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Investigation of Non-Financial Measures in a Customer-centric Organization

A Qualitative Case Study of a Consumer Electronics Retailer in Finland

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Abstract

The purpose of this thesis is to explore the use of non-financial performance measures in the context of a Finnish consumer-electronics retailer that has a strong emphasis on customer-centricity in its strategy. The qualitative case study focuses on how non-financial measures are implemented in the target organization while using the Balanced Scorecard (Kaplan & Norton, 1992) as a theoretical reference. Additionally, the study investigates the role of non-financial measurement in the relations between different groups such as financial management and store-level sales management, drawing upon the concepts in a paper by Vaivio (1999) "Examining the Quantified Customer".

It is found that while a non-financial measure such as customer satisfaction is a central part of the oranization's strategy, its role in driving financial performance is not clearly defined. The focus on customer satisfaction in itself without a clear link to financial benefits, indicates a potential area for further development. The lack of critical discussion between financial and sales management suggests that customer-related non-financial measures are possibly not utilized to their full potential. The study serves as a call for further research on the utilization of customer-related performance measures, namely customer satisfaction, in similar contexts.

Keywords Performance measures, Customer, Balanced Scorecard

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1. Introduction

Management accounting plays an important role in creating performance measures that aid managers in implementing strategy and managing organizations. These measures have in the past been mostly focused on financial performance. Since then, a shift has taken place in which financial figures are no longer the foundation for performance measurement but instead, they are treated as a part of a more diverse set of measures (Eccles, 1991). Strategic measurement systems that include both non-financial and financial measures have received a great amount of attention in recent times and the Balanced Scorecard introduced by Kaplan & Norton (1992) is one of the concepts that have been adopted and discussed frequently (Nørreklit, 2000; Speckbacher et al., 2003). Furthermore, managers have increasingly pursued metrics that can be used in assessing the performance of specific areas in the organization that are relevant to their area of management. For example, in sales and marketing settings, this can include the measurement of customer satisfaction. (Chendall & Langfield-Smith, 2007).

The paper begins by providing a theoretical background on performance measures in management, emphasizing the shift in organizations from purely financial metrics to a more diverse range of performance measures, including non-financial ones. The study investigates the ways in which non-financial measures are adopted in Company A, a prominent Consumer electronics retailer operating in Finland, while using the Balanced Scorecard framework introduced by Kaplan & Norton (1992) as theoretical reference. Furthermore, it draws upon Vaivio's (1999) paper "Examining the Quantified Customer" in which the implementation of non-financial, metrics and their effect on dynamics and tensions between different groups in an organization are critically discussed. This study aims to extend the discourse by partly applying these principles within the context of the target organization. The following research questions are used to guide the study:

How are non-financial performance measures utilized in the target organization?

How is the customer measured in the target organization?

What is the role of non-financial measures in relations between different groups within the target organization?

The research methodology includes qualitative data gathered through interviews with financial and store-level sales management at the target organization. The paper concludes with recommendations for the target organization to further clarify the reasoning behind customer satisfaction measures, and encourage critical discussion between financial and store-level sales management about non-financial measurement.

2. Theoretical background

2.1 Performance measures as a tool for management

The balanced scorecard (BSC) – as described by Kaplan & Norton (1992) – is a set of financial and non-financial measures that are designed to guide an organization in management, performance measurement, and implementing strategy. In the Balanced Scorecard (BSC) framework, strategy is segmented into four measurable perspectives: (1) learning and growth, (2) internal processes, (3) customer, and (4) financial. These perspectives are described to exhibit a cause-and-effect relationship, wherein the measures for learning and growth drive those of internal processes. Subsequently, measures of internal processes influence customer perspective measures, which ultimately drive financial measures. The BSC facilitates the alignment of long-term strategic objectives with short-term actions and aims to provide a more

comprehensive view of the organization through the implementation of both financial and non-financial measures (Kaplan & Norton, 1996).
“Despite the best intentions of those at the top, lofty statements about becoming ‘best in class’, ’the number one supplier,’ or an ’empowered organization’ don’t translate easily into operational terms that provide useful guides to action at the local level.” (Kaplan & Norton, 1996, p. 2). In essence, the BSC intends to make strategic objectives clearly defined and comprehensible for employees performing the everyday tasks in the organization.

The BSC has faced criticism after its introduction. For example, Nørreklit (2000) examines the extent to which there are cause-and-effect relationships between the four measurement perspectives. As many factors can affect results of measurements, there can be difficulties in determining if financial results are directly driven by improvements in internal processes or customer satisfaction for example. It is suggested by Nørreklit, that a financial calculus needs to be applied to determine cause-and-effect relationships. “The calculus may show, among other things, which products or customers will be profitable to the firm and which input factors and processes incur the costs related to the corresponding products or services.” (Nørreklit, 2000, p. 82).

Bukh & Malmi (2005) delve into the critical perspectives of authors like Nørreklit (2000) who have raised questions about the cause-and-effect relationship of the different perspectives in the BSC framework. Bukh & Malmi argue that this type of criticism of the BSC is misplaced and propose that, with a different understanding, BSC can indeed be a practical and effective method. Bukh & Malmi suggest alternative ways to implement and understand cause-and-effect in both theoretical and organizational contexts. In discussing the BSC, They also suggest that the concept of cause and effect within the BSC should be seen as a way to identify the most relevant and feasible actions to be taken, rather than as a precise depiction of all the complex relationships between performance measures.

Surveys indicate that the BSC is a popular tool also among Scandinavian companies. Toivanen (2001) reported that in Finland, during the year 2000, 23,2% of the top 500 firms employed BSC, with another 14,8% in the process of implementing it. The study also found, that the BSC mostly helped in understanding the big picture of the business. In Denmark, a 2001 survey by

Nielsen & Sorensen (2004) found a broad awareness of the BSC among manufacturing firms, with 82% of respondents familiar with the framework and 32% actively using it.

A study by Kraus and Lind (2010) focusing on large Swedish multinational corporations, revealed that when these corporations employed a Corporate Balanced Scorecard (CBSC), financial metrics were given primary importance, whereas non-financial measures were deemed less significant. Additionally, the CBSC was found to have minimal influence on corporate control. This was found to be due to the need for simplicity and comparability, and growing capital market pressures.

2.2 The customer as a calculable object

Many contemporary companies focus largely on the customer and how the company is perceived by the customer. To be a leader in bringing value to customers has been a widely used mission statement in recent times and the performance of the company from the customer's perspective has been a subject on which company management has focused on greatly (Kaplan & Norton, 1992). It has been increasingly common among firms to implement performance measurement systems to track customer related metrics such as customer satisfaction. (Said, Hassabelnaby, & Wier, 2003).

It has been suggested that satisfied customers tend to be more loyal, show less sensitivity to price changes, and are and are less likely to switch to a competitor. Furthermore, high satisfaction levels can lead to lower costs in future transactions. Additionally, acquiring new customers becomes less costly, and the firm's overall reputation is likely to improve (Anderson et al, 1994)

Although the benefits of customer focused practices have been highlighted in management accounting literature (e.g. Anderson et al, 1994), the customer-focused approach has also been dicussed critically. Cäker (2007) explores how listening to the customer can be seen as allowing various customer inputs to shape decision-making within an organization, thereby holding the organization accountable to its customers. Cäker points out in the paper that accountability to customers might jeopardize the organization's manageability.

In the past, customer satisfaction and profitability has frequently been described by companies to be the foremost management concern (Foster & Young, 1997). Since the 1990s, many companies have shifted their focus to customer loyalty and retention. However, customer satisfaction remains an important factor in achieving this (Gustafsson & Johnson, 2002; Jones & Sasser, 1995). Loyalty and retention should be defined separately as their difference is significant in practice. Loyalty describes the customers intention or tendency to buy from a business while retention is whether the customer actually keeps returning to buy again. Information about customer retention is valuable as compared to only measuring customer satisfaction or loyalty, as it may help to distinguish drivers of financial performance (Gustafsson & Johnson, 2002, p. 3).

As described by Kaplan & Norton (1992), the customer is mainly concerned about time, quality, performance and service, and cost. This has also been discussed in marketing literature. For example in a framework introduced by Gustafsson & Johnson (2002), customer loyalty and retention is driven by perception of the purchase and consumption experience, which in turn, is driven by quality and production related performance. The latter – in the context of a retail and service-oriented company – meaning the service offer, physical surroundings, and service quality.

As customer loyalty has been a major focus in past and recent years, companies have also developed loyalty programs such as customer clubs in order to increase customer loyalty through providing financial benefits in the form of e.g. more competitive prices. (Shoemaker & Lewis, 1999). There has been discussion about the actual benefits of spending on loyalty-building programs that might not necessarily yield direct financial gain (Reinartz & Kumar 2002).

The claim of causality between measures such as customer satisfaction, loyalty and financial benefits has faced counterarguments. Kaplan and Cooper (1998, p. 191) observed that companies often overlook loyal customers who place small orders, purchase customized products at low prices, and aren't necessarily profitable. It has been suggested that a customer can be profitable at the level of an individual transaction or over a set time period. Unprofitable customers can become profitable when measured over a longer time period. As long as the revenues from the customer exceed the costs needed to acquire or serve the customer, the customer is profitable (Foster & Gupta, 1994).

In addition to measuring the loyalty or retention of customers, customer accounting can be used to gain a more comprehensive view of the financial impact different customers have on the business. There has been discussion about the adoption of customer accounting both in management accounting and marketing literature. In addition to measuring the loyalty or retention of customers, customer accounting can be used to gain a more comprehensive view of the financial impact different customers have on the businesses revenues and profits (Guilding & McManus, 2008).

2.3 Non-financial information and relations within an organization

"The Quantified Customer," has been used as a term by Vaivio (1999) to frame the customer as an entity from which non-financial accounting information can be quantitatively assessed and utilized for management control. In a qualitative research paper by Vaivio (1999) titled “Examining the Quantified Customer”, the introduction of a set of non-financial metrics in a target organization, primarily led by the head of the accounting department, represented a move to a more systematic and calculative approach towards customer satisfaction and service. The implementation of new non-financial measures brought about a restructured organizational order and led to tensions within the organizational structure of the target organization, particularly between financial management and sales management. Resistance from sales management against the new quantitative approach to customer data demonstrates the challenges and conflicts that can arise when introducing new calculative spaces that can disrupt established practices (Vaivio, 1999).

Groups within an organization can have different views about non-financial measures. These different views can be based on local knowledge and the different types of expertise the groups have. Sales management has been observed in one setting to have a more qualitative approach to issues and can stress intricate knowledge and stress their own competence to make flexible ad-hoc action. Sales managers can tend to hold formal analysis of the customer to less value compared to financial management (Vaivio, 1999).

The use of non-financial measurement can bridge the gap between management accounting and other operational segments within an organization. However, these measurements can provoke negative responses as they disrupt established local practices and sometimes propose solutions that may not align with local requirements. This may lead to active discussions and debates, between people considering these metrics from different operational perspectives and experiences. This can also help the organization develop its processes through learning from newly uncovered local knowledge (Vaivio, 2004).

3. Methodology

3.1 Description of the research method

The case study is based on empirical data acquired through two interviews performed in Company A, a Finnish subsidiary of a prominent Scandinavian consumer electronics retailer. Additional data has been collected from publicly accessible documents and statements including annual reports and press releases. The interviews took place in November 2023. They were recorded, translated from Finnish to English, and transcribed afterwards. The interviews were recorded in order to include accurate quotes from the interviewees in the study. In order to avoid bias, the interviewees were assured that answers could be given anonymously.

3.1.1 The interviewees

The first interviewee's title is CFO. This individual was chosen for the interview as the CFO, being a part of the executive team, has a significant role in managing operations and strategy (Kaplan & Norton, 2006). This helps in gaining a comprehensive view of the organization. The

CFO in the target organization is the head of the accounting department and serves as a link to the Scandinavian parent company regarding financial and non-financial reporting.

The second person to be interviewed was a Department Manager (DM) of the "tech"-department which includes phones, personal computers, value added services and mobile subscriptions. The DM is responsible for the achievement of sales goals in the respective department, personnel budgets, and communications within the department. The DM was chosen to be interviewed to gain an insight into the "on-the-ground" operations in the target organization, enabling comparisons between the views of financial management and sales-oriented management.

Each interviewee was provided the topic of the interview in advance, although the exact questions were not provided. The interview was structured in a way that it included main questions that were derived from the research questions. The questions were open-ended and were aimed to allow for free elaboration from the interviewee's part. The interview was guided by providing additional follow-up questions to further specify the answers. Additionally, there were questions that were aimed to provide background for the study. These included questions about the interviewee's professional background, main responsibilities, and current issues within the company. The key topics of the interview questions were: (1) The overall use of non-financial measures in the target company, (2) customer-centric non-financial measures, and (3) the effect of non-financial measurement on relations between different departments in the company.

3.1.2 Research approach

An empirical, qualitative approach was chosen in the case due to specific reasons. An entirely theoretical approach to the issue through management accounting literature could be considered narrow and excessively functionalist in nature. A qualitative approach enables the use of multiple sources of evidence including an interview, public statements, and documents issued by the target company when compared to a quantitative approach for example. The study was chosen to be performed in the context of a single organization. A single case study has the potential to provide a more detailed examination of the target company compared to visiting several case-sites (Vaivio, 2008).

3.1.3 Preparations

Preparations for the case interview included gaining a further insight into the context. This was done by studying information about the respective industry and examining publicly accessible materials issued by the target company. In addition, preparations included gathering information about the employee interviewed such as past positions and time in spent in service of the target company. Lastly, current events related to the company and news articles concerning these events gave context to the topic under investigation.

3.2 Validity and reliability of the method

Conducting a qualitative field study brings along the question of validity and reliability. Validity indicating that the researcher is in fact studying the designated phenomenon, while reliability is concerned whether or not the obtained data can be relied upon. Threats to validity and reliability have been said to include: (1) “observer-caused effects”, (2) “observer bias”, (3) “data access limitations”, and (4) “complexities and limitations of the human mind” (McKinnon, 1988, p. 4). How these possible threats were taken into consideration will be discussed next.

3.2.1 Observer caused effects

Observer caused effects has been described in sociological literature by McCall and Simmons (1969) as being the effect of an observer’s presence on the subject that is being studied. To minimize changes from the natural behavior of the interviewee and bias in the interview resulting from the observer being present, the interviewee was allowed to remain anonymous. Also, before the interview, time was allocated into casual chat around the subject in order to create trust between the interviewer and interviewee. Also, by the interviewees’ request, the company name was left undisclosed. Still, some data has possibly been affected by the presence of the observer, for example in the form of undermining issues within the company that could be considered negative in nature.

3.2.2 Observer bias

Simon and Burnstein (1985), as referred to by McKinnon (1988), have described observer bias as being the effect of the observer's selective interpretation and perception of the phenomenon being studied. The observer has the possibility of affecting this research as the observer has pre-existing experiences with the organization under study and knowledge from various outlets such as the media and word-of-mouth. This was taken into consideration while conducting the study by examining multiple sources of information regarding the organization and others of the same industry. Still, observer bias is not necessarily possible to be eliminated (McKinnon, 1988).

3.2.3 Data access limitations

Due to the fact that only a limited amount of time was spent observing the company, it is not possible to know for certain what events have taken place before or after the observations. Also, there is a possibility that the research took place in an abnormal period in the company and typical procedures and phenomenon were not recorded. Some information may not be available for other reasons such as the withholding of specific details concerning the phenomenon under study (McKinnon, 1988).

3.2.4 The complexities and limitations of the human mind

There exists a possibility that the interviewee may intentionally construct responses that are perceived as most flattering or acceptable. This tendency can significantly influence the perceptions conveyed by the subject, potentially leading to less honest responses about the company and its processes. Furthermore, the interviewee might unintentionally omit certain details about the phenomenon under discussion. For instance, inquiries about aspects not typically within the interviewee's daily responsibilities may not be addressed with the same level of depth as those pertaining to more familiar subjects (McKinnon, 1988).

4. Findings and analysis

Firstly, a brief introduction of the target organization is provided, which is followed by a review of non-financial measures in use within the organization. Subsequently, the way in which the customer is measured in the organization will be explored. Lastly, there will be an evaluation of the effects of non-financial measurement on relations between different departments of the organization. It was found necessary to explore the use of non-financial measures firstly, to provide a base for the study of their effect on relations within the company.

4.1 About Company A

The case study focuses on Company A, a subsidiary of a prominent Scandinavian electronics retailer, which conducts its operations in Finland. The parent company also has similar operations in several other Scandinavian countries that form a group to which Company A belongs. This study treats Company A and the group as one entity as the business does not differ significantly depending on the location. In addition to retail, the company also places significant emphasis on the sale of value-added services and products. These include offerings such as insurance policies and mobile-phone subscriptions, which are integral to its business model.

"Due to intense competition, the profit margin on our products is very low… if an electronics retailer wants to turn a profit, it needs to sell value-added-services as well. I could say that without service sales, no business like this would survive." (Tech Department Manager)

The company serves consumers and businesses both in-store and online.

Company A aims to be viewed as a trusted advisor in the consumer electronics field and has a customer first emphasis. There are numerous mentions of customer-centricity in the company's communications, including its motto and public statements.

"Learning and development are key drivers for our company and are at the very core of our culture… Our key training areas are sales training, customer interactions." (recent annual report issued by parent company)

To build trust in itself as an advisor, Company A seems to rely on learning and growth – through its prominent training program – to likely improve internal processes such as level of service, in order to increase customer satisfaction.

Company A places significant emphasis on customer loyalty and satisfaction as performance indicators. The company has highlighted a strong positive reception from their customer base according to their measurement system for customer satisfaction. According to Company A, a high level of customer satisfaction is crucial in a competitive retail environment, particularly in the consumer electronics sector, where customer preferences and technologies are constantly evolving.

Company A has a substantial group-level customer club with millions of members. According to the company, this loyalty program is central to their growth strategy, as it enables the company to offer tailored offers and services to their customers. The success of this program is – as highlighted in the company's annual report – indicative of the company's ability to build and maintain a strong, loyal customer base.

The company wants to sell comprehensive solutions to customers, not only individual products. Company has put effort into what it calls accessibility, also providing live sales in multiple channels. This could be interpreted as ensuring that the company has a possibility of selling value-added services in purchases made outside of the store as well.

4.2 The use of non-financial measures in Company A

When asked if the company uses a balanced scorecard or any similar tool for management, the CFO explains:

"We have a type of bonus system. We do not specifically have a balanced scorecard. In our system, we have some non-financial measures for example our energy consumption etc., but the performance indicators are mainly measurable [financially]. In addition, our stores have a customer satisfaction measurement system."

As learned from the interview, the company has adopted various KPIs but most of them are financial. The bonus model – which is designed as a control and performance measurement system initially for sales – consists of different components such as the number of products and services sold, and level of customer satisfaction. In addition, to what was learned in the interview with the CFO, the parent company highlights non-financial measures in its annual report that could be considered to be a part of the learning and growth perspective – average completions of training programs per employee.

The bonus model serves as the principal tool for management control and performance evaluation within the organization. Predominantly directed towards salespersons, who often represent the most crucial point of contact with customers, this model appears to align effectively with the company's customer-centric objectives. This interpretation is reinforced by a statement from the CFO:

'We aim to be a trusted advisor, and if a customer is satisfied, we trust that we have been able to serve the customer professionally. I indeed see a clear connection to our strategy.'"

However, it diverges from the principles of a balanced scorecard by predominantly incorporating financial measures. Unlike the balanced scorecard approach, which systematically considers cause-and-effect relationships across various perspectives (Kaplan & Norton, 1992), the non-financial measures that the company uses are, to a certain extent, 'ad-hoc,' implying a more spontaneous or situation-specific application.

4.3 Measuring the customer in company A

"We use a feedback tool, wherein customers exiting the store interact to indicate their experience. Through this system, we systematically gather data on the distribution of positive and negative feedback, enabling the quantification of the average level of customer satisfaction." (Chief Financial Officer)

"We also use customer satisfaction questionnaires, so from those we measure NPS (Net promoter score), but that's not a part of our bonus model." (Chief Financial Officer)

As can be learned from the interview, the company relies on a relatively simple method of measuring customer satisfaction. Collecting customer satisfaction anonymously in stores, after the purchase or service experience. Also, questionnaires are sent to select customers in order to gather a slightly more detailed view of the customers perception of the company, although this information is apparently not a key focus when it comes to performance measurement.

When asked about differentiating customers and diving deeper into the quantification of the customer, the CFO replies:

"When you do measurement with our system, you can't really know for example how much the customer bought, or anything related to the purchase. That type of tracking is missing from us. Overall, though a satisfied customer is almost certain to return, and we mostly aim to commit the customers to our business."

From the answer, it can be understood that measurement of the customer is based on the customer's satisfaction as the main goal. The matter of satisfaction is not dissected further, and the measures are prone to provide mainly binary results: whether the customer is satisfied or not. It's still important to note, that the system allows for a text input from the customer, although only optional.

When asked if the measurement of customer satisfaction should be developed further in order to get a more comprehensive view of the customer, the CFO admits that the matter has not really been discussed. The CFO does mention that a retailer for whom the CFO worked before had implemented more in depth customer measurement systems.

"Still, I know in different jobs we've done more measuring, and we gathered quite accurate data about what type of customer is a satisfied customer and why possibly the customer has not been satisfied. Maybe there should be an average purchase input or something in our system." (Chief Financial Officer)

Although it is acknowledged, that there is a possibility to use various measures to get a deeper understanding of the customer, the company doesn't hold the development of the customer satisfaction measuring as a top priority. The reasoning behind this simple way of measurement does not reveal itself through this interview, despite merely ensuring customers are satisfied.

"I believe that customer satisfaction is important, but the way customer satisfaction is currently measured in our company is still a big question mark. The feedback tool could be tampered with by a child for example, who can press the button ten times in five seconds… Also, not nearly every customer gives feedback… during Black Friday we had around 5500 customers and my guess is that around 200 of them gave feedback…This prevents us from obtaining a realistic picture." (Tech Department Manager)

The Department Manager was asked if the measurement of mere customer satisfaction is enough and if there should be additional information collected from the customer.

"I think if we had additional information, the data would be better. But the most important thing is that the customer is satisfied. It's just a bit challenging because we can't be fully certain of what percentage of our customers are actually satisfied. Usually when a Finn is satisfied, he doesn't give feedback." (Tech Department Manager)

The Department Manager was asked whether he thought it would be important to know whether a satisfied customer was profitable of not. He was given an example in which one profitable customer buys an inexpensive charger and another one buys an expensive set of highly profitable home appliances.

"It would be something that I could definitely monitor. I could control how much effort we put into a customer to ensure profitability for example." (Tech Department Manager)

When asked if the Department Manager has put any thought into why the current customer satisfaction measurement is in its current state, the answer was a simple *"no"*.

The company's customer loyalty program helps the company gain access to an extensive database of its customer base through information on past purchases, contact information and other possible forms identification. This could be viewed as an opportunity to expand the measurement of the customer and use information as a tool to gain a more comprehensive view about the customer (Rust, Lemon, & Zeithaml, 2004).

Since it's a part of the company's strategy to be a trusted advisor, the CFO believes that it is enough to only use customer satisfaction as a customer-centric performance measure, because satisfied customers come back, and they commit to the company. It is pointed out that even though a customer might make a one-time unprofitable purchase, if they are satisfied, they might return to make a profitable one. This claim is supported by the findings of Foster & Gupta (1994).

4.4 Non-financial measures and relations within Company A

When asked if non-financial measures in the company bring the financial management closer to the everyday life in the company – the grassroots level so to speak – the CFO responded:

"In our company, not so much. That's because the regional managers take care of the reporting of non-financial metrics. In our company, the financial management mostly just receives the information gathered by the regional managers. We don't really have any conversations [directly between stores and financial management] in where they could improve locally at the grassroots level. "

It can be inferred that the monitoring of non-financial information pertaining to the company's stores is decentralized, whereby the financial management does not engage directly in discussions about non-financial metrics at specific stores. Instead, regional managers conduct store visits and engage in dialogues with store managers about non-financial measures. As noted by the CFO, these visits occur at least monthly. Fundamentally, the financial management appears to lack direct interaction with the operational aspects of the business, such as sales or customer service.

The Department manager was asked about the content of the meetings between regional managers and store management.

"We look at numbers, but we also discuss basic matters regarding the store and employees… we compare the customer satisfaction numbers between different locations… for example the hit-rate which means how many customers have given feedback compared to the number of visits… We discuss what we have done better, what worse and how we can improve." (Tech Department Manager)

The context in which regional managers convene with operational management, including store managers who are directly involved in sales, bears resemblance to the scenario described by Vaivio (1999). In that instance, meetings regarding non-financial performance measurement transitioned to being conducted among sales managers instead of management responsible for accounting, which led to the meetings being of a more qualitative type. Observations indicate that store managers within Company A maintain close engagement with sales and daily operations, potentially favoring qualitative over quantitative information.

When asked if non-financial performance measurement has created tensions between financial management and sales, the CFO replied:

"Not necessarily in this company, but in my previous jobs, yes. For example, concerning something called 'conversion,' which refers to orders per visiting customer. This includes how a shopping center location performs compared to a 'field store' [a self-standing store]. That has sparked numerous discussions about how these different locations could be aligned on the same standard. Of course, a shopping center location is never the same as a large, individual store."

When interviewing the CFO, it could be interpreted from the responses that no tension has arisen between the sales department and the financial department within the target company. However, the situation mentioned in the quote remains relevant to the company, as similar circumstances may arise between stores in different locations. To further elaborate on the topic, the CFO added:

"For example, when we set goals, we need to discuss these things [store-specific information] because you can't set the same goals for different types of locations. Mostly I have these conversations with the regional manager who then takes it forward to a store manager because the regional managers know the stores much better."

The mention of setting different goals for different types of locations could indicate a focus beyond just numerical targets. It suggests an appreciation for the qualitative aspects of each store's operation, such as store environment, local market conditions or customer demographics. The regional managers' better knowledge of the stores suggests that they are familiar with the qualitative aspects of each store's operation – similar to the store managers, with whom they engage in meetings regarding non-financial measurement.

"If the performance goals would be all set from here, the corporate office, it wouldn't motivate anyone. So at least for myself I see the biggest motivation as having a say in your own goals. That way you can stand by them."(Chief Financial Officer)

The CFO acknowledges that allowing store management to have a say in setting their own goals regarding performance measurement is a significant motivator. By advocating for the involvement of individuals in setting their own performance goals, the CFO is acknowledging the importance of local, on-the-ground knowledge. This approach suggests that those who are directly involved in day-to-day operations possess valuable insights that should be used in goal setting. This process has the potential to assist in the collection new non-financial information from various locations, which may not be visible or considered at the corporate level. Still, the Department Manager's view slightly differs from the one of the CFO.

“The measurement is pretty much done ‘store vs store’ so local differences aren’t really considered… well nowadays the differences between shopping centers and individual stores are acknowledged…shopping centers have more people just looking around… I think it’s better than before, though.” (Tech Department Manager)

Although no tensions between financial management and store management have emerged according to the interviews, some differences between the views of financial management and store management might exist. The different qualities of stores have an effect on customers and the non-financial metrics derived from them. In Company A, metrics such as customer satisfaction drive numbers in the bonus model which plays a significant role in management control within the company. Thus, the subject is worth noting and the Department Manager was asked whether critical discussion or debate regarding performance measurement occurs between financial management and other groups. The department manager replied as follows:

“I don’t think so. I think everyone is on the same page…I have not noticed any regional manager saying that some performance measure or bonus model is bad.”

Everyone “being on the same page” about performance measures despite them failing to address store-specific differences for example, may suggest that critical discussion about the subject is lacking.

5. Discussion and conclusion

The purpose of this study was to investigate the use of non-financial measures in the context of a large consumer electronics retailer operating in Finland. Moreover, the intention was to go into detail about how the customer was measured in the organization. Lastly, the aim was to evaluate the effects that non-financial measurement has on the relations between different groups in the target organization, namely, financial management and store-level sales management.

The extent to which non-financial measures were used in the target organization was found to be limited. The non-financial measures were not implemented through a balanced scorecard and their cause-and-effect relationship with financial gain was not explicitly defined. The most important non-financial measure proved to be customer satisfaction. This measure seemed to be a central part of the organization's strategy as was evident from all of the organization's communications and the statements from the interviewees. It seemed as though customer satisfaction was held to a high value in itself and its connection to financial gain was not made clear. As the CFO stated, the information that the customer was satisfied was enough as it would contribute to the return of customers and make them view the company as a trusted advisor from which to buy services from. Still, not much additional information was attempted to be gathered from the customer and developing customer-related metrics further, wasn't high on the list of priorities for management. Despite this, the shortcomings of the non-financial measurement of customer satisfaction were acknowledged by both interviewees.

The effect of non-financial measurement on relations within the company did not appear to be significant in terms of tensions created between financial management, sales management, store managers or regional managers that were closer to "on-the-ground" operations. Nevertheless, non-financial metrics were discussed within the target organization in a similar way that they were in the theoretical anchor paper "Examining the quantified customer" by Vaivio (1999). Non-financial measures were regularly discussed and assessed among employees closer to sales and operative segments, such as store managers and regional managers instead of the financial or accounting department. Moreover, qualitative information was valued in the discussion concerning improvements in processes. Regarding performance measurement, there were conflicting views between the interviewees about the adequate consideration of different properties of individual stores and the qualitative information linked to them. Despite this, these differences in views were apparently not brought up in discussions between the different groups within the organization. This might suggest that there would be room for more critical discussion about performance measurement within the organization.

6. Limitations, managerial recommendations, and extensions

6.1 Limitations

This thesis is limited to one organization and the findings cannot be directly applied to other contexts. Also, the fact that the target company is a subsidiary of a larger multinational organization, some practices are determined on a group level. This means that the interviewee for example has no ability to affect some of the procedures within the subsidiary. This also gives limitations for available information as some group wide strategic decisions might not concern the subsidiary's management. Limited access to interviewees also set limitations to the accuracy of the study. The experiences and knowledge of employees within the company can differ greatly, this limits the information available and could possibly alter the findings made in the case study.

The thesis uses the paper "Examining the quantified customer" by Vaivio (1999), as theoretical anchoring. Each organization has differences, and findings in the achor paper – a qualitative case study – cannot be fully generalized. Although the target organization can be considered a large operator in its industry, the findings of this study do not allow for generalization among different organizations regarding the implementation and the effects of non-financial measures. This being true, the study functions as a discussion opener and a call for further research around the topic in similar contexts.

6.2 Managerial recommendations

The target organization should further clarify the cause-and-effect relationship of the measures of customer satisfaction and financial benefits. Additionally, the measurement of customer satisfaction could be further developed to provide a more detailed understanding of the customer. The potential utilization of the target company's large customer database and its utilization for the development of customer-related measures could be studied. Furthermore, financial management and sales management should engage in critical discussion in order to develop performance measurement models that provide utility.

6.3 Extensions

As an example, future research focused on the customer perspective of non-financial measurement in a similar context would provide valuable insight. The way in which the customer is measured and reasons behind these methods of measurement in an organization could be explored in greater detail through a qualitative study.

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Appendix

Main interview questions for the Chief Financial Officer

1) What are your core responsibilities?
2) Do you have a Balanced Scorecard or a similar system of non-financial KPIs in use as a management tool?
3) Do you think about the cause-and-effect relationships between you different KPIs?
4) What is included in your measurement system of customer satisfaction?
5) There have been findings that non-financial measurement has created tension between financial management and sales. Have you noticed this?
6) Is the local qualitative knowledge in operations such as sales acknowledged in non-financial measurement?
7) How do you make sure that you measure the right things, and do you regularly evaluate these measures critically?
8) Have you encountered tensions between financial and sales management regarding non-financial measures?
9) There has been discussion about how much an organization benefits from measuring customer satisfaction. Do you differentiate customers or dive deeper than only measuring customer satisfaction?
10) Do you feel like you have been able to connect your non-financial measures to your strategy?

Main interview questions for the Tech Department Manager

1) What are the core challenges you face as a retailer currently?

2) What do you think about you customer satisfaction measurement system and its effect on the company's bonus model?
3) Do you think the method of customer satisfaction measurement is adequate, would you value a more qualitative way of measurement?
4) Do you think only measuring customer satisfaction is enough or should there be more information drawn from the customer?
5) You have regular meetings with financial management. How are non-financial measures discussed in these meetings?
6) Do you think the different properties of stores are considered in performance measurement?
7) Have you encountered any tensions between financial management and sales or store management?