Chiara Demartini

Performance Management Systems

Design, Diagnosis and Use
Contents

1 Introduction .......................................................... 1
   1.1 The Performance Management Revolution .................. 1
   1.2 The Performance Management Shortcomings ................. 3
   1.3 Contributions of the Present Work .......................... 5
   1.4 Structure of the Book .......................................... 6
   References ........................................................ 7

2 The Evolution of the Concept of ‘Management Control’: Towards a
   Definition of ‘Performance Management System’ ................ 9
   2.1 Towards a Definition of Performance Management System .. 9
   2.2 Different Theoretical Approaches to Organizational Control 10
       2.2.1 Economic Theories of Organizational Control .......... 11
       2.2.2 Sociological Theories of Organizational Control ..... 16
       2.2.3 Psychological Theories of Organizational Control .... 23
       2.2.4 Behavioural Theories of Organizational Control ..... 25
   2.3 From Organizational Control Theories to Management Control
       Approaches ...................................................... 27
   2.4 From Management Control Systems to Performance Management
       System .......................................................... 35
   2.5 The Italian Literature on Management Control ............... 40
       2.5.1 The Forerunners of Management Control in the Italian
              Literature: Besta and His Disciples .................... 40
       2.5.2 Gino Zappa and the Recent Literature on Management
              Accounting ................................................. 42
   2.6 Conclusions on Management Control Revolution .............. 46
   References ........................................................ 46

3 Performance Management System. A Literature Review ........... 55
   3.1 Introduction .................................................... 55
   3.2 Systematic Literature Review of PMS Design ................ 56
3.3 PMS Design and the Influential Theoretical Approaches .......................... 57
  3.3.1 Contingency Theory ......................................................... 57
  3.3.2 Other Theoretical Approaches ........................................... 60
3.4 Non-financial PMS, Critical Review of the Main PMS Frameworks .................. 61
3.5 The Strategy-driven PMS. The Levers of Control (LOC) 
  Management Control Framework .............................................. 65
3.6 PMS as a Package. Critical Review of the Main Frameworks ....................... 70
3.7 PMS Coupling and Innovation ................................................. 76
3.8 The Italian Literature on PMSs and Their Coupling ................................ 78
3.9 Concluding Remarks on the PMS Design Review .................................. 83

References ...................................................................................... 83

4 Innovation and the Performance Management System. 
  Literature Review ........................................................................... 89
  4.1 Introduction ............................................................................... 89
  4.2 Methodology ............................................................................ 91
  4.3 Evolution of Organizational Control: from Management Control 
  to Performance Management ....................................................... 92
  4.4 Taxonomies of Innovation ........................................................ 94
    4.4.1 PMS Studies According to the Type and Nature 
    of Innovation ............................................................................... 97
    4.4.2 Impact of Innovation .......................................................... 102
  4.5 Discussion. The Evolution of the Relationship Between 
  MCS/PMS and Innovation ............................................................ 104
    4.5.1 MCSs/PMSs as Innovation Inhibitors .................................... 105
    4.5.2 Coexistence of MCSs/PMSs and Innovation ......................... 106
    4.5.3 MCSs/PMSs as Innovation Enablers ...................................... 107
  4.6 Concluding Remarks and Future Research Directions ............................ 109

References ...................................................................................... 110

5 The Loose Coupling Performance Management System ............................. 117
  5.1 The Diamond Structure ............................................................ 117
    5.1.1 Value Sharing ...................................................................... 120
    5.1.2 Strategy Formulation .......................................................... 120
    5.1.3 Strategy Implementation ...................................................... 121
    5.1.4 Performance Measurement ................................................ 121
    5.1.5 Incentive and Reward ......................................................... 122
    5.1.6 Strategy Execution .............................................................. 122
  5.2 The Concept of Loose Coupling in Managerial Studies 
  and Other Related Disciplines ...................................................... 122
  5.3 The Couplings Within the Diamond Structure ..................................... 125
    5.3.1 Values Sharing: Strategy Formulation and 
    Implementation Relationship ..................................................... 126
    5.3.2 Values Sharing: Performance Measurement 
    Relationship .............................................................................. 127
5.3.3 Values Sharing: Incentive and Rewarding System Relationship ........................................ 128
5.3.4 Strategic Formulation: Strategic Implementation Relationship ........................................ 128
5.3.5 Strategic Formulation and Implementation: Performance Measurement Relationship ........ 128
5.3.6 Strategic Formulation and Implementation: Incentive and Rewarding System Relationship .... 129
5.3.7 Performance Measurement: Incentive and Rewarding System Relationship ....................... 129
5.3.8 Strategy Formulation and Implementation: Strategy Execution Relationship ..................... 130
5.3.9 Performance Measurement: Strategy Execution Relationship ............................................. 130
5.3.10 Incentive and Rewarding System: Strategy Execution Relationship .................................. 130
References ................................................................................................................................. 131
6 The Values Sharing Mechanism ................................................................................................. 133
  6.1 Definition of Values Sharing and Organizational Values ...................................................... 133
  6.2 Impact of the Organizational Values and the Value Sharing Mechanism ............................ 135
  6.3 The Design of the Value Sharing Mechanism .................................................................... 136
  References ................................................................................................................................. 138
7 The Strategy Formulation Mechanism ...................................................................................... 139
  7.1 Strategy Formulation: Definition ......................................................................................... 139
  7.2 Strategy Formulation Process and Typologies .................................................................... 140
  7.3 Corporate Strategic Change ............................................................................................... 141
  7.4 Recent Trends in Strategy Formulation: Internationalisation and Innovation ...................... 143
  7.5 Recent Trends in Strategy Formulation: CSR ................................................................... 144
  References ................................................................................................................................. 146
8 The Strategy Implementation Mechanism .................................................................................. 151
  8.1 Introduction: Definition and Strategy Implementation Tools .............................................. 151
  8.2 Budgetary Control ............................................................................................................. 152
  8.3 Non-financial Performance Indicators .............................................................................. 155
  8.4 Target Setting ..................................................................................................................... 156
  References ................................................................................................................................. 159
9 The Performance Measurement Mechanism ............................................................................ 163
  9.1 Introduction to Performance Measurement Features ........................................................ 163
  9.2 Strategic Performance Measurement/Balanced Performance Measures ........................... 164
  9.3 Integrated Performance Measurement System Reference Model ..................................... 166
References ................................................................................................................................. 171
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.4</td>
<td>Performance Prism</td>
<td>166</td>
</tr>
<tr>
<td>9.5</td>
<td>SMART Pyramid</td>
<td>169</td>
</tr>
<tr>
<td>9.6</td>
<td>Results and Determinants Matrix</td>
<td>169</td>
</tr>
<tr>
<td>9.7</td>
<td>The Taxonomy of Performance Measurement Frameworks</td>
<td>170</td>
</tr>
<tr>
<td>9.8</td>
<td>The Cost of Performance Measurement</td>
<td>173</td>
</tr>
<tr>
<td></td>
<td>References</td>
<td>174</td>
</tr>
<tr>
<td>10</td>
<td>The Incentive and Rewarding Mechanism</td>
<td>177</td>
</tr>
<tr>
<td>10.1</td>
<td>Incentive and Rewarding: Definition and Purposes</td>
<td>177</td>
</tr>
<tr>
<td>10.2</td>
<td>Psychological and Economic Theories of Incentive and Rewarding Mechanism</td>
<td>178</td>
</tr>
<tr>
<td>10.3</td>
<td>Design of an Effective Incentive and Rewarding Mechanism</td>
<td>179</td>
</tr>
<tr>
<td>10.3.1</td>
<td>Selection of the Performance Measures</td>
<td>179</td>
</tr>
<tr>
<td>10.3.2</td>
<td>Assessment Frequency</td>
<td>182</td>
</tr>
<tr>
<td>10.3.3</td>
<td>Rewarding Model Selection</td>
<td>183</td>
</tr>
<tr>
<td>10.4</td>
<td>The Link with Strategic Objectives</td>
<td>185</td>
</tr>
<tr>
<td>10.5</td>
<td>The Assessment of the Incentive and Rewarding Mechanism</td>
<td>186</td>
</tr>
<tr>
<td>10.6</td>
<td>Dysfunctional Effects of the Use of Biased Incentive and Rewarding Mechanisms</td>
<td>186</td>
</tr>
<tr>
<td></td>
<td>References</td>
<td>187</td>
</tr>
<tr>
<td>11</td>
<td>The Strategy Execution Mechanism</td>
<td>189</td>
</tr>
<tr>
<td>11.1</td>
<td>Definition and Recent Themes in Strategy Execution</td>
<td>189</td>
</tr>
<tr>
<td>11.2</td>
<td>Conceptual Approaches to Strategy Execution Failures</td>
<td>189</td>
</tr>
<tr>
<td>11.3</td>
<td>Frameworks and Tools for Effective Strategy Execution</td>
<td>192</td>
</tr>
<tr>
<td></td>
<td>References</td>
<td>195</td>
</tr>
<tr>
<td>12</td>
<td>Implementation, Use and Diagnosis of the Performance Management System</td>
<td>197</td>
</tr>
<tr>
<td>12.1</td>
<td>Performance Management System and Contextual Variables Fit</td>
<td>197</td>
</tr>
<tr>
<td>12.1.1</td>
<td>External Environmental Variables</td>
<td>198</td>
</tr>
<tr>
<td>12.1.2</td>
<td>Internal Contextual Variables</td>
<td>200</td>
</tr>
<tr>
<td>12.2</td>
<td>Performance Management System Use</td>
<td>203</td>
</tr>
<tr>
<td>12.3</td>
<td>Diagnosis and Review of the PMS</td>
<td>207</td>
</tr>
<tr>
<td>12.4</td>
<td>Events Associated with Hypotheses of PMS Review</td>
<td>209</td>
</tr>
<tr>
<td>12.5</td>
<td>Conclusions and Research Implications</td>
<td>210</td>
</tr>
<tr>
<td></td>
<td>References</td>
<td>212</td>
</tr>
</tbody>
</table>