, Wirnsperger & Gackstatter, 2015). The authors argue that companies that use the SPMM perform a lot better regarding employee satisfaction, customer satisfaction, and financial performance compared to firms using more traditional approaches for performance management (Möller, Wirnsperger & Gackstetter, 2015).

Combing and integrating the two models, what they have in common shows that the design process of a modern PMS mainly includes five key steps: goal setting, targeting, measuring, evaluating, and rewarding (Ferreira & Otley, 2009; Möller, Wirnsperger & Gackstetter, 2015). The key information of each step will be elaborate on specifically, and the summary will be noted in Table 1.

2.2.1 Goal setting

A PMS design should always begin with the company's long-term strategy and business goal (Gimbert, Bisbe & Mendoza, 2010). The inclusion of internal structure and environmental impacts into the company's strategic goals, is related to better performance (Govindarajan & Gupta, 1985). Logically, the SPMM intends to create a clear understanding of the company's goals, strategy, and business model as the first step, which is primarily a task for the management (Möller, Wirnsperger & Gackstetter, 2015). Simultaneously, the Twelve Question Framework suggests that the management initially clarifies what strategies and plans the company applies and what processes and activities are key for the company to be successful (Ferreira & Otley, 2009). For the analysis and creation of these elements, a modern PMS should consider both financial and non-financial goals (Möller, Wirnsperger & Gackstetter, 2015).

After analyzing and describing the company's goals, according to the SPMM, the management needs to communicate them to engage employees and thereby drive intrinsic commitment. This step should be reviewed regularly (Möller, Wirnsperger & Gackstetter, 2015). Similarly formulated in the Twelve Question Framework, the way and regularity of communication of the expected strategies to the middle management and employees is a crucial question to focus on (Ferreira & Otley, 2009). Indeed, a lack of direction is one of the key control issues in practice (Merchant & Van der Stede, 2007), and affects the consistency between individual actions and overall strategy (Ferreira & Otley, 2009). In traditional top-down organizations, managers find it difficult to comprehend whether the middle management understands changes in its objectives. Thus, a wide participation of lower-level managers may lead to a better saturation of the company's strategic intent (Ferreira & Otley, 2009).

2.2.2 Targeting

In this step, the company's strategic goals are broken down into more detailed and concrete goals that can be planned and targeted. Driven through competition and market globalization, continuous improvement of the target setting has become necessary and inevitable (Chenhall, 2003). Hence, the SPMM suggests taking an external perspective by conducting a relative assessment of performance (Möller, Wirnsperger & Gackstetter, 2015). Especially external benchmarking provides a greater degree of feasibility for targets (Elnathan, Lin & Young 1996).

The SPMM additionally involves the employees in the development of the targets and plans. This inclusive approach will secure highly intrinsically motivated employees and, at the same time, ensure consistency of the decided operational direction (Möller, Wirnsperger & Gackstetter, 2015). Moreover, according to Groen, Wouters, and Wilderom (2017), if employees participate in designing their own targets, they will have a more positive attitude and feel greater social pressure, which will lead to more initiative-taking and increase job performance. Additionally, when employees participate more in the target design, managers are also more optimistic about their quality and use them more (Groen, Wouters & Wilderom, 2017). Employees also have specific information about their jobs, not necessarily known by managers, and may possess valuable inputs regarding how their performance is best measured (Groen, Wouters & Wilderom, 2017). Thus, this inclusive approach might allow managers to get a deeper understanding of their employees' job-specific information (Groen, Wouters & Wilderom, 2017).

According to the Twelve Question Framework, a company must provide a setting for their managers and employees to define appropriate performance targets (Ferreira & Otley, 2009). Since the target level has an impact on performance, and medium-difficulty goals can improve team performance (Fisher, Peffer & Sprinkle, 2003), departments also need a hint of how challenging these performance targets should be set (Ferreira & Otley, 2009). In practice, the achievability of the target should often be expected to be 80 to 90% (Merchant & Manzoni, 1989). Moreover, it has to be clear if departments can omit to define target measures for certain

key performance indicators if they are not compatible with the specific department goals (Ferreira & Otley, 2009).

2.2.3 Measuring

According to the SPMM, the achievement of goals should be measured objectively and holistically (Möller, Wirnsperger & Gackstetter, 2015). According to the Twelve Question Framework, key performance measures show whether different departments or other organizational levels have achieved their goals, key success factors, strategies, and plans to meet the different stakeholders' expectations (Ferreira & Otley, 2009). Since the consistency between performance management and strategy has a direct effect on performance, companies need to clarify the key performance measures derived from the organization's goals, key success factors, strategies, and plans, and how they can be effectively specified and communicated (Ferreira & Otley, 2009). Particularly the combination of quality-based manufacturing strategies with widely used subjective non-financial performance measures leads to positive performance effects (Van der Stede, Chow & Lin, 2006).

The company finally has to decide what role the measurability plays regarding the goals and strategy. If the department's purpose is not consistent with the company goals & strategy, related key performance measurements must be omitted. What is measured tends to drive out what is not, and the impact of omission may be as great as the measure being used. Another key issue that needs to be considered is how to construct performance and control information (Ferreira & Otley, 2009). Here, managers need to consider information scope, integration, and aggregation (Chenhall & Morris, 1986). They also include issues such as orientation, relevance, level of detail, and selectivity (Amigoni, 1978).

In addition, according to Ferreira and Otley (2009), the articulation of measurement standards between organizational levels is also very important. Especially at different levels of the organization, the measurement standards of non-financial performance may need to be different. A mature and reliable system that provides financial information does not always exist for non-financial information in such a robust form. The quality of non-financial information needs to be

assessed, especially regarding its misreporting impact and vulnerability to manipulation (Ferreira & Otley, 2009).

2.2.4 Evaluating

According to the Twelve Question Framework, the performance evaluation represents the key link in control activities. The performance of managers or employees to be evaluated determines their status and promotion in the company. Therefore, the weight of formal performance evaluation activities and informal indicators in the PMS process as a whole has to be defined (Ferreira & Otley, 2009). Consequently, the company has to make transparent what informational process the organization follows to evaluate the performance of teams and individuals. It is an inevitable condition to create trust between the evaluating and evaluated parties (Gibbs et al., 2004). To do so, every individual in the company must understand whether their performance evaluation is mainly based on subjective, objective, or mixed measures. (Ferreira & Otley, 2009).

Subjective evaluation enables evaluators to correct identifiable shortcomings in the performance measurement through direct interaction (Gibbs et al., 2004), while it can be time-consuming and biased in perceptions (Ferreira & Otley, 2009). However, there is no ambiguity in objective performance evaluation because the evaluation is only based on actual results. Here, the input-output relationship is clear, and performance is controllable (Ferreira & Otley, 2009).

Also, the evaluation of departments, groups, or teams must be considered (Ferreira & Otley, 2009). It has been overserved that managers who evaluate based on company profits obtain higher joint results when they follow the team orientation than when they follow the individual orientation (Schulz & Pruitt, 1978).

2.2.5 Rewarding

According to the Twelve Question Framework, before rewarding, a company needs to clarify what and if rewards motivate managers and employees to achieve their measured performance goals. On the contrary, if they fail to achieve these goals, it has to be transparent if there will be penalties. It is relatively obvious that punishment, meaning criticism, can significantly affect the behavior of employees, thereby harming the work of PMSs (Ferreira & Otley, 2009). In addition, punishment is often considered as "unfair," and the preservation of fairness and inclusiveness between different management participants is a very important topic in companies (Hope & Fraser, 2003).

Before a company can design a reward system, it should consider what individuals actually find motivating. Motivation itself is built on three core factors, universal for all human beings (Fowler, 2014). The first factor is the need for people to feel like they are acting from their own choices and not because they are forced to, referred to as autonomy. Thus, to keep performance on top, employees need to feel like they choose to do a task. The second factor, called relatedness, means that people need to feel connected to other people and feel their contribution matters. Here, it is suggested to encourage the expression of feelings in the workplace and help people promote important values. The third factor is called competence, and covers the feeling of effectively reaching goals, developing skills, and growing in one's work (Fowler, 2014).

The relationship between performance, reward, and motivation is complex (Ferreira & Otley, 2009). If rewards are considered motivating, a company has to decide whether the rewards should be of financial or non-financial nature or if the rewards are of extrinsic or intrinsic nature. Extrinsic rewards (usually financial) allow department managers to align their own goals and employees' goals with the company goals to motivate them to strive for the same goals (Hopwood, 1972). But there exist several pitfalls with extrinsic rewards. The attempt to motivate extrinsically with rewards can weaken intrinsic motivation (Deci, Koestner & Ryan, 1999).

Furthermore, a reward system always bears the risk of omitting rewards for the expected behavior (Kerr, 1995). Plus, when individuals do not have sufficient necessary skills related to a company's expectations, the increased efforts of monetary incentives will not flow to

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performance (Bonner & Sprinkle, 2002). Also, acquiring new individual skills for the company is difficult with only extrinsic arguments.

A weak correlation between an employee's salary and job satisfaction indicates that buying performance with money is impossible. Instead, companies better bring forth good leadership skills, promoting a successful job engagement (Chamorro-Premuzic, 2013). Therefore, companies should emphasize intrinsic motivation, such as continuous learning, to avoid excessive competition (Kerr, 1995), since investing in learning opportunities for employees steer a PMS not only on the outcome (Fowler 2014). An intrinsic reward approach puts less focus on salary results and more focus on what actually makes people perform the best, which is being curious to learn and to have fun (Chamorro-Premuzic, 2013). They should also emphasize ethics and fairness rather than efficiency and ensure the consistency between individuals' targets and company goals (Kerr, 1995).

To summarize, a reward system can either focus on incentivizing employees for performing a task (extrinsic motivation) or on the task itself (intrinsic motivation). But one size most likely does not fit all. What determines the success of monetary incentives primarily depends on how well the employee's skills and interests match their given task. Salary is, for example, more effective and rewarding for someone seeking financial security for their family than for someone seeking to increase their sense of power and status. Hence, personality should be considered in the design of a PMS (Chamorro-Premuzic, 2013).

A further aspect which, according to the Twelve Question Framework, needs to be clarified is if group rewards, based on collective achievement, represent a good supplement or complement to individual rewards (Ferreira & Otley, 2009). Group rewards can help create a culture of ownership where every member in the organization cares about the overall targets and performances, which is usually effective (Merchant & Van der Stede, 2007; Rosen, Case & Staubus, 2005). However, drawbacks of group rewards such as the potential for free riders should not be underestimated (Ferreira & Otley, 2009).

Table 1 - Importance Aspects of the Designing of a Modern PMS (created by authors)

Process step	Criteria	Characteristics
Goal setting	Purpose	intrinsic commitment
	Setting party	top management
	Derivation from	company goals, strategy & business model
	Type	financial vs. non-financial
	Requirement	communication to all stakeholders
Targeting	Setting party	inclusive, holistic approach
	Deviation from	external benchmarks
	Requirements	based on key performance goals challenging fully-scoped
Measuring	Purpose	indication of goal achievement
	Derivation from	goals, strategy & plans
	Requirements	objectivity holistic goal consistency (omission)
Evaluating	Types	subjective vs. objective individual vs. group formal vs. informal internal vs. external top -down vs. self-guidance
	Requirement	transparency & awareness
Rewarding	Factors of motivation	autonomy relatedness competence
	Types	reward vs. punishment extrinsic vs. intrinsic financial vs. non-financial individual vs. group
	Requirements	inclusion of recipient perspective transparency avoidance of informal criticism fairness & inclusiveness

2.3 Culture as a Design Parameter

Being widely defined as the sum of all conditions, events, and influences surrounding and affecting the business world, and including factors such as economic development and social culture, the business environment can affect the allocation of resources within organizations. It can pose opportunities or threats to companies' development. It is highly related to strategic planning and formulation and should be considered when designing and improving a PMS (Cherunilam, 2021). According to Hofstede (2011, p.3), one external influence is culture, which can be defined as "the collective programming of the mind that distinguishes the members of one group or category of people from others" and is usually unconsciously rooted in people's values.

The challenge of the company's management is to accomplish things through (other) people, which means that it is necessary to understand the collective mind programming of them. Although national culture is not completely equivalent to business culture (Hofstede, 2011), the thesis lists subsequent indicators of cultural differences between the nations Germany and Vietnam, which represent the cultural focus in the data collection, which can impact the design of a company's PMS.

According to Gesteland (2012), the biggest difference in business culture between nations in the world probably lies in the cultural business focus. Vietnam leans toward the relationship-focused end of the scale, while Germany is a deal-focused culture. In Germany, people also mostly use direct and straightforward language, saying what they think to communicate their message clearly, which the Vietnamese culture can interpret as aggressive, pushy, and blunt. On the other hand, Vietnamese's indirect and vague language, with the primary goal of not offending anyone and keeping harmony, can be seen as dishonest from a German perspective (Gesteland, 2012). This difference in expectation from communication processes is, according to Gesteland (2012), the biggest cause of misunderstanding between cultures. Furthermore, to keep harmony, the word "no" is often avoided in the Vietnamese culture, which can cause confusion and irritation among German people since their understanding of the exhibition of rejection is more open (Gesteland, 2012).

Additionally, people from Vietnam tend to hide feelings, especially negative ones, since showing anger, frustration, or impatience disrupts the harmony and is seen as rude and offensive. Showing negative emotions means that both parties lose face, which should be avoided in the culture since one's self-respect is highly dependent on how one is viewed by others. Therefore, Vietnamese are likely to remain expressionless or smile in uncomfortable situations.

The Vietnamese culture is also more formal and hierarchical, whereas the German culture prefers rather flat and informal hierarchies, which can cause discomfort from both sides (Gesteland, 2012). Simultaneously, in Vietnam, decisions are usually made by the top management alone. At the same time, Germans like to consult with their colleagues responsible for their work before making important decisions in a more holistic way (Gesteland, 2012). When it comes to the balance between work and private life for Vietnamese, entertaining and being entertained in and with the company is crucial and necessary to become integrated into the group. Germans, however, clearly separate work and personal life (Gesteland, 2012).

According to Hofstede (2011), power distance is defined as the degree to which weaker members of organizations accept and expect an unequal distribution of power, indicating the degree of inequality in a society recognized by both leaders and followers. The power distance is more obvious in Vietnam, while the distance is relatively slight in German-speaking countries.

The attitude to uncertainty indicates a society's tolerance for ambiguity (Hofstede, 2011). The use of strict norms of behavior, laws, and rules, or even resistance to innovation, are indicators for the avoidance of uncertainty and minimize the possibility of unstructured and unusual situations. People in uncertainty-averse countries are more likely to be emotional and nervous. In a culture with a low degree of uncertainty avoidance, people are usually contemplative and phlegmatic, and their environment does not expect them to express emotions (Hofstede, 2011). In German-speaking countries, people tend to avoid uncertainty, while in Vietnam, people are more tolerant of uncertainty (Hofstede, Hofstede & Minkov, 2010).

Individualism can be used to indicate the degree to which people in society are integrated into groups (Hofstede, 2011). In an individualistic culture, tasks prevail over the relationship, while in collectivistic cultures, relationships are more important than tasks. Germany can be described

as an individualistic culture, while in Vietnam, collectivism is predominant (Hofstede, Hofstede & Minkov, 2010).

Social appearance and behavior are associated with characteristics of social interaction. According to Hofstede (2011), it can have masculine social values, with extreme self-confidence, or feminine values, which are humble and caring. Hofstede (2011) shows that in Germany, people act rather self-confident, while people in Vietnam are rather humble and caring (Hofstede, Hofstede & Minkov, 2010).

Cultures can also differ in their planning horizon, which can have the dimension long-term or short-term orientated and is closely related to economic development (Hofstede, 2011). Vietnam's planning horizon is rather long-term oriented, while Germany is rather short-term oriented (Hofstede, Hofstede & Minkov, 2010).

Also, the lifestyle can adopt different forms in cultures. In an indulgence culture, society allows people to satisfy basic and natural desires related to life and enjoyment relatively freely. In contrast, a restraint culture represents a society that controls the satisfaction of needs through strict social norms (Hofstede, 2011). Indulgence is more common in Germany, while restraint is more prevalent in Vietnam (Hofstede, Hofstede & Minkov, 2010).

Table 2 - Cultural Differences Between Germany and Vietnam Based on Research by Gesteland and Hofstede (created by authors)

Country/Culture	Germany	Vietnam
Gesteland		
Business focus	deal-focused	relationship-focused
Feedback & communication	direct, straight forward	indirect, vague
Exhibition of rejection	open	hidden, avoided
Hierachy	unformal, flat	formal, hierarchical
Decision process	holistic	top-management
Work & privacy balance	separated	inclusive
Hofstede		
Power distance	slight	obvious
Attitude to uncertainty	avoiding	tolerant
Individualism	individualistic	collectivistic
Social appearance & behaviour	self-confident	humble
Planning horizon	short-term	long-term
Lifestyle	indulgence	restraint

3. Methodology

3.1 Research Approach and Design

To answer our research question, we chose a qualitative approach to discover and understand all crucial aspects of cost centers and cultural differences, covering factors such as job description, management level, and working style (Robson, 2002). Especially for cultural differences, since qualitative research focuses on the meaning of the individual (Creswell & Creswell, 2018), and culture is often deeply rooted unconsciously in people's values (Hofstede, 2011), we focused on exploring and understanding the cultural aspects and their influences from different personal perspectives, instead of asking them questions that do not have open answers.

Because there are too many variables and factors involved in the examined topics which cannot be fully known, the nature of our research questions conflicts with the premise of quantitative research (Creswell, 2014). If used, key factors could be overlooked or get lost, which would negatively affect the study's reliability (Creswell & Creswell, 2018).

Our research intends to rely as much as possible on the views of multiple management-level participants in each cost center in the two examined cultural, and these views or opinions are usually generated in discussions with them. We tried to explore the complexity of the views and their impacts on PMSs design and improvement, rather than simplifying or categorizing them, which is consistent with the characteristics of the Constructivist Worldview (Creswell & Creswell, 2018).

Since qualitative research respects the inductive style, it can help us draw general conclusions about the design and improvement of PMSs for cost centers in different cultural backgrounds through case analysis (Creswell & Creswell, 2018). The method we chose could also be considered as deductive since it is based on the previous literature and helps to apply the theoretical frameworks to new situations, meaning that other researchers can use the similar train of thought or specific methods to explore related research topics and generate theory based on their empirical data (Bryman & Bell, 2011).

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To conduct the study, we used individual semi-structured interviews to understand employees' personal views in-depth since open-ended questions and answers bring more suitable information for this purpose (Creswell & Creswell, 2018). Within the scope of qualitative research design, we chose a single case study method for in-depth research because it has the following characteristics, which could satisfy the conditions of evaluating the adequacy of a case study method proposed by Yin (2003), as well as fit with our research question: First of all, our research question is to explore the possible influencing factors related to performance management of cost centers and different business contexts, not to test the significance. Secondly, the focus of this research is related to contemporary phenomena, especially when it comes to the nature of the work of cost centers and cultural differences in business environments. Yin (2003) emphasized the importance of context as it is closely related to phenomena. The point of view formed by the single case study is formed in a system with boundaries (Bryman & Bell, 2011), which provides an in-depth analysis of the situation of each cost center, considering different employee levels, as well as the difference between German and Vietnamese environments, which are the objects for the data collection. Such a statement means that although the case selected covers cultural aspects from both Germany and Vietnam and includes five different cost center departments, it could still be considered as a single case study since we use the company instead of the departments as the unit of analysis to take the holistic perceptions from the CFO and two general directors into account, who cannot be grouped into any departments.

Although the single case study method has advantages, some related limitations are still worthy of notification. Among them, the most obvious is the number of cases, meaning that, compared to a multiple case study, the potential risk of a single case study is that its results may only be relevant to the analyzed company and cannot match the situation of other companies (Herriott & Firestone, 1983). Nevertheless, we believe that in-depth exploration of the different locations and situations in a single case can, to some extent, help us make up for the potential shortcomings of the method itself. Specifically, in our research, factors such as different cost centers, employee levels, and different business environments are considered. Such detailed analysis helps us avoid the flaws of insufficient data proposed by Miles (1979) and may even bring a more comprehensive perspective.

3.2 Choice of Case Company and Respondents

The interviewees selected for our study are, as mentioned, solely employed at one company. Due to data confidentiality issues, the company name will not be disclosed throughout the thesis. The company is a market-leading manufacturing supplier with its headquarter in Germany and subsidiaries in several Asian countries and the United States and employs approximately 2,500 people. Its five examined cost centers, IT, HR, Media, Controlling, and Accounting, are representative and common for a traditional acting company of its kind, size, and industry, and hence representative.

This company is considered a good case for the following reasons: All of the cost centers in the company could be generalized and do not have a clear universal PMS in place. Moreover, it operates in many locations with great differences in business situations and societal values. The company is founded and has its headquarter in Germany, and thus Germany is chosen as one of the examined locations. Vietnam was chosen as the second location since the two company locations there constitute the largest ones and because of language barriers. Interviewees from both of the Vietnamese locations have participated in the study. As shown in 2.5 Culture as a Design Parameter, Germany and Vietnam possess several cultural differences, making them suitable cases for this study. The choice allows us to bring PMS aspects dependent on different cost centers, different hierarchical levels, and the cultural business environment into comparison.

In close collaboration with the case company, 18 respondents were chosen based on their job position, department, and work location. Fifteen of the respondents work in one of the company's cost centers since this is the scope of the study. One of these respondents, the Controlling manager of Germany, also works as the General Director of Germany. Additionally, three respondents outside of the cost centers, the CFO, and two General Directors responsible for one location each in Vietnam also participated in the study, enabling a broader understanding. The General Directors were interviewed just like the other respondents, but the CFO could only reply to our predefined questions through email. The respondents were chosen in cooperation with a supervisor from the examined company, who has a high awareness of the departments' structures and the respondents' profession and validity. The respondents were guaranteed anonymous

treatment of their identity and the interview content, contributing to an atmosphere of honesty and trust during the interviews. The respondents' answers will be presented in Chapter 4.

Table 3 - *Overview of Respondents (created by authors)*

Accounting	Germany	Manager
		Employee
	Vietnam	Manager
		Employee

Controlling	Germany	Manager*
	Vietnam	Manager
		Employee

IT	Germany	Manager
		Employee
	Vietnam	Manager

Media	Germany	Employee 1
		Employee 2

HR	Germany	Manager
		Employee
	Vietnam	Manager

General Directors	Germany	Director*
	Vietnam	Director 1
		Director 2

Chief Financial Officer (CFO)

* the same person

3.3 Data Collection

3.3.1 Interview Guides

Two interview guides were created: one for employees and one for managers. Both guides are derived from the literature presented in Chapter 2, including the five outlined aspects of a PMS. See Appendix A and B for the interview guides. The questions sent to the CFO can be found in Appendix C. All the interviewees received the guides a few days before the start of the interview period to be prepared.

Before the start of the interview period, the interview guides were also tested and discussed with an employee from one of the company's cost centers to ensure the questions' clarity and coherence. Together with this employee, the questions were slightly adapted and improved to fit our purpose better. This employee's answers do not count as a part of the 18 respondents. As a result, the structure of the interview guides followed the typical process step for the design of a PMS: goals setting, target setting, measuring, evaluation and feedback, and rewarding.

3.3.2 Conduction of Interviews

We chose semi-structured interviews due to their flexibility based on the aspects of a PMS from previous literature (Bryman & Bell, 2011), which allowed us to get deep theoretical and practical insights. To ensure the consistency of interview objectives, all interviews were conducted within ten days. All interviews were conducted with video calls through Microsoft Teams and were scheduled for one hour each. The same interviewer was responsible for the communication with the respondents throughout all the interviews while the other took notes. The interviews were also recorded for us not to miss important statements.

As stated, since this study uses a semi-structured design, the interview guides provided us with prepared questions for every theme we wanted to examine, ensuring that no important aspect got lost in the interview process. To understand the context and the responses we received as deeply as possible, the questions were not strictly asked based on the interview guides. The interview guides were more used as guidelines to keep us on track, while we aimed to create as much of a conversation as possible to increase the chance of receiving open and honest answers.

3.3.3 The Use of Secondary Data

During the research process, we also used secondary data to complement the primary data (Creswell & Creswell, 2018). The data source we selected is mainly the company's official website because some information, such as the company's purpose statement, is disclosed on the website. We used such public information to understand the company's PMSs-related situation at

the beginning of the research, to better understand the answers provided by the respondents, and conducted a comprehensive analysis in the middle and late stages of the research.

3.4 Data Analysis

As the next step of data collection, we carried out data analysis on the information obtained, especially the first-hand information, to deepen our understanding of it and transform the obtained content into the inputs of the result and discussion chapters. Here, we paid special attention to identifying information that is only useful for the study to avoid including irrelevant data into the findings and then extracted information that may refer to later results and discussion chapters (Bryman & Bell, 2011).

The method we applied for data analysis is called the template approach, proposed by King (2004). Through the template approach, in Chapter 2, we developed codes of how to design and improve a modern PMS with the overall process steps, including goals, target setting, measuring, evaluation, and rewarding systems, as a predefined framework (King, 2004). In other words, we mainly identified possible codes in the framework by referring to the literature review chapter because King (2004) pointed out that the development of the template is carried out before the collection and processing of data. Such an approach ensures a clear, logical relationship between PMS-related literature and our follow-up research on PMSs (King, 2004), which is the reason we chose the template approach rather than the grounded theory when analyzing data, since the latter develops codes based on data (Bryman & Bell, 2011), and ignores the use of the theory in the initial template (Bulmer, 1979). The developed framework was further used as a template for data analysis.

Besides, to overcome a main possible pitfall of the template approach of defining the template too loosely or too complicated (King, 2004), we used codes developed only in predefined process steps as samples for careful analysis at the beginning. Since templates are not immutable (King, 2004), the codes were modified appropriately later in the analyzing process by analyzing the data from one department at a time. By dividing the data from this perspective, the differences between the department's characteristics became visible. Further, by adding the

different management levels within a department, manager and employees, and the different locations, Germany and Vietnam, the differences in the design of PMSs due to the management level and location of the same department can be directly compared. At the end of the process, as all possible specific data codes were identified, the final template was generated (King, 2004).

3.5 Validity and Reliability

Case study research can be assumed as valid and reliable if four conditions prevail: construct validity, internal validity, external validity, and reliability (Yin, 2003). Internal validity is only applicable to explanatory case studies and will not be illustrated since it does not meet the characteristics of our research. Therefore, this section only discusses the other three conditions.

Construct validity ensures that the different key concepts and terms in the research are clearly defined and logically related (Yin, 2003). For our specific study, the relevant key concepts consist of the design of PMSs, cost centers, and different business environments. The literature review revolves around the design of PMSs and the cultural differences, clarifies the concepts, and leads to methods of addressing research problems according to two suitable frameworks. Besides, the interviewees were selected, taking cost centers and different cultural backgrounds into account. The relatedness and, therefore, the condition of construct validity is clearly given.

External validity is the result of a study that can be generalized to other situations (Yin, 2003), which is in line with our research intent. This criterion has received enough attention in our research process. Firstly, the representative case company was chosen by evaluating the fit-to-purpose of many dimensions, such as the typical cost center, the cultural aspect, and the existing situation for designing a PMS. Since this mix of variables is not unique for this case, the results can easily be adapted to similar cases. Secondly, the data was tested from multiple sources and angles to ensure that our sources were not a deviation from common work. For example, we conducted interviews with interviewees at different levels to obtain as comprehensive information as possible to improve the external validity of this research.

To ensure the reliability of the research results, each step of the research process was documented in detail (Yin, 2003). In this chapter, we elaborated on the steps of selecting a case company, choosing respondents, formulating (and presenting in appendix) interview guides, and data analysis. Further, the interviews were conducted within a certain period, and the process is non-linear. For example, the information provided by interviewees at the same level in the same department in different regions or by those at different levels in the same department in the same area was used for cross-checking. Based on the interviewees' answers, the way to ask some questions was adjusted appropriately for the following interviews to ensure that the results were mutually supportive.

3.6 Ethical Considerations

The study design implemented ethical considerations to overcome possible negative effects on interviewees and the study itself (Bryman & Bell, 2011). First, we considered the possible harm to participants, such as affecting their career development (Bryman & Bell, 2011). Therefore, during the research process, participants were anonymous. Second, to avoid greater pressure on the participants, we flexibly arranged the time for them to participate in the interview to avoid them feeling uncomfortable (Bryman & Bell, 2011). Additionally, as mentioned, the interviewees had the chance to understand the purpose of the interview and see the planned questions some days in advance, so they had the chance to get prepared by taking their own concerns into account. This approach also ensures the third, informed consent (Bryman & Bell, 2011). Finally, to avoid invasion of privacy, the interviewees had the right to refuse to answer questions that may make them unpleasant (Bryman & Bell, 2011). However, during the entire interview process, all respondents chose to answer our questions.

4. Empirical Results

A striking result from the interviews is that among all the cost centers, there was not much consistency in the description of the company's overall goals, indicating that these departments might not be so familiar with them. All of the other results from the eighteen respondents will be presented one department at a time, but start with the perspective of the higher management. The company's executive board consists of the CEO, CFO, and COO and will be referred to as the board throughout the remaining chapters.

4.1 The CFO and General Directors

Besides the German controlling manager, who is also one of the General Directors of the German location, two other General Directors, one from each location in Vietnam, have been interviewed. These two directors, together with the company's CFO, will be presented in this category.

Goals and Targets

The CFO explains that the board decides the company's long-term vision, mission, and goals, based on the market's consuming behavior and demand and shareholder expectations. A manager meeting is held to communicate these, and then the general directors break the goals down to specific targets for each department while considering the managers' suggestions. The CFO says:

> We motivate our colleagues to bring up their own ideas of what is the best way to reach group goals and how they can bring their department forward. We support them by giving them the space for personal development and advice if needed, surely also focusing on the cost aspect.

General Director 2 says that he talks to the board every week, not to ask things but to discuss. There is no fixed process for this, so he has free hands to operate autonomously. In the financial area, however, there are clear definitions of what he is allowed to do. General Director 2 also

describes that he has a high level of flexibility in how to interpret and adjust the company goals if needed. He says that the lower management level then sets their own targets and communicates them to their respective teams and that they are encouraged to talk to the higher management about their opinions.

Measurability

General Director 1 measures his and his location's performance based on financial aspects such as sales and profitability, and on received bonuses, but also feedback from customers and the overall happiness level of his employees.

General Director 2 measures his performance based on the monthly report where he sees his results. He says that he tends to look at financial KPIs first but also at feedback from the board, employees, and customers.

Evaluation

According to the CFO:

> Evaluation is based on the quality of the performance, means no mistakes and valuable
> input in accounting and controlling, provide proper services to act efficiently by the IT,
> and present our company and products in a professional way by the media department.

General Manager 1 does not think it is a good idea for people's results to be transparent to everyone since it is a personal thing and all people have different characteristics. He says that he monitors his employees by about 50% and emphases that they have deadlines that they need to follow. He thinks that young generations are more focused on results rather than processes. After targets are set at the beginning of the year, formal feedback is given in the middle of the year, and the evaluation is made at the end of the year, which he thinks is not enough. General Director 1 encourages the managers to do self-evaluations before the final formal evaluation, and the managers usually achieve about 80% of the goals. General Director 1 says that feedback is non-evaluating, meaning that things are not putten into numbers, and the purpose is primarily to

give instructions on how to enhance performance. Besides giving feedback, he also likes to receive feedback from his employees.

General Director 2 says that individual targets and results are not transparent in his location either. However, targets and results concerning the overall location are everywhere and always transparent. There is currently no evaluation system for the management level under him, but General Director 2 likes OKR systems. He says that he is very straightforward in his feedback and that he has weekly feedback meetings with his employees based on the target settings. He also gives informal feedback through personal talks.

Rewards

About motivation, the CFO says that: "Intrinsic motivation is what we try to create with our people. Therefore we think that it's important that they understand the goals and support them." General Director 1 describes his motivation in the following way: "I like to see the company grow, get the freedom to be agile, lead the teams to make sure everyone can do their jobs, and value innovation, not just chasing the low-cost." He thinks that his employees are also motivated by seeing the company grow and the freedom to be agile, but also reaching financial goals and having job security. General Director 2 is motivated by seeing that his decisions are right and to get positive feedback. He thinks that all people are different in what motivates them. Some might be motivated by money and days off, while others might, like himself, be more motivated by positive feedback, he says.

In the location where Director 1 works, they have bonuses linked to group achievements and annual fixed bonuses. He personally likes performance-based bonuses that link to both individual and team targets but explains that non-financial rewards such as vacation days and flexible working hours are being considered. General Director 2 highlights non-financial rewards more, saying they already have some, including "going to the beach, and one Saturday off, company parties, women's day gifts." When he is limited in using financial rewards, he uses other types of incentives, such as free insurance. He says that it is important that the system behind the bonus distribution is fair.

4.2 Accounting

From the accounting department, one manager and one employee from Germany and one manager and one employee from Vietnam were interviewed. The Vietnamese accounting employee also has a function of a manager. Still, since he is on a lower management level than the other accounting manager from Vietnam, he will represent the view of the employees in this study and is therefore referred to as the Vietnamese accounting employee.

Goals and Targets

In Germany, the manager gets the company goals communicated to him at manager meetings. It is his responsibility to set goals and targets for his department and report the department's progress. An important part of his job is to translate the company goals to targets that his employees can relate to. The German manager says that it is not always obvious how the overall company goals can be translated into goals for an accounting department. As an example, he says that if an overall company goal is to create sustainable value for stakeholders, it might not seem directly connected to the work of accountants. However, he says that if you take another look, there is a connection, since accounting shows the stakeholders how sustainable the company really is by having a high-quality financial database and publishing financial reports.

The manager says that in the German accounting department, the employee's targets are set through a collaborative process between manager and employee. "Department is a big word, we are mostly a team, so the communication is very close without too many hierarchies or levels. We are talking openly every day", he says.

The German employee says that the manager tells her the targets but that they discuss them together and that the close communication enables frequent target setting and for the team to work closely together. The employee further says that it happens that the targets feel a bit hard, but that her coworkers and manager help make them reachable, which further helps her to learn.

She also thinks that goals related to learning are very good. She agrees that the communication in the team is very close, which she values.

The Vietnamese accounting manager explains that she gets the company projects communicated to her from the board and then tries to match them with her own projects. She emphasizes that the accounting department is a supporting department and does not directly contribute to the company goal. Therefore, she does not communicate the company goals to her employees since she thinks their job description is enough for them to perform their tasks. Since the employees' jobs are to finish their assigned work based on their job description, she does not wish them to influence that description but only follow it. The employee in Vietnam says that the individual targets and KPIs are set by the manager but discussed with the employees. It should be mentioned that the Vietnamese manager and employee work at two different locations in Vietnam.

Measurability

The German manager thinks that it is hard to measure the qualitative job of accountants in numbers, but that an increase in overtime hours is one way of measuring.

> Usually, the employees work a lot of time on the monthly close. The goal is to get this closed faster with fewer overtime hours. So I assume that by giving a high quality of their work, the real progress in developing linear and easier processes will be shown in the decrease of the overtime hours during the time. So this is one of the KPIs. I think this is the best approach to representing their progress and development of the process in the department itself.

In the manager meetings, the manager says that KPIs are always asked for, and he then presents the KPI of reduced overtime hours. The German employee knows that she delivers qualitative work through daily feedback from the manager.

The Vietnamese manager also uses KPIs related to time, where a KPI, for example, is to finish a project by the deadline. In that way, she can assess whether she and her department are

successful. The Vietnamese employee says that he knows that he is doing a good job when he reaches the KPIs, such as finishing the reports every month and year within a certain time. However, the employee expresses that the end of a reporting time is always stressful for accountants and that some mistakes are inevitable.

In the German accounting department, there is no target transparency between the employees, meaning that they cannot see each other's results. The manager does not see any benefits of showing results openly within his team. The German employee, on the other hand, says that the close communication in the team makes the targets and results rather transparent and thinks that the fact that the coworkers talk about them every day has a positive influence on her work.

In Vietnam, on the other hand, everyone's KPIs are visible to all employees within the department. The Vietnamese employee thinks it is important for the KPIs to be shared to know what needs to be done and improved. The Vietnamese manager highlights that the important thing for the accounting department is that the employees know the KPIs, for example, deadlines, to manage their jobs by themselves, which is easier if the KPIs are transparent.

The German manager does not think that his employees' performance results need to be monitored. He says that most of them are very experienced and do not need so much guidance in their everyday tasks. The German employee says that she monitors herself but that her manager also monitors her, but highlights that the best type of monitoring is communication. The Vietnamese manager also thinks that the employees can manage their jobs by themselves and does not see it necessary to monitor them. The Vietnamese employee also says that independence is important but that they still get help if they have trouble solving a problem.

Evaluation

In Germany, the evaluation is based on a subjective point of view. The manager does not evaluate based on the KPIs but rather by reviewing the reports and considering the feedback from the auditors. The employees evaluate themselves individually before they have their annual official performance review meeting with the manager, where they go through previously

determined goals and milestones. Besides the official evaluation meetings, the manager gives a lot of direct feedback throughout the year. He also receives feedback from his employees, which he thinks is important. They, for example, tell him when they have too much work, at which point he always helps them. He thinks that his employees talk openly with him, but not often enough.

The German employee also says that besides the official evaluations, they have regular discussions in their everyday work, and the coworkers give each other feedback. She feels that her manager sees her every day, and she can ask for feedback whenever she likes. She agrees that evaluation through KPIs is difficult and that the evaluation is therefore based more on the managers' opinion. Besides the individual evaluation, the manager also evaluates the employees as a team.

In Vietnam, the evaluation seems more objective. The employees are evaluated once a year based on how well they reach their goals. By tracking the targets reached for every employee in the department, the employees can be promoted according to a six-grade scale starting from "Accounting Staff" and ending at "Senior Manager," which the Vietnamese employee says he finds motivating.

If an employee makes a mistake, the Vietnamese manager makes sure to talk to that person directly and separately so that no one else notices the issue. If the manager sees an improvement, she also talks to her employees as soon as possible because she thinks that it is motivating for them to hear. The employees only get feedback from her. They do not have any types of peer reviews or upward feedback, even though she thinks it would be helpful.

In the other location in Vietnam, the employee explains that they give informal feedback to each other because they often solve problems together, which he thinks is helpful. They also give upward feedback, which the employee also finds helpful since the employees have another viewpoint and can come with different ideas.

Rewards

The German accounting manager cannot make the decision to reward his employees by himself. Still, he can propose it to the general managers and the HR department during manager meetings. They do not have a bonus system in the German accounting department, but according to the manager, the best reward for his employees is to give them more space and freedom. He thinks that implementing financial rewards could be a good idea, but at the same time, he thinks it would be hard to make it fair in cost centers. At the same time, he does not think that money is the best motivation, but rather that the motivation should be intrinsic. He thinks that his employees love the company and their work and that "it is always good to share the success with team members, they have a good team spirit."

The German employee says that she can work flexibly and is not bound to a specific location or to specific work hours, which makes her feel very valued. However, she thinks it would also be nice if there was a direct correlation between performance and salary. She now has a fixed salary, but she thinks she would be motivated by bonuses or other rewards. As for now, she finds it rewarding to see achievements made by herself and the team, and she also thinks that success should be shared by the team.

In Vietnam, on the other hand, besides their fixed salaries, employees can also get bonuses. The manager thinks that if an employee has an outstanding performance, they should receive a higher bonus. The bonus is not only based on employees' individual performance but also the company's performance. However, even though she thinks that her employees get motivated by the bonuses, she believes that they value her respect higher. She herself gets motivated by earning respect from the board and to feel that she is contributing to the company. The Vietnamese employee says that he gets motivated by money and title promotions.

4.3 IT

One manager and one employee from Germany, and one manager from Vietnam were interviewed to represent the IT department.

Goals and Targets

The German IT manager gets the company goals, strategy, and vision communicated to him three times per year at meetings with the board, which is an approach that he likes. Depending on the change of sub-goals related to, for example, strategy, operation, technology, or communication, he meets with his employees weekly or monthly to communicate this. He says that the overall goal, however, does not change so often. Additionally, because of the nature of IT, the strategy and workload of the department are not affected by the company goals, according to the manager.

Nevertheless, the overall company goal that the manager describes as "creating sustainable value for customers" is also the goal of his department. They also want to create a service that has value for their location, customers, and the company. The manager says that the more specific goals and targets for the German IT department are set by himself together with the CFO and depend on what brings the most value in the shortest time. At least once a year, the manager has a small meeting with his employees to discuss what they have achieved and their ideas for new projects. During these meetings, they also set individual targets for the upcoming year/project.

The German IT employee says that he normally gets the company goals communicated to him from yearly presentations by the board. However, last year due to the covid-19 pandemic, only the management level joined the presentation digitally and then presented the content to their employees. Since the German employee could not attend the presentation, he feels that he did not receive all the information. Therefore, he thinks that the presentation should be posted so that every employee can see the company goals better. The IT department has weekly meetings, and the employee thinks it is good that they communicate often. In the creation of the employee's individual targets, a discussion is held between him and the manager, and the employee feels like he has a lot of freedom and that his personal opinions are taken into account.

The Vietnamese IT manager receives the company goals year by year through several meetings with the board. He then meets with his employees to make them aware of the company goals and prefers face-to-face communication with his employees if possible. His own goals are clearly

presented in his job description, which is updated every year. Projects can be assigned to him by the board, but he can sometimes decide on his own projects. Based on the company goals, he sets the targets for his employees, but he still involves them in the process. He thinks that they could also define their targets by themselves, but under his supervision.

Measurability

The German manager mostly measures his department's success based on feedback from the CFO and the general managers that tell him if the IT system is working properly in their location. The German employee also says that he knows that he has done a good job when all systems are working fine.

The Vietnamese manager measures his individual success based on compliments from higher management, but he does not think that he receives them so often. He measures his department's success based on how well they reach department targets, and since they all work in the same room, they can have frequent conversations about the targets. In specific projects, every employee has their own assignments, which makes it easier to measure.

In the German IT department, individual goals and results are shared within the team. The manager thinks that this transparency encourages the employees and does not think it could be stressful since they set the timelines together and make sure that the workload does not get too big. The employees should not be in a hurry but rather think "quality over quantity." The manager says that how much monitoring the employees need depends on the individual's characteristics and experiences and that there is no right or wrong level that works for everyone.

The IT employee does not think that the transparency of targets and results has any influence on his work. He thinks that self-monitoring is important, but he prefers when both himself and his manager can monitor his work together to see and discuss the outcomes.

In the Vietnamese IT department, all results are also transparent within the team, which the Vietnamese manager thinks is suitable for an IT department. He monitors his employees' results

by the target setting, where he can see if the work is on time or not, and the software sometimes sends him a warning if an unfinished project has reached its time limit.

Evaluation

The German manager evaluates his employees' work by tracking their goals. But he says that it is important to keep in mind that if an employee does not reach their goals, they may still have performed well since emergencies and contingencies sometimes occur. The manager, therefore, makes sure to have a holistic perspective in his assessment of his employees' performance. He says that this subjective evaluation approach enables him to consider other factors than goal achievement, like workload and emergencies. The manager meets with his employees every week, where he gives some informal feedback but also receives feedback from them. The formal feedback sessions, however, only take place yearly.

Since they do not have many number-related targets in the German IT department, the German employee thinks it is good that the evaluation is based on the manager's subjective opinion since it otherwise would be difficult to evaluate at all. The employee thinks that the formal feedback sessions could be held twice a year instead of only once. He does not give official feedback to his coworkers since they talk to each other every day. The employee also says that he does not give feedback to his manager since he finds it a bit difficult and uncomfortable.

The Vietnamese IT manager has weekly meetings with the project owners to get new updates. At the end of the year, the manager has feedback meetings with the employees, where their performance is evaluated based on their results. "I give feedback when the project works, in the progress and when the employees have troubles in the system. And they give feedback to each other". His employees give feedback to him as well.

Rewards

The German manager says that he is most motivated by the job itself and that his employees probably feel the same way. Nevertheless, he still thinks that his employees enjoy money and

social activities, such as having dinner together to celebrate a finished project, but there is no bonus system in the German IT department. To reward the employees, the manager gives positive feedback and can also increase the employees' salaries. He thinks that financial bonuses could be a good idea for the department but does not think it is necessary. He says that it is more important to think about the workload and that the best way of motivating is through positive feedback. He says that he would not be motivated by incentives himself.

The German employee thinks that the best part of his job is to have fun. He likes the job itself and also the environment in the company. Regardless of department, he feels that he can talk to every coworker, which he highly values. The employee thinks that financial bonuses could be a future improvement of his job, but he would also appreciate being rewarded with more vacation days.

The Vietnamese manager rewards his employees with bonuses. He thinks that this is working well but also emphasizes that money is not so important.

> The bonuses are an acceptable way of rewarding their [the employees'] efforts. It's good, but at the same time, money is not important. The bonuses motivate the employees, but they don't get upset if they don't get bonuses. It's more important about how their efforts are accepted than the money.

The manager says that he loves his job and that it has nothing to do with money or bonuses. When receiving a bonus, he feels appreciated, but the job itself is the biggest motivator for him. He tries to create a free and innovative environment where the employees can do anything they want, which he thinks makes them happy.

4.4 HR

The German HR department only has one manager and one employee, who were both interviewed. There, they do not have a PMS. One manager from Vietnam was interviewed to represent the Vietnamese HR department, where they have a PMS in place.

Goals and Targets

The German HR manager explains that there are yearly employee meetings where the company goals are presented and later posted on the company's webpage. He says that the meetings are not compulsory, but 95% of the employees are there. The manager sets the department goals and targets by brainstorming ideas with his employee, and they are connected to work safety and employee satisfaction. His employee's individual targets are set weekly together with him in formal meetings, which the manager thinks is a good and motivating way of target setting.

The Vietnamese HR manager also explains that he gets the company goals communicated to him at yearly meetings with the board and that he decides the department targets based on the company goals. The Vietnamese HR department has a meeting twice a year where they discuss the targets for everyone in the team. However, it is the manager who decides the targets for the employees. "I tell them what the goals are based on the goals of the company. And then I set up targets for my team".

Measurability

The German HR manager can measure the success of his work based on the direct feedback he receives from the board at least once a year. Other than that, he thinks his self-awareness is sufficient enough for him to know if he is doing a good job. The top management likes to have numbers for the evaluation and use them for score-based bonuses. The German manager thinks that the problem with this is objectivity. He thinks that some qualitative work, such as the work of HR departments, cannot be put into concrete numbers, and he does not want to try to quantify their work. He means that there are no real indicators except for time spent and numbers of mistakes made, which makes it hard to get a fair overview. He thinks that measuring an HR employee's performance based on the number of mistakes made would only put pressure on the employee.

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The German employee explains that he has no KPIs but instead measures his performance through the feedback from his manager. He agrees that his job cannot be put into numbers but says that he still has to meet deadlines. When the German employee started his career at the company, he was a trainee for two years. Back then, he thought that his targets were a bit too low, but today he thinks that his targets are on a suitable level. The employee wants his goals to be high since he wants the opportunity to grow. Because he aspires to learn and develop in his position, the company has since last year been financing a part-time education for him. After completion (about one and a half years), he will take a big test and hopefully earn a certificate.

In the Vietnamese HR department, every team member, including the manager, has clear KPIs connected to a scoring system. The Vietnamese manager says that every year, they sit together and go through their individual scores and see what they managed to complete and what not. One KPI that the employees have is for salary calculation and sending out payments on time. A KPI that the manager has from the board is to keep the fluctuation of employees under 3% per year. He explains that in Vietnam, many people work for one company for a very short time before going to the next (job-hopping). He says that the fluctuation usually is under 3%, but that it at the moment has exceeded that line. To keep people in the company, there are many discussions about more benefits and improving the work environment. Even though KPIs are used at the Vietnamese HR department, the manager says that he has a bigger focus on what his employees think and want, and he thinks that the employees are very happy with the work environment.

Evaluation

The German manager thinks that results should not be presented openly within the company. He thinks that most people would not like it and that it could create a culture of blaming and jealousy and put pressure on people. He uses scores and self-evaluation for his employee. However, the scores have nothing to do with some kind of bonus but are only for feedback. He normally gives documented official feedback once a year, but he thinks that two times per year would be better. He gives informal feedback once a week and says that he thinks feedback is important both to give and receive, to be aware of one's own performance and other's expectations. He says that he also gets feedback from his employee.

The German HR employee does not feel like his performance is being monitored a lot. He feels like he gets a lot of freedom and can do many tasks independently while still having good communication with his manager. The employee says that he sometimes gives feedback to his manager during their weekly meetings, but not so often.

In the Vietnamese HR department, all employees are aware of each other's targets, which they do not have any problems with, according to the manager. The manager does not feel like he has to monitor his employees a lot since they know what they need to do in their jobs. He sits down with his employees once a year for a formal evaluation session to go through how the people are doing. If they have not reached their targets or met their deadlines, the manager reminds them to focus more. He thinks that it is enough to only have formal evaluations once a year since his employees still come to him as soon as they are facing a problem. He also says that the employees often give feedback to both each other and to him by talking directly and openly, which he thinks is good.

Rewards

The German manager enjoys the feeling of knowing that he has done a great job. Self-recognition and positive feedback, and recognition from superiors are the most rewarding things for him. He does not reward his employee in any other way. He thinks that positive feedback is motivating enough and that financial rewards do not increase motivation. He thinks that work-life is stressful enough, especially for people with a lot of responsibilities. He means that people cannot perform more than 100% and should therefore not be pressured by bonus systems. Additionally, the size of a financial bonus can be hard to motivate since it is not always objective and can depend on who is doing the evaluation. Hence, in the HR department in Germany, there is no reward system, and the manager thinks that his employee is intrinsically motivated by the interest of his tasks of working with people, which is what his employee likes.

The German employee says that incentives could be a good idea if used to reward his work. He thinks that rewards without too much pressure are good, but he would not want incentives to be

used to make him work more. However, he says that his motivation is already as high as it could be, and he likes to be able to plan his life according to a fixed salary.

The Vietnamese manager says that he is not only motivated by the financial benefits but also the commitment and the trust from the board. Regarding his employees, he thinks that they are most motivated by career opportunities, good working conditions, and his support, but also by the benefits. His employees get one bonus per year based on how well they reached their KPIs, and that bonus is set by the board. The employees also have some other benefits, such as more vacation days and team-building activities.

4.5 Controlling

The German controlling manager is the only person working in the controlling department in the German location. This person is also one of the General Directors of this location, but for the purpose of this study, his main function is managing the German controlling department and will hence be referred to as the German controlling manager. We have also interviewed two controlling managers from Vietnam. Since one of those possesses a higher position than the other who is also her employee, the lower manager will represent the employee perspective of the Vietnamese controlling department and will therefore be referred to as the Vietnamese controlling employee.

Goals and Targets

The German controlling manager gets the company goals communicated to him by the board.

> The overall goals are set by the top management, taking into account the strategies of every location. All departments can set their own goals. So it is not just top-down, also bottom-up. We set goals together and also revise together.

Some of the targets of the German controlling department can be put into KPIs, such as the number of new customers, sales volume, and digitalization of certain processes. The German

manager decides the controlling targets by having a meeting with other managers where he lets them think about the targets of their departments and how those targets could be measured. After a month, the managers sit down in another meeting where everyone presents the targets they have set for their department. Since the German controlling manager is also the General Director of the German location, his employees are the middle management level. The German manager wants to make everything transparent and give everyone the opportunity to be part of the decision-making and strategy definition for the future. When deciding their KPIs, he tries to hear as many voices as possible and include them in the process to make them motivated.

The Vietnamese controlling manager participates in several leadership meetings throughout the year with other managers and the board. In the meetings, goals are shared, and everyone is allowed to share information and opinions, and ultimately targets are set for each department. The Vietnamese manager thinks that these meetings are helpful and that they help to connect the different departments, which makes her feel motivated and involved. The Vietnamese manager regularly communicates her thoughts to her manager before she talks to her employees to ensure clarity. She says that the company goals guide the department targets, which she decides by talking to the board and other departments. To communicate the department targets to her employees, the manager hosts online meetings and publishes information on the company's internal web page. She sets the individual goals for her employees once a year and breaks them into objective targets. They then meet to discuss the targets and decide on methods for improvements.

The Vietnamese Controlling employee explains that they have a quite clear job description. The department targets are decided at the beginning of every year and reviewed after six months. He says that some targets are set top-down, and some are set by the employees themselves. The employee thinks it is good that people set goals for themselves. Otherwise, he thinks that they will lose motivation. At the same time, he thinks it is also important to receive goals and advice from the manager since they may have a better overview of the industry and the company.

Measurability

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The German manager measures his job based on some financial KPIs, such as sales volume and profitability.

> We are trying to build up a KPIs system, including the number of customers, sales volume, profitability, and digitize certain processes in our administration, such as creating automatic accounting lines, so that we could track data easier based on daily works considering how we can improve.

He also knows that he is doing a good job when he only makes a few mistakes and through feedback from coworkers and the board. He also measures his performance based on the satisfaction of his coworkers and customers. He measures his employees' (the middle management) performance based on how well they are reaching their KPIs.

The Vietnamese manager measures her own performance based on the feedback she receives from the people using the data provided by her department's work. She measures her employees' work based on how well they understand the company's operating activities and processes through the presentation of their work and how well they do their reports. The manager discusses targets with her employees one by one, where they talk about what is important for the employees and what they want to improve. Some of her employees come up with their own ideas, whereas others wait to receive tasks from her. The manager likes when her employees come up with ideas by themselves.

The Vietnamese employee says that he and his coworkers work close to the manager, and that he receives direct feedback every day and that they have good communication. He thinks that consulting from both managers and coworkers can be helpful to be able to see one's work from different perspectives. He also says that the employees can see their targets in a software where they update the status of the targets by ticking in boxes saying that the task is either "done," "in progress," or "critical."

Evaluation

The German manager explains that the middle management can see each other's targets and results. So far, he thinks that this transparency has had a positive impact and that it has increased motivation. People can link their targets to other people's targets and see what can be improved. Once a year, the German manager has an official meeting with every employee to give them feedback. Their work is being evaluated through an evaluation sheet, but the manager tries to be open in his evaluations. During the meetings, the employees also give feedback to the managers. The manager thinks that the meetings should be held a bit more frequently than once a year.

The targets and results of every employee are also transparent in the Vietnamese controlling department. They have workshops where all controllers and accountants sit together and share information and learn from each other. The Vietnamese manager evaluates her employees every six months.

> During the formal meetings, I let them [the employees] feel their work is appreciated and tell them how to improve next time. We also have personal discussions in my office when someone does something wrong. We talk about what is wrong, why it is wrong, how to make it right, why it is important to make it that way. I try to be nice to not demotivate people, listen to what they say, and understand.

Besides getting feedback from her, employees also receive feedback from each other and even from other departments, which the manager thinks is needed. She also appreciates when her employees give feedback to her.

The Vietnamese employee says that the employees have to evaluate their own performance before discussing it with the manager. He explains that they also give feedback to each other and that he thinks it is important to listen to other people's thoughts and opinions. He also says that he is very close with his coworkers and that they can discuss matters both regarding work and their private lives.

Rewards

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The German manager likes to motivate others and celebrate success together as a whole team. He is motivated by success and being able to create targets with freedom. He thinks that his employees really appreciate the safe working environment and the knowledge that their work generates some financial benefits.

Three years ago, a group bonus system for the board and the management level below was implemented to reward performance beyond expectations, but they also reward individuals. The German manager thinks that the use of non-financial rewards depends on the employees' locations, positions, and levels. For production workers, for example, he thinks that financial bonuses are more suitable.

The Vietnamese manager is most motivated by leading her team and making them understand the department's and the company's goals. She thinks that her employees care the most about compliments, being appreciated, and feeling that their work adds value to the department and the company. However, she says that some people care about the bonuses that the department has, but she thinks that bonuses are only motivating when the targets are clear and objective. She says that what also motivates her and her employees is that they have interesting jobs that really could provide value and that offer opportunities to learn, develop, and grow, which is an atmosphere that the company encourages.

The Vietnamese controlling employee is motivated both by financial benefits and by the good working environment. The bonuses that they receive are based on the results of the evaluation. He prefers individual rewards over team rewards. He thinks that bonuses are a good way to increase motivation but that the work environment is also important. He emphasizes that people cannot go to work every day to a place where they do not feel happy. He says that when people expect to receive a bonus and then do not receive it, they can get upset. That is why it is crucial with good communication during the evaluation. The employee is also strongly motivated by learning and developing more. He wants to improve the company and stays with the company because he loves both the company and the industry and not because of financial incentives. He also thinks that his coworkers care more about their career paths than about money.

4.6 Media

The Media department only exists in Germany and has three employees, of which two of these have been interviewed.

Goals and Targets

The media employees get the company goals communicated to them directly from the board and other departments in the company. They say that every department works individually, but they can help each other by giving suggestions and offering help if needed. The media employees get to set the targets for their department by themselves, which they appreciate as designers/creative people since they have professional knowledge. They sometimes, however, get tasks from the board and the general director. Employee 2 says that she really likes to work for the company and wants it to become better, and therefore aligns her own targets to the company goals. In the future, the media department wants to become its own business unit where they get to have their own projects and external customers, like a design agency within the company.

Measurability

Employee 1 explains that he measures his performance based on both formal and informal feedback from other people within the company. Employee 2 also measures her performance based on feedback, mainly from the person who requested the project or task. Both of the employees think that it is hard to put the work of their department into numbers. Employee 1 explains that since the company is a B2B company, it is not helpful to track numbers from social media, and the only thing they could possibly count is the number of projects. Therefore, the measuring of their department is very subjective.

Employee 2 says that since they are a small team, the targets are quite ambitious, but that for now, it is only motivating. But if the targets are too high, she thinks that it could cause stress. Employee 1 agrees that too many targets can be stressful, but he thinks that too low targets can cause demotivation, which at least is never the case in their department.

Evaluation

Employee 1 says that art designers want to show their work to others, so result transparency is important for them to get more feedback, advertise themselves, and grow. Both employees like this transparency and think that it enables faster improvement. No one but themselves monitors their performance. They are evaluated through weekly meetings with the board and one of the General Directors of the German location (not the one participating in this study), where they receive feedback, which Employee 2 thinks is a good way of doing it. Employee 1 would like to be evaluated based on some numbers and to track goals. He also wants to get more reasonable feedback from other designers.

Additionally, the media employees get direct informal feedback from coworkers and project managers. Since the department is growing, Employee 1 thinks it is important to track performance. He firstly wants to be evaluated as a team, but also individually. Employee 2 prefers to be evaluated individually. As for now, the evaluation is based on the director's subjective opinion.

Rewards

Employee 1 gets motivated from seeing their projects help other projects in the company and to get respect and acknowledgment for their contributions. Employee 2 gets most motivated by learning, adding value for the company, and working in a great environment with a good team feeling. She also gets motivated by seeing her designs becoming real and to get positive reactions from others.

They do not receive financial bonuses in the media department. Employee 1 thinks that the most important thing is that they get more and more respected. Employee 2 thinks that bonuses could be motivating when facing complex tasks. However, she also thinks that it could create competition between the employees and that it would be important to make it clear for everyone how a potential reward system would work. Employee 1 would like to receive group rewards

(mostly non-financial). Employee 2 says that group rewards might work, but that it depends on the individual contribution of all team members.

5. Discussion

In this chapter, the empirical results are analyzed and discussed in relation to the theory presented in Chapter 2. To discuss the results, the chapter is divided into five sub-chapters, reflecting the natural steps of a PMS, containing the information most relevant for our purpose.

5.1 Goal Alignment

The interviews showed that the respondents define the company goals differently. The SPMM starts with emphasizing the importance of creating a clear understanding of the company goals, strategy, and business model, and for the management to communicate them down in the organization to enhance intrinsic commitment (Möller, Wirnsperger & Gackstetter, 2015). There could be different explanations as to why our respondents do not define the goals in the same way. One could be that since all our respondents (except for the CFO and two general directors) work in cost centers, their work is not considered to be so connected to the overall company goals, why these have not been given the most attention within these departments. The CFO specifically pointed out that the company's goals are driven by the market, the behavior of end consumers, and shareholders' expectations. However, according to Melumad, Mookherjee, and Reichelstein (1992), the activities of cost centers cannot be directly related to such business.

Another possibility could be that the goals are not defined and communicated well enough for them to be implemented in the daily operations of the cost centers. The German accounting manager expressed the importance of his employees knowing how their work contributes to the overall company goals, so he translates those goals into department targets. The CFO also stated that all departments, cost centers included, must create the conditions to reach the company goals. This thinking is in line with the SPMM (Möller, Wirnsperger & Gackstetter, 2015).

In contrast, the Vietnamese accounting manager said that her employees' work does not affect the company goals and that they, therefore, do not need to be aware of them, contradicting the aforementioned model. However, there was a tendency toward the interest of the company goals among the interviewees in general, where for example, one employee expressed that he did not

get to know the goals properly and thinks that the availability for all employees should be improved, whereas another employee said that she really likes the company and therefore aligns here own targets with the company goals. Therefore, since there seems to be an interest from most interviewees to be aware of and contribute to the company goals, but at the same time a universal goal definition seems to be lacking, the examined company should make the communication of company goals more clear for all levels of employees and managers in the cost centers.

5.2 Target Setting

Most of the interviewed managers and employees said that the quality of work outcomes is difficult to quantify since the relationship between the resource input and output of these departments is weak and cannot be expressed by financial indicators (Kaplan, 2006). However, the difficulty to use numerical indicators to measure the results does not mean that there is no reasonable method for these departments to set targets, since the targets of the departments could be decomposed into instructive plans from the company's overall strategic goals (Möller, Wirnsperger & Gackstatter, 2015). In addition, most interviewees emphasized the importance of their learning and growth opportunities, which means that department targets can be roughly divided into two categories, performance-related and learning-related.

According to the interviews, since cost centers do not directly produce products or provide services but indirectly help organizations communicate and operate better (Kaplan, 2006), their performance targets can be divided into two main categories: timeliness and quality. Timeliness means submitting the results before the deadline. Regarding quality, most interviewees mentioned that the quality of the work done by employees is generally high. However, some special factors still need to be considered. For example, the Vietnamese accounting employee and the German accounting manager both mentioned that in their department, the work pressure of employees is high during the period close to the report submission date. As a result, during this period, some work errors are inevitable. The German IT manager also stated that sometimes, even though employees did not achieve the expected goals, they may still perform well because they need to pay attention to emergencies and unexpected situations. Therefore, it is necessary to

set an appropriate fault tolerance space, which not only reflects the flexibility of targets but also avoids excessive pressure on employees and improves employees' work satisfaction (Cappelli, 2000). The interview results show the key success factor for cost centers is mainly talent, meaning that employee satisfaction can affect the organization's success (Ghalayini, Noble & Crowe, 1997). Therefore, it is necessary to pay attention to the work attitude and satisfaction of managers and employees at all levels (Ghalayini, Noble & Crowe, 1997).

In addition to performance targets, it is also necessary for cost centers to set learning targets related to employees' self-development. Fowler (2014) proposed that managers should provide learning resources, set learning goals, and understand employees and their feelings to let them associate their work with values and overall goals. Most interviewees said that in addition to their interest in the work content, the possibility of growth is a key element to motivate them. For example, the German HR employee participates in a company-funded part-time learning project, which can help him set learning-related targets and master the necessary knowledge and get a certificate, which he appreciates.

Also, when setting performance targets, regional cultural differences should be considered (Swamidass & Neweli, 1987). For example, the Vietnamese HR department paid more attention to the employee fluctuation rate, while this is not the focus of its German counterparts. Because in Vietnam, the high rate of voluntary turnover of employees caused by high work pressure (Khuong & Yen, 2016) has made managers more concerned about the aspects related to job-hopping. A similar phenomenon is not obvious in Germany, which could be because German employees are often more satisfied, especially with the job itself, working environment, work-life balance, and existing vacation policy, proposed by Cappelli (2000), meaning they are more intrinsically motivated to work for the company. The purpose of this action is not only to set suitable targets for different locations but to focus on the factors that may have a negative impact on the organization and the company and to improve in this respect.

Regarding the transparency of targets, most interviewees said that shared targets could help everyone understand what needs to be done and what needs to be improved. It can also promote effective communication between coworkers and can cause trust among team members, thereby affecting the quality of the later evaluation step (Gibbs et al., 2004). According to the interviews,

transparency in targets also helps promote feedback between all levels (Ghalayini, Noble & Crowe, 1997), which may cause both managers and employees to be motivational or informational (Franco-Santos, Lucianetti & Bourne, 2012).

The SPMM and the study by Groen, Wouters, and Wilderom (2017) show the importance of employee participation in the target setting process, saying that it ensures intrinsic motivation, a positive attitude, initiative-taking, and active behavior (Möller, Wirnsperger & Gackstetter, 2015). The German accounting department is a good example of employee participation where the manager involves the employees in the target setting. His interviewed employee appreciates this approach and seems highly motivated and eager to learn more in her role, and at the same time supported by close communication. Another example is the German HR manager, who does not only involve his employee in his individual target setting but also in the formulation of department targets. The manager thinks this increases motivation, which he is supported in by literature and a seemingly intrinsically motivated employee. The media department has a lot of freedom in setting their targets which is highly appreciated, and also they seem intrinsically motivated. Also, the German IT employee gets to participate in his own target setting, which creates a feeling of freedom for him. Thus, all interviewed employees in Germany participate in their own target setting, and they all show strong signs of being intrinsically motivated and committed to their work, as should be the case according to the literature (Möller, Wirnsperger & Gackstetter, 2015; Groen, Wouters & Wilderom, 2017).

In Vietnam, however, employee participation in the target-setting process does not seem as obvious. This difference can be a result of the Vietnamese culture being more hierarchical and more top-down in its decision-making approach (Gesteland, 2012). The Vietnamese accounting manager does not express a willingness to involve her employees in the target setting. Both the Vietnamese HR and Controlling manager also set their employees' targets, even if they discuss together. The Vietnamese IT manager says that even though he decides his employees' targets, he still involves them. He also thinks that they could define their targets by themselves, under his supervision. In Vietnam, most people were also intrinsically motivated, but extrinsic motivation was present as well, which is logical from an employee participation perspective since less participation should lead to lower motivation (Möller, Wirnsperger & Gackstetter, 2015; Groen,

Wouters & Wilderom, 2017). Therefore, employee participation in target setting should remain high in Germany and should be increased in Vietnam.

5.3 Measurability

According to the interview results, measure elements directly related to the cost center functions and guided by targets are the time, work quality, and employee satisfaction. These three elements are also stressed in previous literature for setting non-financial measures (Möller, Wirnsperger & Gackstetter, 2015).

Regarding the time, in addition to completing the work before the deadline, the interviewed German accounting manager mentioned that an increase in overtime hours could be used as a measure because it is fair. He also explained that since the quality of work done by employees is usually high, the shortened overtime can also indicate the improvement of the team's working capabilities. Besides, this measure is actionable, and it can be a good connection between the superior and the subordinate (Zhou & He, 2018) because the interview results show that senior managers prefer measures that can be expressed in numbers. Therefore, the increase in overtime hours could be a measure that conforms to the service-centric concept of cost centers and could be used to show the growth of the departments.

Regarding the quality, the interview results show that the quality of work outcomes in cost centers is usually high, and the German HR manager said that recording the number of errors/mistakes can only put pressure on employees. Therefore, the interviews show that measuring the quality of work completion is more based on subjective assessment than any specific objective measures. The attempt to measure quality through KPIs rather results in time and resource waste (Zhou & He, 2018) than benefits for the company.

Regarding employee satisfaction, it is a factor that can affect employee fluctuation and thereby affect the organizational output (Myskova, 2011). The interviewees stated that subjective evaluation is the main measurement for this aspect. However, Myskova (2011) proposed that when measuring employee satisfaction, multiple key measures such as salary, work environment,

vacation, educational possibilities, promotion space, and employment contract restrictions should be taken into account, and managers can even assign weights to these key measures for objective surveys, and then comprehensively combine the objective results of the measures and the subjective evaluations obtained. Also, through the use of these objective non-financial key measures, employee satisfaction can, to some extent, be evaluated and prevented from being misreported or manipulated by bias (Ferreira & Otley, 2009).

Besides, the setting of measures should also be combined with cultural background. The interviews show that, for example, compared to Germany, in Vietnam, measures that can be expressed in numbers are more widely used. This may be due to measures usually made from top-down to ensure the consistency of employee performance and organizational performance (Zhou & He, 2018). Hofstede, Hofstede, and Minkov (2010) show that in Vietnam, the organizational hierarchy is more obvious, which is not the case in Germany. Gesteland (2012) also describes that in Vietnam, decisions are usually made by senior managers, while in Germany, the phenomenon of joint consultation is more widespread.

Moreover, the German HR manager said that transparency in work results or the outcomes of the measures might create an atmosphere of jealousy and put pressure on employees. Therefore, for most departments, the key results do not need to be disclosed within the organization, while timely feedback and communication are always necessary. However, the media department is an exception. According to interviews with employees from the media department, artists usually like to make their work public to get more feedback. Therefore, it is feasible for the media department to share the key work outcomes.

5.4 Performance Evaluation and Feedback

Combining objective evaluation centered on targets and measures with subjective evaluation can be useful for cost centers. Objective evaluation helps simplify the evaluation process (Zhou & He, 2018) and can avoid ambiguity by showing the input-output relationship (Ferreira & Otley, 2009). Objective evaluation has received sufficient attention from the interviewed general directors. However, an overemphasis on objective targets and measures can cause managers to

ignore the parts they consider unimportant (Zhou & He, 2018). Subjective evaluation can help assessors identify these overlooked points (Gibbs et al., 2004). The interview results show that all interviewees mentioned the importance of subjective assessment, and their subjective assessment is mainly based on self-awareness of work results and feedback from others. However, the disadvantages of subjective evaluation are that it is time-consuming and possibly biased (Ferreira & Otley, 2009). Therefore, the use of subjective and objective evaluation should be fairly balanced.

Evaluation should include self-guidance (Möller, Wirnsperger & Gackstatter, 2015). Self-evaluation, peer-review, and mutual evaluation between superiors and subordinates can, according to the interviewees, enhance the understanding of the company's expectations of targets and actions. They can also support the employees to learn together and from each other. Although some employees in the interviews said that they would feel uncomfortable to evaluate and give feedback on the leadership, from the perspective of the managers, the employees' evaluation of them is worthy of encouragement.

But not only the internal perspective is helpful to evaluate cost centers' performance. Interviewees said that external feedback from customers and employees from other departments is also important because the purpose of cost centers is to promote communication between organizations or departments to improve the efficiency and effectiveness of the entire company's operations (Kaplan, 2006).

Both formal and informal evaluations are necessary. The interview results show that, usually, the case company has formal feedback between managers and employees once a year, while there are many private informal communications the rest of the time. Managers said that they do not like to monitor their employees but give them a certain degree of freedom to work and provide help when needed. Therefore, as a complement to formal feedback, informal feedback cannot be ignored. Moreover, most interviewees said that although employees are allowed to conduct self-evaluation before formal feedback, yearly formal feedback is still not enough. This view means that the frequency of formal feedback should be increased to once half a year or even once a quarter to better combine long-term and short-term targets (Chenhall, 2005).

Finally, although the views of some employees cannot be unified, the evaluation of the individuals and the team as a whole needs to be executed (Ferreira & Otley, 2009). Personal evaluation is related to personal promotion, which could further affect employee satisfaction (Myskova, 2011), and can be proved by the six grade scale given by the manager of the accounting department in Vietnam. A more macro evaluation of the whole team may lead to better organizational performance (Schulz & Pruitt, 1978) and help promote the understanding and communication of organizational targets among team members because everyone's goals are aligned (Möller, Wirnsperger & Gackstetter, 2015).

The interview results show that, compared to deal-focused Germany (Gesteland, 2012), managers and employees in Vietnam prefer to communicate feedback privately to ensure that others will not notice, which may be because the culture in Vietnam is relationship-focused and Vietnamese value "face" more than the Germans (Gesteland, 2012).

5.5 Rewards and Motivation

Regarding reward systems, we see bigger differences between the two nations than between the different cost centers. While all examined departments in Vietnam have a bonus system implemented, no employees at the German cost centers receive bonuses. As mentioned, the vast majority of the interviewees showed signs of intrinsic motivation, and all Germans interviewees seem to be intrinsically motivated by their jobs. According to literature, this could be the result of continuous learning, good leadership skills, and a match between the employees' skills and interests and their given tasks, and by the factors autonomy, relatedness, and competence (Kerr, 1995; Chamorro-Premuzic, 2013; Fowler, 2014). All these aspects were represented in the interview answers, and among the Germans, relatedness was the factor that stood out the most and was described in terms of a good team feeling, work environment, open communication, sharing and celebrating success, receiving positive reactions and feedback, acknowledgment, and respect. Many of the German interviewees said that they would like bonuses, but at the same time, they highlighted many downsides with them, such as lack of objectivity and fairness.

Even though the Vietnamese locations have bonus systems implemented, the importance of financial rewards was not extensively highlighted. Financial rewards were described as parts of or complete source of motivation by some interviewees, but intrinsic motivation was emphasized more. Competence was the most overall motivating factor and was described as contributing, developing, improving, and adding value to the company, but also as individual development and growth and career opportunities. We would suggest that the company does not implement a bonus system in Germany since it risks crowding out intrinsic motivation (Deci, Koestner & Ryan, 1999). In Vietnam, we recommend that the company focus more on intrinsic rewards while keeping the bonus system in place, without emphasizing it too much, to shift the focus of extrinsically motivated employees.

Table 4 - Overview of Main Findings (created by authors)

Design step	Aspects	Cultural impact
Goal setting	Clear communication of company goals	Not observed
	Description of more operational goals (not only financial goals)	Not observed
Target setting	Non-financial performance targets: Quality and time	Not observed
	Learning tartgets: employee satisfaction	Not observed
	Degree of transparency: rather high	Not observed
	Degree of employee participation: Refer to cultural impact	Observed; Germany rather high; Vietnam rather low
Measuring	Degree of transparency: Refer to cultural impact	Observed; Germany rather high; Vietnam rather low
	Non-financial measures: work quality, time and satisfaction	Observed; Vietnam numbers are preferred
Evaluation	Composition of objective and subjective evaluation	Not observed
	Self-guidance and external evaluation	Not observed
	Formal evaluation more frequently than once a year	Observed; Vietam rather concealed
	Informal evaluation continously	Observed; Vietam rather concealed
	Composition of individual and team evaluation	Not observed
Rewards & Motivation	Financial bonus system: Refer to cultural impact	Observed; Germany not existing; Vietnam existing
	Motivation: Refer to cultural impact	Observerd; Germany intrinsic; Vietnam intrinsic & extrinsic

6. Conclusion

The purpose of this study has been to explore aspects to design a modern PMS for cost centers for companies that operate in several locations with different cultural environments. The following research question was formulated:

How can the PMS for cost centers in a large international company be designed to improve strategy implementation?

The findings show that in the cost centers, there is a lack of coherence regarding the description of the company goals. This could be because the work of these departments does not generate direct revenue but only supporting services and is therefore not as directly connected to the overall strategy and goals. It could also be because the company goals are not defined and communicated clearly enough for the cost centers to implement them in their daily operations or because the strategy and goals are only connected to financial goals, such as increasing shareholder value. However, to increase performance, we recommend to clearly communicate and emphasize the importance of the company goals to all levels of employees and managers of all cost centers, regardless of national location, as the first part of the PMS.

Regarding the second step of the PMS, target setting, the targets of each cost center can be divided into performance targets and learning targets. Both types should be guided by the company's overall strategy and goals. Since financial performance targets are hard to derive from the overall strategy and goals in cost centers, non-financial performance targets connected to timeliness and quality should be preferred. Learning targets are closely related to employee satisfaction.

Additionally, transparency of established targets has positive impacts on the communication and understanding of the targets and team achievements. Also, considering cultural differences, the degree of employee participation in the target-setting process should be maintained at a high level in Germany and should be increased in Vietnam since it is connected to intrinsic motivation. On a broader scale, we recommend international companies to examine in which locations the employees are not very included in the target setting process, see what cultural factors can be the reason, and investigate if a more inclusive approach would be implementable. We believe that

the biggest reason for the different approaches between the countries is the hierarchy level, influencing the nature of decision-making.

Measures guided by targets should be of non-financial nature. In cost centers, possible non-financial measures are time, employee satisfaction, and work quality. Time can be measured in overtime hours. For work quality, setting objective measures is unrealistic and is more harmful than beneficial since it puts pressure on employees. Employee satisfaction could be measured through internal objective surveys and subjective evaluations. Besides, low transparency of measurement outcomes is usually recommended for cost centers since shared outcomes could generate an envied atmosphere. However, the media department is an exception because artists usually like to share their work results with others.

Regarding performance evaluation and feedback, it can be recommended to take advantage of the strength from both subjective and objective evaluation. While the objective evaluation is simple and indicates an input-output relation, it tends to neglect the consideration of all actually intended goals and strategies. Here, the subjective evaluation can help to get the full picture. It fosters employees' self-awareness toward the strategy and goals, even though it can be time-consuming and biased.

As opposed to monitoring, evaluation through self-guidance, such as self-evaluation and peer-reviews, enhance the employee's understanding of the company's expectations and create an atmosphere in which managers and employees learn from each other. Moreover, external evaluation, such as feedback from other departments and customers, increases efficiency and quality of communication with the company.

Evaluation of both individuals and teams is necessary. The former is related to personal promotion and career development, which could influence employee satisfaction, while the latter helps to promote effective communication between organization members and to further achieve better organizational performance. In addition, both formal and informal evaluation and feedback are important. However, formal feedback sessions should be held more frequently than once a year, whereas informal feedback should be given continuously. Culture-specific preferences, for example, the importance of not losing "face," should always be considered when giving

feedback. Additionally, regardless of location, employees should be encouraged to give feedback to their managers.

The last step of a PMS, rewarding, is highly dependent on the current level of motivation among the different geographical locations. Where the motivation seems to be intrinsic, as a result of an interest in the work itself, financial rewards may have negative consequences and should therefore not be implemented if they do not already exist. In locations where motivation is both intrinsic and extrinsic and bonus systems are present, we do not recommend removing them. Instead, especially in cost centers, emphasis should be put on increasing intrinsic motivation through, for example, promoting personal growth, shifting the primary focus from monetary incentives to genuine task enjoyment.

6.1 Theoretical Implications

The existing literature paid less attention to the PMSs of cost centers. Even if some research also deals with cost centers, it is mainly based on an accounting perspective, which can not reflect the future value of the cost center and the company. The thesis aims to overcome the narrow theoretical understanding of the relationship between cost centers and PMSs from previous literature. For this reason, the research is based on the strategic perspective provided by the Twelve Question Framework and the SPMM, extending the perspective from cost and accounting to non-financial and a more holistic and inclusive approach.

Additionally, this research examines the impact of cultural differences on the process of PMSs design, using basic literature of the field on the exploration of cultural factors as indicators. Observing the whole process of a PMS from goal alignment to rewards and motivation in a German and a Vietnamese business location, we found differences in some PMS designing aspects, which help to narrow the research gap.

6.2 Practical Implications

In addition to the theoretical significance, this research also has some contributions to business practice. The research results provide a guide for companies on how to design or improve a PMS for cost centers, which goes beyond barely the cost and accounting perspective. Plus, the guide considers the aspect of cultural differences when it comes to the design of PMSs.

6.3 Limitations and Future Research

The main limitation of this research is reflected in the generalizability of the results. Since the study is conducted within one company, there might be organizational-specific factors behind the interviewees' perceptions of the company or their own contributions. Hence, the results from this study cannot be generalized outside of the context of this specific organization. However, the results can work as indicators of the reality of other similar companies and can hopefully inspire more research in the area. Similar studies as this one, focusing on PMSs for cost centers in international contexts, should be conducted using several different case companies and countries to see if the results could be generalized and thereby have broader applicability.

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Appendix A

<u>Interview Guide - Employees</u>

1. What is your job description and department?

2. What are the company's goals?
    a. How do you get the company goals communicated to you?
    b. How would you like the company goals to be communicated to you?
    c. How important are the company goals for your department?

3. What are your department's goals, tasks, responsibilities, and competencies?
    a. How do you become aware of the department goals, and how often?
    b. How would you like them to be communicated to you? How often?

4. What are your personal goals at your job?
    a. How important are the company goals and department goals to your personal work?
    b. How do you become aware of your own goals?
    c. Who sets your goals?

5. How do you know that you are doing a "good job"?
    a. Do you think your job goals can be put into numbers?
    b. If yes, how would you put your job goals into numbers?
    c. How would it feel if you could set your own goals?
    d. How would you feel about your goals being too ambitious or too low?
    e. Would you like to have goals that were not related to outcome, such as learning goals?
    f. How would you feel if everyone within your team/company could see your goals and results?
    g. How would it influence your work if you could see other people's goals and results?

6. Would it be helpful for you to monitor your own performance?

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7. How do you want your work to be evaluated?

    a. How often?

    b. Would you rather be evaluated as a team or individually?

    c. How would it feel if your work is being assessed based on your manager's opinion/ based on numbers or a mix? What would give you the most security/motivation?

8. How do you get feedback from your work?

    a. How often do you receive feedback?

    b. How can it be improved?

    c. How often do you want to have feedback?

    d. What do you think of peer reviews?

    e. Do you want to give feedback to your manager?

9. What are the best parts of succeeding?

10. How would you like to be rewarded for reaching your goals (financial & non-financial)?

    a. What do you think about group rewards?

11. What motivates you?

Appendix B

<u>**Interview Guide - Managers**</u>

1. What is your job description and department?

2. What are the company's goals?

    a. How do you get the company goals communicated to you?

    b. How would you like the company's goals to be communicated to you?

    c. How do you communicate the goals to your employees?

    d. How are the company goals relevant for your department?

3. What are your department goals, tasks, responsibilities, and competencies?

4. How do you decide the goals for your department?

    a. How do you communicate the department goals to your employees?

5. What are your personal goals at your job?

    a. How important are the company goals to your personal work?

6. How do your employees set/become aware of their goals?

    a. How would you prefer it?

7. How do you know that you are doing a "good job"?

    a. How do you know that your department is successful?

    b. How do you know that your employees are doing a "good job"?

    c. How would you put your job & department goals into numbers?

    d. How would you put your employees' goals into numbers?

8. What do you think would happen if your employees could set their own goals?

    a. Who should set your employees' goals?

    b. How often?

9. Do you think that non-financial information in your department is good enough to measure and evaluate your employees?

      a. What non-financial information could you imagine?

10. How do you feel about your employees' results being presented openly within your team/company?

      a. How would it influence their work if they could see each other's goals and results?

11. Would it be helpful for them to monitor their own performance?

12. How is their work being evaluated?

13. How do you give feedback?

      a. What do you think about giving feedback?

      b. How can it be improved?

      c. How often do you want to give feedback?

      d. Do you think peer-reviews are helpful?

      e. Do you want to have feedback from your employees?

14. What are the best parts of succeeding?

      a. What do you think are your employees' favorite parts of succeeding?

15. How do you reward your employees for reaching their goals? Why?

      a. Do you think it is more valuable to reward individuals or reward teams?

16. What is motivating you?

      a. What do you think motivates your employees?

Appendix C

1. What are your tasks and responsibilities?

2. Why is it important to have the cost centers Accounting, IT, HR, Controlling, and Media in-house instead of buying the services?

3. What are the company goals?

      a. How do you decide the company goals?

      b. How do you communicate the goals to the rest of the company?

      c. How are the department goals linked to the company goals?

4. Are you participating in the goal-setting process for each department? How?

5. How do you know that the company is successful?

6. How do you know that the departments are doing a "good job"?

      a. How would you measure the performance of the cost centers?

7. How is the work of the cost centers being evaluated?

8. How do you reward your employees for reaching their goals? Why?

      a. Do you think it is more valuable to reward individuals or reward teams?

      b. In what way do you think the rewards for managers and employees could be different?

      c. Do you think it is still necessary to give employees extrinsic incentives if they are self-motivated? If so, in what way?

9. What is motivating you at your job?