



UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

Central Control in a Decentralized Organization

A case study of Svenska Handelsbanken

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ABSTRACT

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Title: Central Control in a Decentralized Organization

Background and problem: Much research has been conducted on how organizations use management control tools to optimize their business. Traditionally, centralized organizations strive for better control and the central departments are responsible for figuring out the best way of action and inform the sub units about this corporate practice. This thesis focuses on how central departments, in a decentralized organization, manage control when the sub units are empowered and have the mandate to influence the central departments' way of action.

Aim of study: The aim for this explorative thesis is to discover how a decentralized organization manages the product and service process from a central department perspective. The sub unit respondents in this thesis are not representative for any generalized opinions within the case study company.

Methodology: The study was made as a qualitative study and the empirical evidence was gathered through a total of eight unstructured and semi-structured interviews. The semi-structured interviews were recorded and transcripts were made as basis for the empirical evidence and analysis.

Conclusion: The most interesting conclusion is how the case company uses the accounting control system. The control system need to work both as a monitor system for the top level management to keep track of the direction the organization is heading, and as a tool for the empowered employees working out in the organization so that they can engage in self monitoring activities. The employees can in this way easily see how their part of the organization is doing and we have found that such systems encourage the employees to improve their results and it works as self regulatory. This is an interesting use of a traditional diagnostic control system where it is not used as a control tool for management, rather as a monitoring system for the whole organization. It is used in a dynamic way and provides powerful information on how every employee can alter their own way of action to enhance the performance of the whole organization. This can be seen as a reinterpretation of Simons (1994) Diagnostic control system where a sub unit in a decentralized organization can use it to improve their own results without the intention of changing anything in the organization strategy or the way of work.

Suggestions to future research: Further research needs to be conducted to obtain a deeper understanding of how central departments in decentralized organizations manage to balance control with empowered influences within the organization. Which management control tools are used and how do they provide corporate information and simultaneously maintain the decentralization and empowerment in the organization?

Keywords: Centralization, Control, Culture, Decentralization, Handelsbanken, Management, Organization

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1. INTRODUCTION

This chapter starts with an introduction to the problem area and is followed by a problem discussion which results in a research question. In the end of the chapter the aim of the thesis is presented.

1.1 Background

Since the medieval time people have shown interest for organizational charts since they give a good understanding of how the organization works. Furthermore, the chart shows how responsibility is allocated in the organization and is basically a road map over the specific organizational design.

Over the years, organization researchers have designed several different organizational architectures but the one that has been the most frequently used is the centralized structure. This structure has its powers when organizations have a unified product range and employee excellence. The centralized structure is also effective when it is important to meet regulatory demands. (Ostroff 1999)

A decentralized organization has its powers when the organization wants to delegate the decision power to the person closest to the decision. This enables the staff to give the customer a quick, individualized support since they are empowered to take the decisions necessary. (Wallander 2003)

Much research has been made on how sub units and business areas in decentralized organizations are controlled and measured. Less attention has been aimed towards how the consequences of decentralization affect the central departments. When power is shifted further down in the organization it causes tremendous change for all levels involved, especially in traditionally centralized industries. Central departments in decentralized organizations within the banking sector face a difficult task. Their role is to support the organization with products or services which the business areas can benefit from and create value for the organization. Strategic guidance from top management combined with regulatory demands and customer preferences are a complex combination to master. (Wallander 2003)

1.2 Problem Discussion

Central departments in decentralized organizations support the sub units rather than control them. As a support function for the organization it is vital that the central departments have good basis for decisions and work efficiently with solutions and services, that they are “doing the things right”. Furthermore it is important that these managers follow up the feedback from the sub units to ensure that the organization is “doing the right things”. If the corporation lacks follow-up on the output and profitability, for instance on central provided financial products and services, it is likely that the managers at the central level have insufficient basis for rational decision making in harmony with the strategy. In extension, high inner efficiency aligned with a poor strategic effectiveness can undermine the competitiveness for the whole organization (Neely 1995).

In contradiction a competitive advantage is gained if these departments align their work with the customers’ desires, corporate strategy and external regulations to gain good strategic effectiveness, and is “doing the right things”. Furthermore their production efforts must be produced cost efficiently to ensure high inner efficiency and enable profitability, “doing things right”. A problem for central product and service management, in decentralized and customer oriented organizations, is to



balance these parameters and make objective decisions in the best interest of the company without being biased from individual preferences and opinions. The sub units, which work close to the customers, provide the central departments with information about customer preferences. This enhances the possibility for the central departments to “do the right things”. On the other hand there are different demands both from authorities, customers, shareholders and the empowered employees. This results in a tremendous amount of information which make “doing things right” a very complex matter. Therefore it is interesting to explore how central departments in this kind of organizations manage this problem area, since much of the power and authority is delegated to the operational level.

1.3 Main problem

How does central departments, in a decentralized and customer oriented organization, manage the product and service process?

1.4 Aim

The aim for this explorative thesis is to discover how central departments work with central products and services from a central perspective. We have interviewed product owners, business area specialists who develop the products and services, in Svenska Handelsbanken (SHB). As a complement to the product owner opinions we have interviewed two branch managers, operational bank office managers, to obtain a broader understanding of how the product owners affect the environment for sub units in the organization. Finally two respondents from the corporate top level management have been interviewed to further investigate additional strategic and organizational aspects. The ambition with conducting interviews with different levels in the organization is to gather the different perceptions to a more nuanced picture of how the phenomenon affects the organization.



2. METHODOLOGY

This chapter explains how the research has been conducted, what considerations have been made during the collection of data and furthermore how the interpretation and analysis of the information have been conducted.

2.1 Research Approach

When conducting scientific research there are basically two different approaches to choose from: deductive reasoning and inductive reasoning. In the deductive reasoning the researcher makes estimations about the strength of some specific theories through developing hypotheses and further tests these hypotheses. (Halvorsen 1992) The deductive reasoning aims to construct deductive arguments which attempts to show that the conclusion necessarily must follow from the reasons given. These tested reasons are said to have led to the conclusion and therefore can be presented as proof. The relationship between the reasons and conclusions in the inductive reasoning are not as strong as in the deductive reasoning.

When using the inductive reasoning the purpose is to present believable conclusions from theories and empirical evidence, while there still can be other plausible explanations. (Blumberg, Cooper & Schindler 2008)

The inductive approach has been used throughout this thesis since the results found cannot be seen as the only truth; there can also be other explanations to the problem. The aim of the thesis is to discover how central departments in a decentralized organization manage the product process and the results may differ if other respondents were chosen. Furthermore, even the opinions from the respondents in this thesis may change over time. The empirical evidence found in the qualitative case study, in combination with different theories, is used to present believable explanations to the problem. Furthermore, given the aim for this thesis it is hard to present the research question as a hypothesis which can be proven true or false. The essence when conducting an inductive case study is to research an organization which struggles with a specific problem area and also evaluate how they are coping with it, based on a holistic view of the key processes. Further the experiences from the research are systemized in order to obtain a basic understanding of the phenomenon in the specific case.

2.2 Case Study

A case study can be described as an investigation and analysis of a specific phenomenon and is suitable when the purpose is to examine present or contemporary processes. (Merriam 1994) Furthermore, the case study is a suitable tool when conducting a research paper with an inductive approach since it enables the possibility to get insights into an organization which struggles with the studied problem area. Further is the power of case studies to be found in its ability to manage a wide range of empirical material such as documents, observations and interviews. (Merriam 1994)

There are two different approaches to choose from when conducting a case study, the intrinsic and the instrumental approach. The intrinsic case approach is to be used when you want to get insights into a specific and unique case. In contrast the instrumental case study is best used when the aim is to get a general understanding about a wide problem area. (Stake 1995)



The instrumental case study is the most suitable tool for this paper since it aims at creating a basic understanding of the studied problem area in the specific case. This is coherent with the aim of inductive research method which is chosen for this thesis. Furthermore, the instrumental case study is the most suitable approach since it can be used to gather different experiences in the organization. A broadened understanding of the studied phenomenon is obtained through systemizing the experiences. This systematization is explained in the end of section 2.5, "How to make a trustworthy study".

2.3 Data Collection Methods

2.3.1 Qualitative or quantitative method?

Quantitative data, which can be measured and expressed in figures and numbers or other terms of measurement, is also known as hard data. (Grønmo 1982, Eneroth 1984) When using a quantitative method the focus of analysis is on the relation between different variables which results in a statistical value instead of investigating certain qualities that the research object possess. (Trost 1997)

The quantitative data is used in less content in this thesis. Exhibit 1 and Exhibit 2 is representative for this data collection method.

This thesis has an exploratory approach with ambition to gain a broader understanding of how central departments in a decentralized organization manage the product process. Gathering data with a mainly qualitative method enables a richer and more relevant analysis and a broader understanding of the problem in comparison to a quantitative method. Therefore this research has been conducted with a mainly qualitative method.

The qualitative method is also suitable when working with an inductive research approach since it can be used to obtain general insights into one organization that is coping with a specific problem area this. Further, the qualitative method is suitable when using an instrumental case study since both are aiming at getting a broad understanding of the phenomenon in the specific case.

It is crucial to carefully consider the purpose of the study as well as the research question when choosing between the qualitative and the quantitative method (Trost 1997). Halvorsen (1992) also argues that the research question is essential for choice of method. Even if there is an overlap between the information gathered from each method the general rule is that different aspects of the reality is revealed when different methods is applied. Trost (1997) identifies three stages in the research process regardless if the study is quantitative or qualitative. Data collection is the first stage, which is followed by an analysis of the collected data and finally an interpretation. In chapter four, Empirical Evidence, the findings from the qualitative interviews are presented and the analysis is conducted in chapter five, Analysis. Finally in chapter six, Conclusions, the interpretation of the result are presented.

Trost (2007) emphasizes that a mixture of both qualitative and quantitative methods is used during the research process. Patel and Davidson (2003) further describe pure quantitative and qualitative method as two ends on a continuum and states that research often is somewhere in between these extremes depending on how much statistical or verbal methods of analysis that are used.

In accordance with the reasoning above this thesis is primary on the qualitative end of the continuum.



Qualitative data represent immeasurable qualities, for instance, specific features of the research objects, also known as soft data (Grønmo 1982, Eneroth 1984). The characteristics when using a qualitative method are that simple and direct questions are asked which gives rich and complex answers containing interesting events, opinions and patterns. The research objects are analyzed as categories instead of variables. Gender is traditionally seen as one variable but in qualitative data collection method it refers to two categories: males and females. For instance “young men” are one category which is combination of the categories, males and age. (Trost 1997) According to Halvorsen (1992) it is preferable to use the qualitative method when there are no clearly defined hypotheses that can be tested. Trost (1997) argue further that a qualitative approach is suitable when the aim of the research question is to understand or find patterns in one specific case.

Since this thesis have an explorative and inductive approach and aims to discover a complex problem area the qualitative approach is very useful. The collection of qualitative data enables the authors to obtain the respondents’ different views and aspects on the same problem area. The qualitative data collection process furthermore leaves room for the respondents to develop and explain their personal thoughts and opinions about the phenomenon. When the data is systemized it can be analyzed and an analysis results in a gathered conclusion with contributions from all the respondents.

2.3.2 Primary and secondary data

A study may consist of two kinds if data: primary data and secondary data. Primary data is data gathered for the first time personally by the researcher. Secondary data consists of already existing data and is per definition everything which is not primary data. (Patel & Davison 2003)

This thesis contains both primary and secondary data. The primary data is collected through qualitative interviews with employees at the case company and the secondary data is collected through literature search among research articles and books within the research area. In this thesis the secondary data is presented to explain the setting in which the company operates in and additional information about culture and management approach which is intended to give the reader a broadened understanding of the specific case setting. Much research has been conducted about the management control of Handelsbanken. Jan Wallander, former CEO of Handelsbanken, has written several books which explain his management theories including decentralization and his reasoning about beyond budgeting. The book “Decentralization - Why and How to make it work”, has been used as a secondary data source in this thesis. The primary data, which has been collected in the qualitative interviews, is the primary source of information for the empirical research and therefore also the primary base for the following analysis and conclusions in chapter five and six.

2.3.3 Interviews

In this thesis qualitative interviews have been conducted since the research aim is to get an understanding of people’s behaviors and how they perceive different variables. Qualitative interviews do not have answers that can be phrased in advance or perceived as the truth. This type of interview fits with an inductive approach since the aim is to present a believable conclusion from the empirical evidence while other explanations also can be true. In order to create a successful qualitative interview the interviewer should help the respondent to build up a meaningful and cohesive reasoning around the studied phenomenon. (Patel & Davidson 2003) This has been taken under consideration during the research and each interview has been initiated with a background explanation and dialogue with the respondent about the problem area.



According to Blumberg, Cooper and Schindler (2008) there are three forms of interviews in a qualitative research: structured, semi-structured and unstructured. Structuring is basically about how much freedom the respondent is given to respond. A structured interview is based on a very detailed interview guide and the interviewer has a strict control over the interview. Semi-structured interviews starts with rather specific questions but allow the interviewer to make changes as the interview goes on which enables the respondents to develop his or her ideas. The unstructured interviews often start with the respondent's story and do not have any precise topics or questions that necessarily must be covered. (Blumberg, Cooper & Schindler 2008)

In this thesis the semi-structured and unstructured interview methods have been used to give the respondents more freedom in their answers. In accordance with the inductive approach this freedom reveals different aspects, opinions and views of the same phenomenon. The freedom given to the respondent in the interviews makes it possible to explore a greater picture and to find structures in the studied problem area. These structures are later used to create the general understanding of the phenomenon in the specific case which the inductive approach is aiming at.

The semi-structured and the unstructured interview forms are used in different stages in the thesis process. The unstructured interviews have been used in the first phase of the process in order to increase the knowledge base of the problem area for the authors. This basic information was useful to further specify the questions for the next interviews. In the next phase the semi-structured interviews were conducted to discover the issues relevant to the situation. Through using the semi-structured interviews the respondents were able to develop the discussion and their own thoughts. Furthermore it gave the interviews a formalized frame which made it possible for the authors to compare the results, analyze it and to make conclusions without constraining the respondents in their answers.

2.3.4 Selection procedure

Banks are traditionally very centralized organizations with tight control and have a central department responsible for practically all decision making. Handelsbanken differ from most other banks since they have an established decentralized organization. To obtain a greater understanding of how the product process affects the whole organization the respondents were selected from three different organizational levels: Central departments, Central Business Areas and Branch offices. A more detailed presentation is found in later on in this chapter and also in the Handelsbanken Case setting, chapter four. Through interviewing three different levels within the organization enables a deeper analysis of the problem.

Unstructured interviews have been conducted in the start up phase of the thesis with Central department. The senior vice president and the chief financial officer at Handelsbanken headquarters provided information about the product process, the decentralized organization and how responsibilities were allocated. Thereafter semi-structured interviews were conducted with two product owners, from the central business area level, and two branch managers. Finally semi-structured interviews were conducted with the senior vice president and the chief financial officer in the end of the interview phase. The product owner and branch manager perspective is primary used in the empirical evidence, analysis and conclusions since these respondent groups are involved operationally in a greater extent. The opinions and reflections from the Central departments are used to complement the product owner and branch manager perspectives.

A total of eight interviews with six respondents have been conducted for this thesis. The sample size of respondents is not significant to draw any general conclusions. The aim is to understand the



phenomenon in this specific case. The initial intention with interviewing respondents from several levels in the organization was to obtain different perspectives and further analyze each level. The empirical data from the interviews however show a great congruence regardless of which level the respondent presented. Therefore the empirical evidence and the analysis are presented in sections where the perspective from all respondents is presented to include vital opinions without a large extent of repeated perspectives.

We are aware that the respondents' answers might not give us a complete picture of the situation in the bank since the opinions can differ between different respondents. We are also aware of the fact that the branch managers we have interviewed both are managing relatively big offices, which also function as pilot branches during implementation of products. The result might be significantly different if branch managers of smaller offices had been interviewed.

In the following sections definitions of the terms product owner and branch manager will be presented and thereafter a short presentation follows of the respondents of these groups. Finally, a short description of the two respondents from the top level management will be made. This presentation will not be as detailed as compared to the other groups since their answers are used to support the branch manager and product owner perspectives.

Product Owner definition

Handelsbanken offers a broad range of products and services in order to be able to meet all the different needs of the customers. A specialist within each area is responsible for the development of these products and services, these specialists are called product owners. The product owners are responsible for the functionality, packaging and the economy of the product as well as being responsible of designing and the sales support that must accompany the product or service. Each product owner launches and promotes its own products while the branches are responsible of providing the customer with an offer that is tailored to the specific customer's needs. Two of the respondents in the empirical research are product owners and are in the text referred to as product owner one, (PO1) and product owner two, (PO2). The respondents' background, experience and current context is vital information in order to be able to interpret the information given during the interviews.

Product Owner Respondent Presentation

Product Owner 1 (PO1)

Product owner one, PO1, is a 45-year-old male who has been employed by Handelsbanken for 25 years, since 1986. He started as a co-worker at a branch office in the north of Sweden and moved on to a credit department at a regional office. Later, he became branch manager and has been the manager for five different branches. He then moved to Hong Kong to work as the general manager and then as a country manager. He now works in Stockholm as the manager for the cash management department which develops payment services for businesses. The department's role is to make sure that the branches have good and competitive products to offer their customers

Product owner 2 (PO2)

The second interviewed product owner, PO2, is a 55-year-old male who has been employed by Handelsbanken in total of 14 years with a break of 6 years when he was working at different insurance companies. PO2 has worked as a branch manager and as the head of research and development for the bank card department. Further, he has been the administrative manager at



Handelsbanken Liv and SPP and worked as an internal manager before he took on his current job as the manager for the regional banks' mortgage department.

Branch Manager Definition

Handelsbanken has 461 local bank offices, commonly called branch offices or branches, in Sweden. Each and every one of these branch offices has a manager who has total responsibility for his or her branch. This responsibility concerns a wide spread of matters, from financial results to individual development for the employees and opening hours and so on. Two of the respondents in the empirical research are branch managers and are in the text referred to as branch manager one, (BM1) and branch manager two, (BM2).

Branch Manager Respondent Presentation

Branch Manager 1 (BM1)

The first branch manager respondent, BM1, is male in his early 50s who has been a Handelsbanken employee since 1982. He started his career as a cashier during summer vacation periods and after his economic degree he applied for a full time job. Today BM1 is branch manager for a big Handelsbanken branch office in the west of Sweden. Previous to his present position, BM1 has been manager for several different branch offices and also area manager in a region bank with responsibility for several branches. Furthermore BM1 has worked as a private, business and investment advisor. In addition to his Swedish assignments BM1 has also worked as an expatriate in England.

Branch Manager 2 (BM2)

The second branch manager, BM2, is a 55-year-old male and he has worked within Handelsbanken for 33 years. Before his present position he was a part of the central management team in the bank and dealt with strategic decisions and customer contact for eight years in Stockholm. During his time in Stockholm he was part of several teams and was involved with different product related projects. Furthermore BM2 has been area manager for a large amount of branches in Sweden. Prior to the central management and the position as area manager he has worked as a branch manager in different branches for 15 years. Today BM2 is branch manager for a large bank office in the west of Sweden. Through his experience in the bank BM2 has insight in both how central departments and local branches work and are affected in different situations.

Top level management

To enhance the understanding for branch manager and the product owner perspective we have interviewed two respondents from the top level management in Handelsbanken. The first one is CFO for the central departments and administrative functions and the second respondent is Senior Vice President also at the central level. Both of these respondents have a long career within Handelsbanken and have a strategic organizational view and contribute with a holistic perspective.

2.4 Criticism of the sources

When conducting scientific studies it is vital to objectively and critically judge the credibility of the sources and to evaluate if they are trustworthy. Furthermore, it is very important to consider to what extent the sources are unbiased or not since it can affect the analysis. (Patel & Davidson 2003)



To obtain the most objective picture as possible in this thesis, the authors have conducted interviews with respondents from three different levels in the organization. Primary sources have been preferred and secondary sources used explain general information about the organization for the reader. During the interviews, as well as during the analysis of the material, the authors have kept in mind that all the respondents' work within the same organization which might affect their objectivity. Furthermore other employees within the same organization might have different opinions compared to the selected respondents in this thesis and the result could vary if other respondents were selected.

2.5 How to make a trustworthy study

Reliability and validity have different meaning in qualitative and quantitative studies. Validity in quantitative research refers to a phenomenon which can be supported by theory, instruments, and precision in the measurement. The validity depends on how strong these parts fit together. In qualitative studies the validity refers to the whole research process. The collected data from interviews are processed to a transcript which excludes body language, mimic, irony and tone of voice. In this process it is essential for the validity that the researcher handle the information with care and do not "correct" unfinished sentences, skip pauses or influence the transcription with own opinions. Having these aspects in mind through the process enables a more accurate analysis of the phenomenon that is studied. (Patel & Davidson 2003)

To ensure the validity of the interviews it is important that the selections of respondents have relevant experience and are suitable as interview subjects and able to answer the questions (Blumberg Cooper & Schindler 2008). It is hard to argue reliability in qualitative studies since constancy in interview answers are expected to differ over time and that change is interesting to monitor (Trost 1997). Patel and Davidson (2003) argue that the interviewed person can change opinion, gain new knowledge, experience or even gain new insight after the interview itself. This does not necessarily mean low reliability. It is crucial to consider the unique situation when the interview takes place and reflect on the reliability. With these aspects in mind the reliability in qualitative studies is closely associated with validity with a broadened meaning where authenticity and understanding are given more space than reliability.

The broadened validity is considered through the whole research process. In the data collection validity is linked to how well the researcher succeeds to gather information which enables a trustworthy interpretation of the research objects' context. In the analysis section the validity is characterized by a good inner logic where different parts can be related to a meaningful entirety. The result should be presented in a way so that the readers of the report can form an opinion about all choices the researchers made during the process of writing. This is consistent through the whole research process and includes explanation of the research problem, researchers' prejudice, theoretical references, selection of interview objects, in which context and situation the paper is conducted, how information is gathered, transcription method, how the analysis was conducted and the result presented. If all of these aspects are kept in mind throughout the qualitative research process the validity is strengthened. (Patel & Davidson 2003)

To ensure the authenticity and especially validity of this thesis the authors have embraced these guidelines throughout the research process. An interview guide has been used to ensure that the respondents, from each organizational level, have been asked the same questions in the same way to enable a more relevant analysis from the collected information. The interview guides were



thoroughly developed and reviewed by our tutor. During the interviews the respondents have been given time to answer each question and we had made an effort not to intervene or influence the answers. Furthermore, the conversations have been recorded so that as much information as possible could be obtained. Each interview was immediately followed by a transcription. During the transcription of the recorded interviews notes have been made also concerning matters like expressions, pauses, body language and irony to avoid false conclusions later on. Corrective efforts have been avoided in order to keep the spoken language as intact as possible and to prevent a biased interpretation of the information. The researchers have also briefly explained the context and situation that the respondent operates in.

2.6 Ethics

Issues concerning reliability and validity are vital in all scientific studies but it is also fundamental that the research is conducted in an ethical way. In a qualitative case study the two most critical moments where ethical issues have to be taken into consideration is during the phase of data collection and when the results are to be published. (Merriam 1994) According to Walker (1980) the researchers should make sure not to be all too engaged in the studied situation and to be aware of the reader's inability to differ the primary data and the authors' interpretation of it. Further, it is of great importance to respect the case study company and the respondents' requests of anonymity and also not to publish confidential material (Merriam 1994).

Since we have had the opportunity to get insight in to Handelsbanken we have during the collection of data been very careful not to reveal any information that the respondents not have approved of. To ensure this we have given the respondents the possibility to review the text in order to ensure we that have not misinterpreted them. The respondents have not requested to be anonyms but we have decided that the thesis would not improve if we reveal their names, and these are therefore excluded. During the process of writing this thesis we have made efforts to clarify when the reasoning is the respondents or our own in order to make it easier for the reader.

3. FRAME OF REFERENCE

In this chapter we present the frame of reference which will be used to analyze the empiric evidence. Initially each theory is presented and thereafter we briefly explain in which context the theory is given in this thesis.

3.1 Value Creation Model

The Value Creation Model (VCM) consists of Value Adding Core of Activities, Business Value Added, Waste and Profit where the profit frontier is determined by the price barrier (McNair and Polutnik, 2001). The authors emphasize that the company must understand the linkage between the firms costs and the customer value to reach the profit potential. This means that managers need to comprehend what customers are willing to pay for, which price the market accepts and put this in relation to the cost for producing the product or service. The model consists of four circles. The inner circle represents the cost for “Value-Added Core of Activities” which contains desired attributes that creates value for the customer. The size of the circle shows how cost efficiently the company can provide this value and at which cost the value added activities are produced. The next circle represents the cost for current and future “Business Value Added” (BVA). This is seen as hygiene factors that the business depends on. The waste circle illustrates costs which do not contribute value to the business or the customer and therefore is considered as pure waste. The price barrier constructs the outermost circle in the model and is set by the market. It represents the price which the customers are willing to pay. (McNair and Polutnik, 2001)

In this paper the general reasoning in the model about cost and value will be used. This is to figure out if, how and in what extent, different parts in the organization identify cost as waste, BVA or value creating. The model also has a revenue multiplier which is explained below the picture but not further used in this thesis.

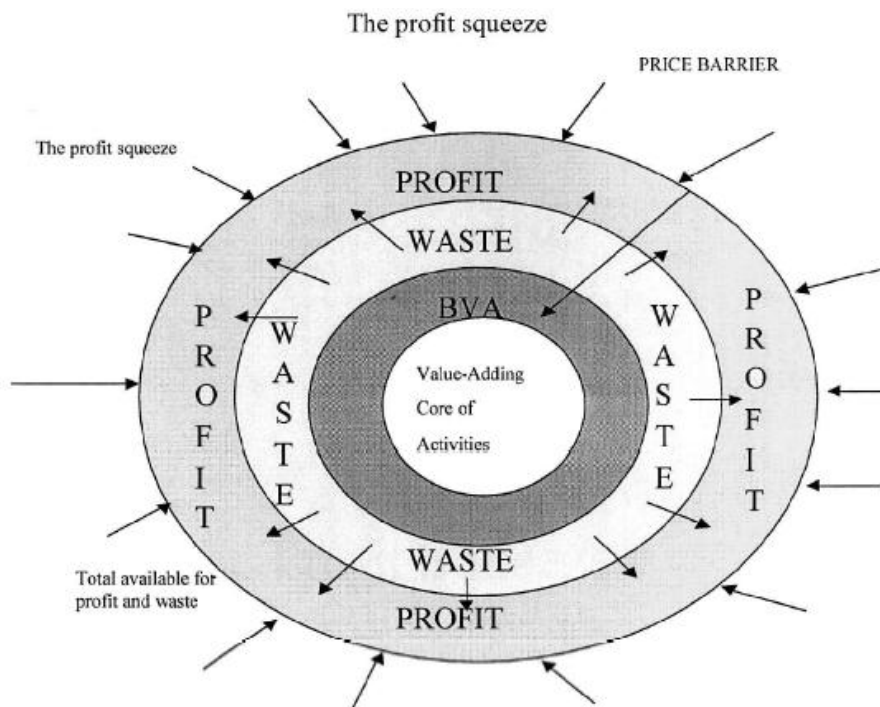


Figure 1. The Value Creation Model, The European Accounting Review page 38



The model uses a revenue multiplier (revenues/value added cost) for locating how much each euro spent on value adding activities generates in revenue. If the revenue for a service or product is 100€ and the value added cost is 25€ the revenue multiplier is 4. In the example each euro spent on the value added activity generates four euro in return. This multiplier will not be used in this paper. The primary use of the model in this thesis is the reasoning about how different parts of the organization identify costs as Value Adding or Waste. (McNair, C, Polutnik, L, & Silvi, R 2001)

To find out a company's profit potential the value added cost is subtracted from the revenues. This is the theoretical profit the company could earn if no None Value Added costs (NVA) or waste existed. The company must acquire information from the market to find out which attributes the customers' desire. In the model it is made through surveys where the customer weights different parameters such as technical reliability and customer assistance. When analyzing the result and comparing it to the answers received during the conducted interviews with company management it shows how well the strategy is aligned with the customer preferences. It is also important to consider the customer satisfaction in each parameter. For instance if the multiplier for customer service is high and the clients are pleased with the quality in the service it indicates that the good standard in the service can be a competitive advantage. A high multiplier could also indicate that insufficient funds are located to an activity which is desired by the customer and could gain the profitability in the business. Further it is important that management consider the strategic value in NVA activities. Research and development will for instance fall into that category and cutbacks will gain profitability in the short term but could contribute with superior value in the future. It is a limitation in the model that needs to be considered carefully. (McNair, C, Polutnik, L, & Silvi, R 2001)

What is waste and what is value for the organization? In this thesis the model is used as a tool to help explain how costs relate to different categories depending on how the organization handle or perceive them. Central product departments for instance are part of the over head cost and their work contribute to the BVA and Value Added Core of activities if their work is aligned with attributes desired by the customer. All other costs are waste and do not contribute to the business profitability. The VCM illustrates in a simple way how effectiveness and efficiency can reduce waste and gain profitability to an organization through listening to the customer and allocating resources according to their preferences. Product owners are organizational specialists within their area of expertise and the local branches have close connection to the customers. When researching the interaction between these competences the VCM forms an illustrative platform to the argumentation that communication and feedback within the organization is vital to ensure goal congruence and profitability. How do product owners and branch managers' reason about customer satisfaction and costs? Since the product price is set by the market the costs associated with creation of the product and which qualities it should contain is a compromise between function and cost. The VCM is used to connect how business supporting departments interact with customer preferences through using the knowledge within the organization. The model is also used in a minor extent to visualize different patterns and disparities in how opinions regarding value and cost differ or correlates between the respondents.

3.2 The Control Function of Management

According to Merchant (1982) the control function of management is a critical factor of organizational success and it is the management's task to ensure that the desired plans and strategies are carried out in the right way. Merchant (1982) further argues that a key part of all control functions is to make sure that people in the organization do what they are supposed to since not all



actions made by employees are made with the organizations best interests in focus. Personal limitations and lack of goal congruence can be seen as explanations to why employees not always act in the organizations' best interest. A personal limitation is for example that the person does not know what is expected of them or how to achieve the goal since they lack sufficient training or information. Lack of goal congruence occurs when the employee's individual goals are different from the organizational goals. Organizations must control the performance in order to prevent the undesirable behaviours that origins from personal limitations or lack of motivation. (Merchant 1982)

Merchant (1982) argues further that one cannot achieve perfect control, meaning complete assurance that actual accomplishment will proceed according to plan, because of the likely occurrence of unanticipated events but organizations should be able to achieve good control, meaning that one can be realistically certain that no important deviation from the plan will occur. Good control can be achieved through avoidance of the problems or by implementing specific controls to protect against them. The avoidance of problems can be achieved through automation, centralization or by risks sharing. In some cases there is no possibility to avoid the problems and the organization must instead implement controls which can be classified into three categories: specific action control, results control and personnel control. (Merchant 1982) A fourth category of control is according to Merchant (2007) cultural control.

The specific action control focuses on eliminating the opportunity that the individuals can perform undesirable activities by implementing behavioural constraints such as locks and segregation of duties. Another type of action control is action accountability where the employees are held accountable for their actions. This is done by clearly defining the limits of what is acceptable, tracking the behaviour the employees actually are engaging in and finally rewarding or punishing deviations from the limits. (Merchant 1982) This reasoning is supported by Simons (1995) in the theory of Levers of Control and the boundary systems which delineate the acceptable area of activity and establish clear limits of behaviour. Both these theories are only effective when employees are well-aware of what is expected of them and are certain that the organization will recognize their behaviour. The third form of specific action control is pre-action review that supervises the work of others before it is fully completed in order to correct potentially damaging acts (Merchant 1982).

The organization can also choose to implement a results control that holds the employees accountable for certain results. In order to get this control system effective all the dimensions where results are desired must be defined such as quality, service and efficiency. Further performance must be measured on these dimensions and the organization should provide rewards for the behaviours that lead to these specific results. Just as the specific action controls the result controls are future oriented since they focus on motivate people to behave in a certain way. (Merchant 1982)

The third form of control an organization can implement is personnel control which builds on the beliefs that employees can control and motivate themselves. The personnel controls help to ensure that the employees understands what the organization wants and that they have all the resources and capabilities needed to achieve that. In addition, some of the personnel controls increase the chance that the employee actually will engage in self-monitoring which is the force that pushes most employees to want to do a good job and to be committed to the organization's goals. The fourth type of control, cultural control, is designed to support mutual supervising through putting pressure on individuals who deviate from norms and values. As Merchant (2007) explains:

"Cultures are built on shared traditions, norms beliefs, values, ideologies, attitudes and ways of behaving. Organizational cultures remain relatively fixed over time, even while goals and strategies



necessarily adapt to changing business conditions. Codes of conduct and group rewards are among the most important methods of shaping culture”.

Personnel and cultural controls are sometimes referred to as soft controls and have gained a greater importance in recent years since many organizations have changed their structure and become more horizontal the employees has become more empowered. (Merchant 2007)

No organization can achieve perfect control and this is especially true for the decentralized organization where the power lies in the hands of the employees. In order to examine how the central department in a decentralized organization manage the product and service process the theory of Merchant (2007) is used to gain an understanding of which types of controls the organization use to reach the best performance and to ensure that the strategies are carried out in a desirable way.

We have also used the theory to see how a manager in a decentralized organization can influence other parts of the organization without being able to demand a specific result in a specific time.

3.3 Four Levers of Control

Every organization is created with a purpose in focus and to get every employee in the organization to dedicate their work to fulfil this, management must show commitment to a clear set of core values. These core values can give the employees direction in situations where rules and standard operating procedures alone cannot. This direction is important since empowered employees every day must make decisions that balance between different goals such as short-term and long term profit and self-interest versus the organizational interest. (Simons 2000)

The first lever of control is belief systems which are the explicit set of organizational definitions that senior managers communicate formally and reinforce systematically to provide basic values, purpose, and direction for the organization. This belief system can be seen as guidelines for the employees through actively communicating the core values and purpose for employees to believe in. (Simons 1995) The belief system can be viewed as strategy as perspective where the organization choose a way of perceiving the world (Mintzberg 1987).

The second lever of control described by Simons (1995) is boundary systems which define the accepted limits of activity for all the members of the organization. These limits are based on the business risks that are to be avoided. Belief and boundary systems depend on each other where belief systems motivate the employees to seek new opportunities and the boundary system sets the limits on how far the employees can go in that seeking, the two systems therefore sets the strategic domain for the organization. (Simons 1995) Boundary systems aim to set the frame which can be described as strategy as position (Mintzberg 1987).

The third lever of control is diagnostic control systems which can be described as a feedback system that exist in all the traditional management control systems and are designed to ensure specific goal achievement. Diagnostic control systems are implemented in order to give the management the possibility to monitor the organizational outcomes and thereafter correct deviations from the predetermined profit plans and performance goals. (Simons 1994) Diagnostic control systems relate to strategy as a plan (Mintzberg 1987).

The forth lever of control described by Simons (1994) is interactive control systems where managers actively involve themselves in the decisions activities of co-workers. An interactive control system is not a specific type of control system and many types of systems can be used interactively by



managers. While diagnostic control systems constrain innovation in order to ensure the achievement of preset goals needed to fulfil the intended strategies, the interactive control systems expand and guide the innovation that might result in emergence of new strategies (Simons 2000) The interactive control systems help to guide bottom-up emergence of ideas and strategies and to encourage employees to seize unexpected opportunities (Simons 1994). The interactive control system relate to strategy as pattern of action (Mintzberg 1987).

The four levers of control work together but are used in different ways, each give some guidance or control to the strategy process (Simons 1994).

In a decentralized organization where the employees are empowered to make most of the decisions it is important for the organization to ensure that the business strategy is actively reinforced. Since this thesis is examining how the central departments in a decentralized organization manage the product process we are using Simon's theory, to see how they are managing the problems that could arise in such organization. The theory is further used to understand how the core values are communicated to the organization and how the management get the employees to be dedicated to the organizational goals.

3.4 Three Dimensions of Feedback

A lot of work is done on the formal and informal control of management accounting, but Pitkänen and Lukka (2010) focus on the feedback in management accounting and that the formal and informal feedback does coexistence and collaborates and is not a strict dichotomy. The authors argue that even if there has been an increased understanding of the collaboration between the formal and informal feedback, the field of formal feedback has grown, diminishing the importance of informal feedback. Pitkänen and Lukka (2010) aim at clarifying the relevance that the informal feedback has in the management accounting field and they describe feedback as the evaluation of the actual performance and the pre-set goals that helps to evaluate the level performance or to enhance the performance.

Pitkänen and Lukka (2010) developed three dimensions of feedback which they label as source, time and rule. The source dimension describes the pathway which feedback flows through. The feedback can be system-based and derive from accounting and information systems such as customer relationship management databases where feedback can be warehoused, retrieved and used. System-based feedback is given in an objective form and needs to be communicated and interpreted by its users. Feedback can also be interpersonal which is a more tacit and subjective form than the system-based feedback since it is given and received in real life between people. Feedback practices that involve interpersonal feedback are group meetings, ad hoc communication between superiors and subordinates and performance evaluation interviews. (Pitkänen & Lukka 2010)

The dimension of time involves *when* the specific flows of feedback operate. One example of this is regular feedback that provides feedback systematically in specific time periods and does so with pre-defined measures and standards which makes it possible for managers to follow up trends and performance. Monthly reports are one form of regular feedback that provides specific indicators that managers can follow month after month. However, Pitkänen and Lukka (2010) argue that these regular reports sometimes are insufficient in providing important feedback to managers since they come too late and already are yesterday's news. Yet the authors argue that feedback in the organizations in fact to a large extent is instant and irregular and just emerges spontaneous and this



feedback gives a much faster reaction to changes and helps the employees in their every day decision making. (Pitkänen & Lukka 2010)

The dimension of rule deals with the question *why* certain flows of feedback are provided and one part of that is obligatory feedback which relates to hierarchical relations between manager and employees. Monthly result reports or performance reviews are examples of obligatory feedback and is officially directed by the managers. The rule dimension also involves voluntary feedback that compared with obligatory feedback necessitate an active approach at the individual level. This feedback is connected with people's mindset and their relations and is therefore complicated to manage and it is important to create a culture where feedback can flow. (Pitkänen & Lukka 2010)

The three dimensions provide analytical principles which can be used to understand the concept around formal and informal feedback.

In this thesis the theory of Pitkänen and Lukka is used to describe how the case company is using feedback in their everyday decisions and what kind of feedback and communication which are most common. We have researched what role the feedback plays in the product and service process and how it is used by the central departments to influence the branch managers in their decisions. Further, we have also used the theory to see how the branch managers use feedback to communicate their visions and ideas to the product owners.



4. EMPIRICAL EVIDENCE

This chapter starts with a case setting of Handelsbanken. Thereafter the empirical findings are presented in six sections: Product process, Costs, Communication and feedback, Management controls, Product influence and finally Opinions and challenges. These sections also provide a first layer of analysis which is followed by a deeper analysis in chapter five.

4.1 Handelsbanken Case Setting

4.1.1 Background

Svenska Handelsbanken AB, (SHB) was founded in 1871 and started its operations in rented premises in the Old Town of the Swedish capital city, Stockholm. The focus was to conduct traditional banking services such as deposits and lending to the local commercial and industrial life in Stockholm. The bank grew internally and made several acquisitions of smaller province banks in Sweden during many decades and went from being a local bank in Stockholm to become a large national Swedish bank. Through the acquisitions SHB gained geographical spread as well as a widened product segment which expanded from deposits and lending to include leases, factoring and mortgage services in the 1950's.

In the late 1960's Handelsbanken faced declining profitability and were in a dispute with the Central Bank of Sweden. As a consequence several top managers including the CEO were replaced. Jan Wallander, former CEO for Sundsvallsbanken, a small profitable bank in the north of Sweden, was appointed the new CEO for Handelsbanken. An important condition for his acceptance was that he was given full mandate to implement his management philosophy. It was agreed and the Handelsbanken Model (HM) was introduced. The heart of the model is decentralization. Jan Wallander explains decentralization as handing over power to someone else. Regardless of which organizational structure a company possesses, the more power that is allocated to the top boxes in the organizational chart the more centralized the business is and when the boxes further down in the chart has more power and responsibility the organization is more decentralized. Several companies are in favour of decentralization but often fail to fully implement it. The author identifies detailed budgets combined with controlled target figures or decentralization of responsibility but not power as main reasons for failing to implement decentralization fully. (Wallander 2003)

According to the HM it is essential that the employees work close to the customer and their decisions and actions must be aligned with the customer needs and wishes. To succeed without increasing credit losses the staff need to be educated and trained to get a foundation and strengthened judgment. When a complex situation appears the office can contact the central department for expert guidance. It was not without resistance this change was carried out in the bank. For instance the foreign business department had high status, was very profitable and handled considerable income before the organizational change. Afterwards their role was to serve the offices which took over the contact with the customers and handled their business. To enforce this management philosophy Jan Wallander wrote a corporate publication called "Mål och Medel, directly translated Goals and Means, which defined the culture and the new corporate foundation. This publication has been edited by every new CEO since then to keep it up to date and aligned with the changing environment. The core message is however intact. (Wallander 2003)

4.1.2 Organization

Handelsbanken is a universal bank and provide following services: traditional corporate business, investment banking, trading and private business including life insurances. Handelsbanken has a strong position on the Swedish market with 461 branches. The bank has built a universal banking capacity in the other Nordic countries during the past 15 years and recently also in Great Britain.

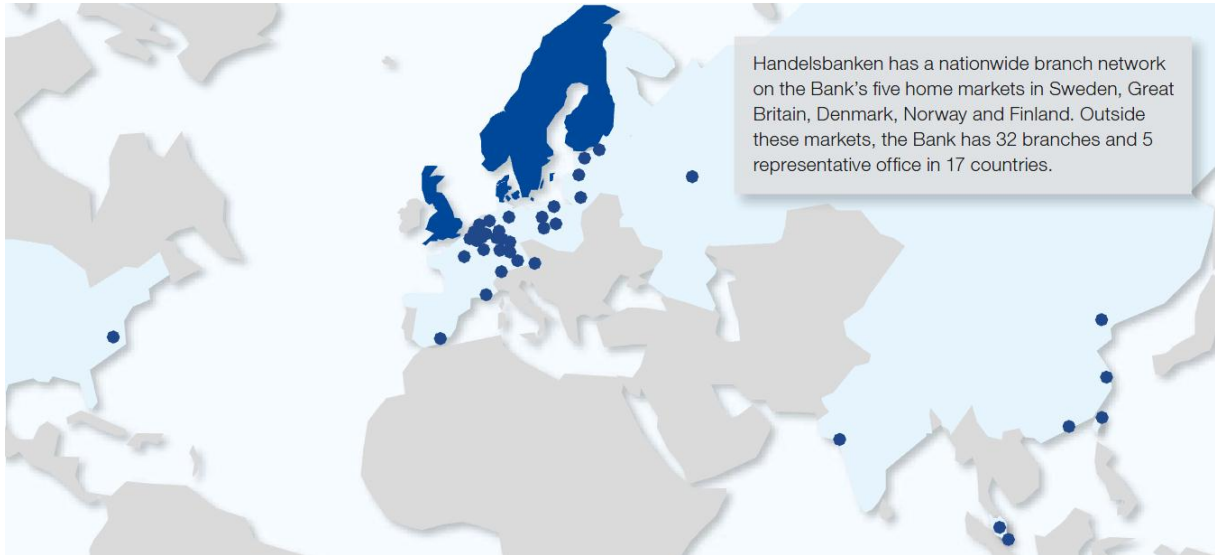


Figure 2. Handelsbanken Annual Report 2010 page 34

The goal for Handelsbanken is to have higher profitability compared to the weighted average of its competitors in Scandinavia and Great Britain. The goal shall be reached through offering the customers' better service, (Exhibit 1), meanwhile keeping the cost per income ratio (C/I) lower compared to the rivals (Exhibit 2). Furthermore profitability shall be prioritized before volume. (Handelsbanken Annual Report 2010)

The business activities in the Handelsbanken Corporation are strongly decentralized. The most important management control tools are the efficient economic control system together with the corporate culture which is established throughout the whole organization. The basic idea is that organization and operation method shall be based in the branches responsibility for individual customers and not from central departments' responsibility for product areas or marketing segments. The Handelsbanken organization shall promote the harmony between strong branches, qualified specialists and effective support functions. (Handelsbanken Annual Report 2010)

The picture below illustrates the organization of Handelsbanken organization as a gathered unit which forms an arrow. The focus is the individual customer and the tip of the arrow is the individual branch, serving the customer.



Figure 3. Handelsbanken official homepage/Organisation

The branches in Handelsbanken are organized under Regional Head Offices. There are twelve Regional Head Offices, six in Sweden, three in Great Britain and one each in Denmark, Norway and



Finland. The branch manager is entirely responsible for the geographical area which the office operates in and reports directly to the Regional Head Office Manager. In the Regional Head Office the branches has support and specialist functions such as business management, credit, foreign payment, capital investment, insurance and law related expertise. The region Head Office also has internal functions such as economy, administration and human resources. (Handelsbanken Annual Report 2010)

Besides the Regional Head Offices and the branches there are also Central business areas such as: Capital Markets, Finance, International, Asset Management and Stadshypotek (mortgages). These business areas support both customers and branches. The products owners we have interviewed work in this section of the organization. Finally the Central departments and administrative functions primary support the central business areas and have no external customers. The two respondents from the top level management work in this part of the organization.

4.2 Empirical Findings

4.2.1 Product Process

All respondents explain the product process to be customer driven but the way of obtaining products that customers like has differed over time. The late 90s product owners made customer focused products with their own market research and competitor analysis as information basis. This way has emerged to involve the branches and their opinions to a much larger extent. Since the branches have daily and wide spread customer contact, they form a good information basis of the customers' wishes. The product owners' role in the product process today is to make sure that the products and services are as effective and competitive as possible while still keeping track of what the competitors are doing and the trends in the markets.

The process of developing a new product or service can be initiated from three different directions. It can start with new rules and regulations of the government, it can be customer demand driven or it can be driven from a product owners' own initiative.

PO1 stresses that the rules and regulations from the government have increased a lot over the years and tend to increase even further. This has forced the product owners to put more focus and money on these products then they did before. The product owners express a slight frustration over the fact that this affects the customer focus they want to have, but the whole industry experiences the same change and nothing can be done to prevent it.

The ideas for the products and services which are customer driven derive from different channels in the bank. There is for example a suggestion box where every employee in Handelsbanken can give a suggestion for a new product or service. Further, the bank management gets monthly announcement from the branches where the branch managers give comments on potential improvements or requests of new products or functions. Besides this, the product owners keep a close contact with several of the branch managers by telephone, chat or email and both the product owners claim to have a good understanding of what is happening out in the branches and the communication is initiated from both ends.

Each and every product owner shall keep track of what is happening in their specific market and further form a strategy of what products and services they want to develop. But since there is not a lack of inspiration or desire for developing, everything cannot be carried out and the product owners must follow a priority list. The product owner must also consider how a new product could affect the



existing ones. Since the bank has a lot of underlying systems that all need to communicate with each other in a complex way, it is vital that a new system does not imply any risks to the old ones. Furthermore, the bank management carefully measures the outcome targets on the project and if the profitability or other effects such as customer benefit are not good enough, the project is not carried out. If the outcome targets are satisfying, an investigation directive is formed containing a strategy with precise directions to what needs to be done, why it is needed and how it is going to be conducted.

When the investigation is done and decision is made that this product or service is going to be developed, a project is started with a project leader that reports to the business area manager. When the project is ready for launching, the product owners implements it in the organization. The way of implementing differs depending on how extensive the product is. For larger projects pilot branches are assigned to represent the branches before the product is implemented on full scale. One way is that the product owner comes to the branch with technical support and installs programs and technical devices if needed. The technical functionality is tested by the branch employees before using it with customers. In the customer meeting the branch employees ask their clients what they feel and think about the new technical setting or product. The branch evaluates the product and the branch manager writes a report with opinions and suggestions as they appear. This report is continuously provided to the product owner who can make the necessary adjustments. BM2 summarizes the roles as follows:

“The product owners are very good at managing projects and to include all parameters. We have comments on the practical and operational matters. To get these parts to fit together we have a tight dialogue both with customers and the product owners.”

4.2.2 Costs

“The branches are the bank”. This Handelsbanken slogan also mean that all revenues and all costs in Handelsbanken are distributed to the branches. Development cost is set by a central planning committee. This planning committee consists of both business area and branch representatives and function as an internal market where branches and product owners have influence regarding development costs. The development cost is then divided with the total number of employees in each branch. The basic idea behind this mindset is that everyone should use the product or service. Each branch pays their portion of the cost, depending on how many employees the branch has. It can therefore be hard for a branch to see what they are paying for. If a project for instance lasts for three years the branches continuously pay the cost for the project but do not see any result until year three. When the product is implemented it has an internal price or a usage cost to cover system, maintenance and support related costs. This internal price is adjusted every year and should reflect the true total cost for the product.

The product owners must develop the products efficiently since high development cost increases the internal price and decreases the profitability for the branches, who are the internal buyers of the products. This means that the product owners' department break even while the branches take on all the costs since they also get all the revenues. In addition to development costs there are operational costs such as operating systems, updates and maintenance which also affect the internal price. This internal price must be lower than the market price to give the branches incentives to sell the products since they will never sell a product they make a loss on. When a new product is developed the product owner must consider who the buyers are. If the product is made for a specific customer group, the branches that serve these customers are charged with the costs. The product owners also



stress the importance of phasing out old systems to avoid operating costs for duplicated systems which serve the same purpose or old products which customers no longer desire.

The bank makes efforts to distribute the right costs to all the branches and also to continuously try to lower all the costs and make the work even more effective. When a large project is developed, the product owners describe the vitality of getting everyone onboard the project. It is important that all the people involved agree on the necessity of the development since the branches might have to pay for the development during a long time before they see the final product. After a launch of a product or service the product owners can easily see in their control systems if a product is not selling and thereafter they directly investigate what the cause might be to the problem.

Both branch manager respondents were pleased with the internal price setting and expressed profit potential in the products. Since the product costs, after development, are distributed on all branches which use the product, the profitability increases when more branches are using it and therefore press down the unit cost for each of the branches.

To summarize, the costs referred to products are basically divided in two stages. Initially it is a development cost which is distributed on all the branches. The other stage is the operational cost which is split proportionally between the branches which use the product. These costs are charged to the branches from the product owners and also denominate the internal price which the branches pay. This price is reviewed once per year and when more branches use the product the profitability in the product increases for all branches, waste is reduced and customer value related cost decrease in proportion. Furthermore the internal price levels are considered fair but during the development of products it can be hard for branches to relate to what they are paying for during the time of development.

4.2.3 Communication and Feedback

The communication between the branches and the product owners consist of telephone calls, emails, chats, video conferences and personal meetings. Both the product owners and the branch managers describe the communication as mostly very informal while some protocols are conducted in a formal way, such as the monthly announcements. Furthermore, the communication and feedback have no restricted time limits and can be initiated from both central departments and branches. As described in the product process, there is also a suggestion box that the branch employees can use to communicate their opinion to the product owners. The product owners describe the monthly announcements as a very important tool to achieve the goal of having more satisfied customers than their competitors in the industry. The ideas from the customers in the announcements are therefore essential in the product process and are given serious consideration from the product owners. In order for the product owners to comprehend all 461 branch comments, the announcements from the branches are sent to the regional head office that reviews and compiles the announcements into a single report. The compiled comments in the report directly reach the product owner responsible for the specific area, and he or she must respond to the branch office which wrote the comment within a week with a plan. The plan consists of comments on if, or when the development will take place and the branches can further follow the product process as it develops.

When a product or service is launched, instruction materials are sent out to the branch offices for the branch employees to learn about the product features. Customer oriented brochures about the products are also provided, which explains why the customer should choose to buy this product. More complicated instructions about the product capabilities and how to handle the product are available to the employees on the intranet. In order to get the best information about what the



customers and the branches think about the new products, the product owners are required to visit at least two of the branch offices per year to meet the branch employees and the customers using the products. This enables the product owners to get a feeling of how the reality looks like out in the field and how their products are perceived by the users. Both the product owners believe that having a continuous contact with the branches and customers is very important in order to develop competitive products.

During the pilot testing process the product owners and the pilot branches have a tight contact and the branch manager provide the product owner with continuous feedback around improvements that needs to be done. Both the branch managers experience that they get a very good response if they speak up and want to change something.

In the product process the product owners use a reference group of customers in order to get information about what the customers really want and to make sure that the product gets all the features that are important to the customers. To keep a close contact with the reference group is essential when deciding what features the product should have so that the product owners know exactly what the customers are expecting out of the product.

The opinions differ a bit around the intensity of the communication. According to both product owners the communication is very rich and they describe that they continuously get information about the branches' and the customers' opinions. BM2 describe the communication similarly to the product owners' but BM1 on the other hand thinks that the communication could get better and that the feedback from the product owners differs in a large extent from person to person.

After a product has been tested by employees at a pilot branch, dedicated ambassadors from that office visit other branches to establish the new product. BM2 considers this to be a very good way of getting the other branches involved. To succeed in spreading the products it is important to educate and inform the branch employees. The interviewed branch managers, who both are involved in current pilot projects, play an important role in distributing the information to other branches. Through sharing their experiences and point out how the products contribute value to the customer, other branches can relate easier to another branch employee instruction than to a product owner manual. This method also enables demonstration in how the employees practically can manage the order in a customer meeting which increases the possibility for spreading the product further.

As the intensity of communication increases more and more, BM2 stresses the importance of keeping the personal meeting as a way of communicating since he believes that is a very valuable form of communication. The personal meeting enables the persons involved to use their gut and feelings when making the decision, which the BM2 thinks is vital parameter in every situation.

4.2.4 Management Controls

When deciding which products and services to develop the corporate management listen to the product owners' suggestions, mostly derived from the customers, and further make a priority list where the most urgent developments come first. As described in the product process all the development projects are carefully calculated before they are initiated in order make sure that the outcome will be profitable.

Since the product owners are experts on their area there is a risk that they develop a function more specified than the customer and the branches asked for, but if that happens the respondents explain that there will be reactions to it right away. The respondents further describe that there is rarely a discrepancy between what the branches and customers are asking for and what the product owners



want to develop, but if there should exist a discrepancy, the product owners describe that the comments they get from the pilot offices have the largest impact on what decision to make. The branches do not want to pay for a product with “extra” features that is not necessary. One product owner says that he is encouraged to think about how to develop the product further and to use his expertise, but that he need a signature from his superior or another manger before starting the project. In this way the product owners have the freedom to develop their own ideas but there is a control function in form of a manager who will stop the plans if they not are in line with the strategy. Another limit is of course the economy since the process, of developing products and services, is a very costly task that has to be granted by a superior. One product owner describes the funds granted for product development, which the planning committee decides on every year, as his primary limit regarding product development.

One of the branch managers describes that his limits are mostly set by himself and this is the way it works in the whole organization. The employees are responsible for their own progress and it is up to the individual in how far he or she wants to reach in their career and personal development.

In order to strengthen the long term perspective Handelsbanken has a profit sharing plan, for all the employees, which is called Oktogonen. Every year that the bank has higher average return on equity compared to its rivals, in the Nordic countries and Great Britain, a part of the profit is put away to a pension found. The goal is to be more profitable then the competitors and if they succeed, the employees gets a share of the profit. One of the product owners explain that the bank has put away money to the pension found every year except for two since 1973.

In order to reinforce the corporate culture and to communicate the core values the corporate publication Goals and Means is distributed to every employee in SHB, especially to the newly employed. The document is thoroughly read by all employees and one of the respondents explains that it is common to have informal discussions around the coffee table concerning the content, especially when a new version has been published.

Another way the top management are working with reinforcing the corporate culture and the core values are the monthly letters from the CEO Pär Boman which reaches every employee. In the letters he writes about the current position of the bank by combining all the input from the regional banks.

An important control function in Handelsbanken is their accounting control system which is a central part in the organization. The system enables the branch managers and product owners to carefully monitor all the costs and incomes in the organization as well as the level of customer satisfaction. Except for the C/I and customer satisfaction measures, a lot of other measurements are done, such as deposits and lending and new customers. Every month the branch managers get a list which contains all these different measurements and they are presented in a way which makes it possible to compare the branch office’s results with the other branch offices in the region. There are no official targets to reach since the important thing is to be above average compared with the other SHB branches.

Top level management respondents explain that there is a culture in the organization where everyone strives to be above average, even if that is impossible. And when the branch is above average they strive to become top ten, and then to become number one. If a branch office falls below average they get input from the supporting function of the regional bank on what they can improve.



4.2.5 Product Influence

Branches

There are different aspects which influence the product process. The product owner respondents emphasized how vital the information from the branches is for product development. The reason for the branches big impact in the product development is their close connection to the customers. In the end it is the customer who is going to use the product and pay for it. Since the branches performance is not measured on how many products they sell and no central product targets are communicated it is up to the branches to use the product only if it is suitable for the customer. One of the product owners explains it as follows:

“The branches decide everything of importance in the customer contact. Therefore it is useless for us in the head quarters to intervene and try to tell them what and how to do, they will just ignore it. Our task is to provide products with such good quality and material so they see the value for the customer and want to use it. If we do not succeed in doing that, the product will not be used.”

This view is shared by the branch managers as well as the top level management. Since the branches are responsible for their financial statements and the progress for the branch they will not use products which are not profitable or enhance the operational work for the employees, with the exception of authority demands. The branch managers can obtain up to date information of the income statement and balance sheet for their branch and therefore are able to alert low profits or high costs and will maneuver to reduce cost and stop products with little or no margin. There are however also some products which do not contribute with direct profitability but are necessary to ease the workload for branch employees and give the customer access to make transactions and payments themselves. Internet banking is one example. One of the branch managers also refers to a project, which he was involved in, which was totally remodeled after testing it in a pilot project. The changes demanded great effort and additional investment but otherwise it would never have worked in the operational field. This situation is also expressed by the product owners. Even if they make great effort to include the branches opinions when developing products it is hard to predict how it will work in a real branch environment. Furthermore the product owners emphasize the importance of good instruction manuals. It is seldom the product or branch employees fault if a product is not selling. It is the way of explaining the value in the product to the customer in a simple way and to process the operational work just as simple.

The product owners explain how information from the branches is a big advantage in product developing. If a bank with a centralized organization decide to roll out a new product or process it takes time before it is settled in all hierarchy levels. When it is finally implemented in the operational level the management has already changed direction several times. In a decentralized organization the lead time is shortened, the demand is customer driven and the product is more likely to be understood and used in the branches. A decentralized organization is not however a guarantee or a miracle recipe for successful products. There are three ways for a product to fail. The first is high development costs which diminish profitability and therefore does not sell. The second is too complex instruction material which forms an impervious barrier for the branch employees in the operational process with providing the product to customer. The third way is when the customer does not understand the value in the product even if the branch employee is convinced of its value. The product owners are responsible for all these parts and use a marketing department which translates the technicalities to brief instructions for branch employees and product folders for the



customers. The essence in these instruction and customer folders are to get the right information and not all information.

Authorities

In addition to the branches and ordinary customers, authorities have a big impact on product development. New legislation and regulation demands require modification of existing products or development of new ones. This kind of authority requirements have accelerated recently as a consequence of economic crises. One of the product owners expresses a kind of frustration among the international banks because of these increased bureaucratic demands. Additional demands from the authorities which require investments in product development inhibits customer oriented product development. On the other hand these requirements must be fulfilled to stay in business so it has top priority. The challenge is to find solutions which include value for the customer and simultaneously cover the mandatory requirements.

Big customers

Another category with great product influence is big customers. These customers often have several banks and during their procurement processes for payment services for instance, the banks need to fill in a long list of products and services which they can provide. Depending on how many products the bank can provide is the difference between winning or losing the procurement process. Therefore it is essential for the bank to consider which benefits can be gained through developing new products and which costs would be acceptable in order to still be able to ensure profitability. It is also important to consider the possibility to acquire new prospective customers.

Product Owners

Finally the product owners themselves have influence on initiating product development. In addition to the information they receive from the branches, they also analyze the market. What are the competitors offering, what do the big customers' require? The product owners have direct customer contact when the branches need support in large tenders, often with big customers with needs of specific expertise. Before developing somewhat customized products, they secure a number of big customers as reference group during the development. This is to avoid producing a product which is too specific and customer tailored which in the end is not profitable. When the product is initiated and finally finished branch employees are educated in how the product work and the purpose of it. These employees inform other branches in a way which is aligned with the operational task and questions which occur in the customer meeting. The product owner is of course interested in making the product successful and can follow up feedback from the branches and answer questions to further promote the value of his or her product to the branches.

4.2.6 Opinions and Challenges

Both the branch managers and the product owner respondents were asked what they thought the other part could improve regarding the work with products. All four respondents expressed satisfaction with their colleagues work and expressed improvement potential as something they needed to work on themselves. The product owners saw continuous improvements in instruction and customer material as the primary improvement potential. The branch managers expressed their own responsibility to embrace new products and for example dedicate personnel to become local product "experts" which other employees could ask for assistance regarding the product. It is the branch manager's responsibility to elevate the products from the cloud of information which the



employees are fed with from systems, market information and email etcetera. The branch employees are described, by the product owners, as the heroes in the organization and extremely competent. It is not possible for them however to be experts on everything.

The branch managers express both understanding and frustration over the time consuming development process. The opinions differ somewhat and BM2 who has worked in the central organization and still is involved in several projects, does not question the lead time in the same extent as BM1. The discrepancy between central department and branches is illustrated in this example. The product owners also has an understanding for the branches questioning the development time and see it as a natural strive for the organization to move forward. BM1 express how a greater transparency of the product process would increase the understanding for product investments and how the lead time is affected. The cause for project delays can for instance be due to new legislative demands with higher priority. BM2 share the same opinion and emphasize the challenge for every branch manager to understand the complex environment which the product owners operate in. According to BM2 the product owners face the same challenge, to understand the environment which the branches operate in.

In the interviews the respondents were asked what they believed was the greatest challenges with the products and services. In this section a description of the branch managers and the product owners' answers is made.

The increasing amount of rules and regulations is described by PO1 as a challenge since the organization must meet these demands and at the same time try to build in customer value in the product. Another challenge is the operation and service of all the systems that runs the bank. Many of the systems have existed in many years and have a very complicated structure and as new systems add on, the amount of systems to maintain increases as well. The challenge for the bank is to take control over the maintenance costs and at the same time to try to phase out old systems.

PO1 also talk about the challenge with making sure that the offers to the customer are harmonized regardless of which city or country the customer visits. This is especially important for the customers that make business in more than one country. PO1 describes this as very important and something they are constantly working to improve.

Product and process development is a long term activity and PO2 thinks that one of the greatest challenges is to hold on to the ideology when the directions of the organization quickly changes, for example when something happens in the political area which results in a need to shift the focus from what the bank currently is working with. PO2 explain it as a big challenge when the bank has to adjust to an external regulation even if they know that it is not profitable. Furthermore, the imposed changes can cause a disturbing inconsistency in the organization since other projects has to be put aside.

PO2 believes that the bank could in many situations benefit from a greater understanding between the branches and the product development departments and knowledge about how each other's work. Most of the employees in PO2's department have worked out in the branches, but most of the branch employees have not worked in the central departments. PO2 says that a greater movement between the staff would be a good thing but it is easier said than done since almost every job within product and process development exist in Stockholm and it is not the easiest for everyone to move there.

BM1 believes that all the products and product descriptions are very good but a great challenge is to make every employee take their own responsibility to start using the new products. BM1 further



describe a challenge in the fact that much news and information are sent out in written form and that it is difficult for the employees to make sense of all the new information. BM1 believes that the written information about new products and systems need to be discussed to be used in the right way, and that the product owners more often should come out and actively show their products.

BM2 sees a big challenge in the bank's way of working since it brings on a high intensity of communication. BM1 describes it a challenge in creating the time he needs and that it is necessary to delegate as much decisions to his co-workers as possible. He explains further the importance in giving the employees a lot of power so that they are stimulated in taking decisions on their own. By doing so a lot of time is saved for the managers to make the more difficult strategic decisions. BM2 believes that creating time is the key to being a modern manager and that is a great challenge for many to have the courage to let most of the decisions in the hands of others.

BM2 further sees a challenge in implementing a new product or services to all the independent branch offices and doing so in a way that helps everyone to understand it. Since no one in the central departments can force the branches to sell a certain product the products must attract the branches and this is a special challenge for SHB as a decentralized organization.

We would like to emphasize how these opinions are not representative for all branches within Handelsbanken. The branch managers which we have interviewed are both managers for two large offices and also function as pilot branches. The product owners concentrate the communication to these branches as a primary source for feedback. This thesis does not cover the overall opinions for the smaller branches.



5. ANALYSIS

In this chapter we analyze the empirical findings from chapter four together with the reference frame presented in chapter three. Initially each empirical section is analyzed and thereafter the chapter is summarized with a reflection of how central departments in the case study company Handelsbanken manage the product and service process.

5.1 Product Process

How does central departments, in a decentralized and customer oriented organization, manage the product and service process?

In order to find this out, we will start with analyzing how the product process works and connect the empirical evidence with the frame of reference.

The product process in Handelsbanken is mostly customer driven and the products and services are designed to meet the demand of the customers. Since the branch employees are the ones who meet the customers and learn about their needs, they have a lot of information that the product owners need. The product owners' job is to supply the branch offices with competitive and effective products containing all the features the customers demand. To obtain the competitive products and services that the customers want, the bank need to work with different control tools in order to get the information to flow through the organization and to make sure that everyone is taking on their responsibility.

As Merchant (1982) explains, the control function of management is a critical factor for the organization to become successful and the controls should work to ensure that the strategies are carried out in the right way. As Merchant (1982) describes, a key part is to make sure that the employees of the organization know what is expected from them and that they have all the right training and information needed to do a good job. Handelsbanken work very hard with empowerment and they encourage their employees to make decisions by giving them a high grade of authority. The employees are trusted to have full responsibility for the customers and the personal limitations are therefore reduced. Merchant (1982) further talks about lack of goal congruence as a source to why control is needed but the Handelsbanken way of empowering the employees at the branches and establishing clear roles for the product owners make everyone feel responsible for the organization and strong goal congruence is present.

The branches have the information which the product owners need in the process of developing new products. The communication and feedback between them are described by the respondents as intense and mostly informal. Pitkänen and Lukka (2010) describe that informal feedback is important for the management accounting and it can be one factor that enhances the performance of the organization.

The planning committee sets the limit for the product owners in how much recourses they are allowed to spend on product and service development. This can be compared with Simons (1995) descriptions of boundary system where boundaries are set in order for the employees to develop their ideas within the limits. The boundaries enables the product owners to get more freedom in their work since they know that they are acting within the accepted area they can create their priority list within this area. The product owners are also restricted in the development phase since they need an approval from their superior, business area manager, before a project can start. This can be compared with Merchants (1982) reasoning around pre-action review where a manager



supervises the work of the employees before it is carried out in order to correct any acts that could deviate from the intended strategies. Another form of control that can be seen as a form of pre-action review is the process where the bank makes a profitability business case in order to forecast what a new product or service could contribute to the company. The project is only pursued if it can be shown to be profitable and valuable to the customers.

When a product or service is developed and the launching is to take place the product owners send out instructions but sometimes, especially when it is a large project, the product owners visits the branches in order to communicate their vision with the product and help to install the programs and technical devices. The product owners also get involved in the product implementation so that the branch employees directly can give feedback on what they think of the product and what improvements that needs to be done. This involvement can be compared with Simons (1994) interactive control system where managers actively are involving in the organizations' activities to guide bottom-up ideas from the employees out in the branch offices. An interactive control system can also be found in the way Handelsbanken work with the suggestion box for new products. This tool encourages the branch employees to capture their ideas and forward these to the management.

5.2 Costs

During the empirical research the respondents emphasized the importance of cost efficiency and long term customer relations. Therefore all sold products must create value for the customer to keep the customer satisfied over time. The developing and operating costs of products affect the total costs for the corporation and have impact on the cost versus income ratio. Costs and customer satisfaction are central in the Handelsbanken business model. To compare these parameters with their rivals Handelsbanken use the C/I ratio and an objective customer satisfaction poll within the banking industry. These two simple performance indicators were implemented by Jan Wallander in the 1970's along with a culture and organizational restructure. The frugal mindset can be seen as an effect from a strong culture in accordance with Merchant (1982) Culture Control and Simons (1994), Beliefs Systems. Since there are no budgets to follow the culture which is enforced by the corporate publication Goals and Means, guides the employees to embrace a frugal mindset. This can also form a kind of boundary in accordance with Simons (1994) reasoning about what is accepted and what is not. The boundary is not formal and determined in an approved amount of expenditure but a cultural boundary where the employees need to consider the value which coexists with the cost. The boundary also give the employees freedom within the cultural accepted frames to chose how to allocate costs to gain value for the customer or the branch office for instance.

This reasoning is reflected in the Value Creation Model by McNair et al. (2001) as value creating core of activities and business value added. The price of the product determines the profit the bank can gain when subtracted from development and operational cost. To ensure development of products and services which the customer actually demands the product owners get up to date information from the branches. In addition to these demands the product owners themselves keep track of what competitors offer and which attributes big customers require. To make the business profitable the product owners must prioritize between these demands and calculate which products has the largest profit potential. The central management furthermore provides the product owners with regulatory demands. Regulatory demands are needed to be met in order to ensure long term survival and therefore the costs required to oblige these conditions are BVA costs. Theses BVA costs reduce the total profitability so that the product owners must keep these cost down as much as possible to avoid affecting the C/I ratio too much. It is the same concern regarding Customer Value Creating cost. The



difference is the possibility to gain profitability through selling more products which strive down the development cost per unit for each additionally sold product. Since sell targets is not allowed the product must contain the right attributes from the beginning and the branch employees must be convinced of the customer value to provide it further. All other costs which do not contribute with value for the business or the customer are considered as waste and affect the profit directly.

Depending on where in the organization the respondent work, and previous experiences within the bank, reflects their way of looking at costs. All respondents agree on the importance of cost efficiency and try their best to contribute to profitability in their own way. However the understanding of other costs which occur is somewhat different. One branch manager expresses how development costs can be hard to relate to until the product is finished, although he is satisfied with the allocation of costs. This can implicate a questioning if the product owners are efficient enough and might contribute to a larger extent of waste. The product owners express understanding for the difficulties to apprehend the relation between product development and costs. When all parameters are accounted for the product owners and central management place the majority of the cost they are responsible for as Business Value Added and Customer Value Added Costs. The product owners also express the difficulties of developing a new product which is perfect at once. It takes time and resources to fine tune the products which in some extent contribute to waste. Both branch managers and product owners stress their own responsibility for improvement in favor to pointing out other improvement factors. The central management further expresses the importance of working cost efficient and strives to lower the costs and the impact on profitability. This shows a positive mindset towards continuous improvements from all organizational levels.

To summarize with the Value Creation Model, (McNair et al. 2001), the branches can improve profitability by embracing the products and work actively to understand the customer value in each product. Communication between the branches and the product owners during the development process also reduces waste since it enables a swifter implementation. The branches also play an important role in distributing customer desires to the product owners to ensure products are developed according to the needs of the customers which increases the profit possibility.

The top level management contributes to a large extent of Business Value Added costs and primary support the business area departments such as the product owners. The product owners can reduce cost through developing products more efficiently to strive down the Customer Value Costs. Another way for the product owners to increase profitability is to phase out old systems which reduce the Business Value Added costs. Instructions and customer material containing useful and short stated information furthermore enhances the profit possibility when development cost can be split on more branches and reduce each unit cost.

5.3 Communication and Feedback

The communication is intense in Handelsbanken. All branch managers report monthly announcements and the regional head office structures the information and sends it to the product owners. This is formal and obligatory communication according to Pitkänen and Lukka (2010). This kind of structured communication is a way of narrowing down the large amount of information into a format which is easier to comprehend and analyze for the product owners. It also gives an overall view about where different problem areas are detected and which problems are local issues and which has a wider spread. Another formal infrastructure for communication between branches and product owners is the suggestion box. Here is only the way of communicate formalized and the



content can be written by anyone in the organization at any time and contain informal suggestions for improvement or new development.

There are also a lot of informal communication and feedback within the organization where format, time, room and rule are informal. One example is when the product owner contacts a branch to get feedback on a product. It can be carried out through a phone call, email or personal visit. The branch employees can in a similar way actively give feedback to the product owner. The informal feedback is a quicker communication tool compared to the formal feedback according to Pitkänen and Lukka (2010). In the case of Handelsbanken it can be seen as a complement to the formal communication and feedback. To distinguish the overall situation, the formal communication narrows down the gathered information for the past month but the informal communication can alarm certain problem areas earlier. The informal communication can therefore alert the product owners before it shows any significance in the formal report. In this way the formal and informal communications coexist and benefit from each other. The time to detect new problem areas would increase if the organization only relied on formal communication. If only informal communication should be used it would be hard to distinguish patterns.

One of the challenges with communication and feedback is information overload. Both branch managers and product owners identify time as a scarce resource. Since both internal and external information comes through many different channels such as, emails, phone calls, memos, instructions, meetings and video links it is hard to structure the information. One way to overcome this obstacle is the traditional face to face meeting. The technology progress within the information area has enabled many ways for people to interact without a physical meeting. There is big cost and time advantages to gain through this technology but the impact and importance of face to face meetings might be necessary to penetrate the cloud of information. The personal meetings also have a positive cultural effect when the branches have a face on the product owner and vice versa. A mixture of formal, informal and face to face communication is, according to us, the most effective way to communicate and distinguish the most essential issues and success factors.

5.4 Management Controls

The accounting control system used in the bank enables the product owners to monitor how well their products are performing and the branch managers can closely monitor their results. According to Simons (1994) this can be seen as a diagnostic control which provides direct signals to the product owners about where significant effort needs to be made. In contradiction, the branch managers use the same system to monitor their financial statements and can alter their business activities according to the information. The measurements made are characteristic of what a diagnostic control system consists of but since Handelsbanken do not have any fixed targets and only strive to be better than the competitors, the diagnostic controls described by Simons (1994) are not used in the classic way. The traditional diagnostic control systems are used to control the business by comparing the outcome with the fixed targets in order to be able to correct any deviations from the plan or pre-set targets. The difference is that Handelsbanken use the diagnostic control system to monitor the business and to get information on what parts that needs to be improved. The branch managers can also follow over time how their branch is performing in relation to the other branches and they can analyze the information to make necessary adjustments. To summarize, the diagnostic control is used to get information on how they can improve their results and what to improve, not to correct any outcomes according to the plan or to change the way of working in the bank.



Simons (1994) also talks about the interactive control system as a lever of control where the managers involve themselves in the decisions of co-workers in order to influence their actions. This can be connected to the way the product owners communicate with the branch managers in order to influence them. The interaction lies in the fact that the product owners have to listen to the branch manager to be able to influence their work.

SHBs way of using the Oktogonen, the profit sharing plan, and putting a part of the profit in a pension fund to the employees can be compared with Merchant (2007) reasoning around how group rewards are one of the most important tool of shaping a good culture in the organization. From all the respondents a feeling of a strong culture has been described and that it is something special with working at Handelsbanken. The group rewards can be one factor which enforces this feeling. Merchant (2007) further argues that organizational culture needs to be fixed over time and the Oktogonen enhances this long term perspective and employee commitment to the bank.

The culture and core values of the bank are mainly communicated through the document Goals and Means and this can be seen as form of soft control as Merchant (2007) described it. As Merchant (2007) further argues the soft controls have gained greater importance when the employees have become more empowered in the horizontal organizations. This is also true in SHB where the culture is strong and works as a vital control tool when communicating the strategy to the employees.

Another form of the soft control is personal control (Merchant 2007) which can also be found in Handelsbanken although it is clear that they trust their employees to make a good job and encourage them to take own decisions. The employees can also be seen to engage in self-monitoring as Merchant (2007) describes it since they actively seek to improve their branch's results even if there are not any fixed goals.

The boundaries in the bank are described as very wide and the respondents explain that they set their own limits in many cases. But since the organization is decentralized there must be some boundaries in order to ensure that the overall strategy and core values of the bank are maintained. One of the respondents said that:

"The limits are hard but wide, you do not touch the electric fence by accident".

This can be compared with Simons (1994) and the boundary systems where employees are clearly informed of the boundaries that exist so that they can perform within these boundaries. As Mintzberg (1987) describes the boundary system sets the position for the organization and that is what the boundaries in Handelsbanken are doing since most of the power is allocated to the employees, but some limits must be present in order to keep the right position.

5.5 Product Influence

The decentralized organizational structure enforces the branches influence regarding product development. According to Wallander (2003), an organization is decentralized when power and authority is delegated to the lower boxes in the organization chart. In the case of Handelsbanken the tip of the organization arrow is the branch closest to the customer (Figure 2). This view has been consistent from top level management, product owners as well as branch managers. The management philosophy empowers the branches' influence on products and development (Wallander 2003). It is interesting to consider that this mindset is enforced by top level management and the product owners. When the product owners themselves express the branches' impact as vital it indicates the importance of beliefs in the organization. Simons (1994) argue how beliefs can have



great impact on control and in this case the empirical information show how the decentralization is enforced by strong and unified beliefs. When product development is customer driven and the clients preferences is forwarded by the employees closest to the customer it enhances the organizations' possibility to obtain efficiency, or "doing the right things" Neely (1995). Furthermore this process enables reduced waste, according to the reasoning in the VCM by McNair et al. (2001), when the customer desire is naturally aligned with product development.

To reduce waste the product owners need to provide the products swiftly and cost efficient. To shorten the time lag between the customer desire and a finished product the product owners work proactive with monitoring the market and spot trends, competitors actions and big customers' demands early. This way of action complements the information from the branches and makes the product owners an important influence maker as well. The authorities' regulative demands however limit the possibilities to provide these products swiftly. The product owners express an increase in these demands which inhibits customer oriented development. According to the VCM (McNair et al. 2001), this leads to higher portion of Business Value Added related cost compared to Customer Value Added costs. This allocation of resources affects the profitability possibility and pressures the product owners to find new ways to compensate and increase profitability. One of the product owners explains an important mindset which can limit the negative profitability possibility effect. This can be achieved through figuring out ways of how the customers can benefit from the development. A similar mindset is used when developing products to big customers. Through involving several reference companies, when initiating a new product, the product owners strive down the Customer Value Added costs which increase the profit possibility. Furthermore, investments in new development which are necessary to win procurement processes with current customers can also contribute to attract new prospective customers.

In essence all the influence makers have great impact on product development. The branches are enforced by the culture and the decentralized organization structure. The product owners add their expertise and additional information from bigger customers and competitors. When new authority demands occur, these demands are prioritized. It is tough balance for the product owners to master the choice of what to prioritize. When the product is finished only half of the work is done. Since there are no fixed selling targets for the branches, the product owners need to promote the product and educate ambassadors at the branches who embrace it and will educate his or her colleagues and other branches. The branch managers play an important role to dedicate personnel to make this happen. This process is time consuming and communication intensive but yet necessary in order to succeed in maintaining the decentralization.

5.6 Opinions and Challenges

The majority of the product owners has worked in branches themselves and can relate to the environment in which the branch employees' operate. The opposite, branch employees with central experience, is less common which limits a mutual understanding for each other's work. There are also product specialists without branch experience who lack the operational perspective. This leads to a discrepancy in the understanding of each other's work in the organization. The branch employees might wonder what the central departments actually are doing. The central departments, on the other hand, might wonder why the branches do not act in a certain way. According to one of the product owner respondents, this tension or discrepancy exists in all organizations and is useful in order to push development forward. It can be hard for the different influence makers to apprehend why development is delayed or a product take considerable time to produce. Pitkänen and Lukka



(2010) describe feedback between different departments as an important factor in the management control. An increase of the feedback could ease this problem and create a greater understanding between the different parts of the organization.

Branches and big customers lack absolute information about parameters such as: ongoing projects which require resources, authority demands, rivalry product supply and the desires from other branches or big customers which affect the product production time. What a branch office consider as a small modification in existing software or product which take months instead of weeks to produce can raise questions about how effective the central departments really are. One of the product owners explains it as follows:

"It is like asking a child about what they want for Christmas. There is an endless list of wishes, both from customers, branches and product owners. What the authorities 'wish' for is nothing to argue about, just to make it happen. The big customers have a large impact as in any industry. Everything is about prioritization and profitability calculation and possible effects of product development."

The dimensions of feedback as Pitkänen and Lukka (2010) describe could be used to understand how Handelsbanken can manage these priorities since the feedback is necessary in order to get the priorities right. Another parameter is the systems which the products need in order to function. Several products may for instance need to communicate with a database which does not cope with several systems accessing the same time. Here is another product related matter of prioritizing when deciding which systems should gain access and when. These technicalities also affect the time of product development. The communication around this matter therefore needs to be given and received in the right time and which relates to the time dimension.

5.7 Case Study Conclusions

In this section we give our answer on how the central departments in Handelsbanken manage the product and service process.

Initially there are several actors which can trigger development of new or existing products. The desires from these actors must be balanced since they all share the granted amount for product investments. In this prioritizing process the product owners have to carefully consider the profitability and strategic impact. Both formal and informal communication assists the product owners in their decisions. The branches supply them with monthly formal reports which each region head office compiles to a comprehensible format. In addition employees can contact the product owners directly and address urgent alarming matters. The decentralized organization and the mindset "the branch is the bank" enforce the branches to give feedback and influence the product process in favor of the customer preferences. This process provides the product owners with adequate information basis to "do the right things". A greater challenge is to increase the efficiency, "do things right". Since the branches might experience different specific customer demands and success factors it is hard to please them all in every way.

Most branch employees do not have the full picture of the prioritizing process and how regulatory demands affect the resource consumption and limit the customer oriented product related investments. The product owners on the other hand do not have the full picture of how the product will work in the branch environment until it is fully implemented.

When the product is implemented the product owners can follow the progress how well the product performs through the accounting control system. This diagnostic tool helps the product owner to



detect flaws and seek feedback to correct them. The branch managers use the same system to monitor their revenues and costs. Both branch managers and product owners see themselves as the main source for improvement. The branch managers express that they need to improve their internal discussion with the branch employees about new products. Such discussion would bring out a greater understanding about how the products contribute to customer value and also give the employees a better knowledge around the product features. The product owners express how they can become more visible in the branches and increase the dialogue with the branches to better understand the operational environment.



6. CONCLUSIONS

In this chapter the result of the thesis is presented which are based on the aim and the research question and it is also influenced by our own reflections. This is followed by a presentation of suggestion for further studies.

6.1 Conclusions

A decentralized organization has many powers when it comes to giving the customers quick and specialized solutions since the employees closest to the customer are empowered to make most of the decisions. Since there are many people with decision power in the organization it can be a difficult task for the top level management to manage a decentralized organization successfully, to control it but not to constrain it.

As power is shifted further down in the organization it changes the way central departments work with supplying the organization with products and services. The power is now in a large extent in the hands of the employees working out in the field while many organizations also have to meet regulations from the government and other fixed rules. So how does the organization manage the tension between following the influence of the empowered employees, all the shareholders as well as the authority regulations?

As a remainder to what we wanted to find out, we present our research question one more time:

“How does central departments, in a decentralized and customer oriented organization, manage the product and service process?”

We have found that a very important element for the central departments when managing the product and service process is the communication. An intense communication is essential if a good cooperation between the central departments and the employees out in the field are to be established. The communication could be both formal and informal and we also found it important that the employees feel that their input to the central departments get proper attention since this make them devoted to give further comments. The employees working closest to the customers are the most important source to the central department in their work with products and services and the employees decide which products they want to use. Therefore the central departments must listen to the empowered employees to be able to influence how they use the products. Since the communication is a vital part a great challenge for the central departments is to cope with all the information and suggestions received from the organization. We have found that an effective way is to devote certain spokesmen which communicate a shared vision to the central departments on the behalf of several other sub units.

When giving the power to a lot of different employees that might have different personal goals, we found it fundamental for the organization to have a strong culture that give the employees incentives to work towards the long term goal of the organization. Such a strong culture is not achieved in a day and it is clear that the organization actively has to work with the reinforcement of the corporate culture. The corporate culture needs to be communicated to every newly hired but also frequently discussed among all the staff in order to preserve a strong culture. The best communication around the culture is achieved in informal meetings were the employees freely can share their thoughts and reflections around the culture, but there is a need of a more formal document where the core values are stated.



In order to make sure that the decentralized organization is holding on to the strategy we found it vital for the organization to have a strong and centralized control system that can follow up the decisions of the employees. The control system need to work both as a monitor system for the top level management to keep track of the direction the organization is heading, and as a tool for the empowered employees working out in the organization so that they can engage in self monitoring activities. The employees can in this way easily see how their part of the organization is doing and we have found that such systems encourage the employees to improve their results and it works as self regulatory. This is an interesting use of a traditional diagnostic control system where it is not used as a control tool for management rather as a monitoring system for the whole organization. It is used in a dynamic way and provides powerful information on how every employee can alter their own way of action to enhance the performance of the whole organization. This can be seen as a reinterpretation of Simons (1994) Diagnostic control system where a sub unit in a decentralized organization can use it to improve their own results without the intention of changing anything in the organizations strategy or the way of work.

6.2 Suggestions for Further Research

This thesis only rubs the surface of a complex problem area. Further research needs to be conducted to obtain a deeper understanding of how central departments in decentralized organizations manage to balance control with empowered influences within the organization. Which management control tools are used and how do they provide corporate information and simultaneously maintain the decentralization and empowerment in the organization? Furthermore a larger sample group of respondents need to participate to obtain the general opinion within an organization. It would also be interesting to conduct similar research in different industries and compare the results.

An interesting problem discussion which has been revealed during this research process is how the progress in technology and system development affects decentralization and control. When new technologies facilitate or eliminate manual labor and when services are accessed digitally, more power and resources are likely to be allocated from the sub units to the central development departments. It would therefore be interesting to study this phenomenon.



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Figure 1

McNair, C. J., Polutnik, L. (2001) *Cost management and value creation: the missing link* The European Accounting Review, 10:1, page 38

Electronic sources

Figure 2 Handelsbanken Annual Report 2010

[http://www.handelsbanken.se/shb/inet/icentsv.nsf/vlookuppics/investor_relations_en_hb_10_eng_ar/\\$file/hb10eng_medfoto.pdf](http://www.handelsbanken.se/shb/inet/icentsv.nsf/vlookuppics/investor_relations_en_hb_10_eng_ar/$file/hb10eng_medfoto.pdf)

Page: 34 (accessed 2011-05-14)

Figure 3 Handelsbanken official website

<http://www.handelsbanken.se/ireng> (accessed 2011-05-14)

Exhibit 1

http://www.kvalitetsindex.se/images/stories/Results/2010/Banking/SKI_Bank_10.pdf

Page: 4 (accessed 2011-05-15)

Exhibit 2

SHB

[http://www.handelsbanken.se/shb/inet/icentsv.nsf/vlookuppics/investor_relations_hb_10_sv_ar/\\$file/hb10sv_medfoto.pdf](http://www.handelsbanken.se/shb/inet/icentsv.nsf/vlookuppics/investor_relations_hb_10_sv_ar/$file/hb10sv_medfoto.pdf)

Page: 23 (accessed 2011-05-15)

Nordea

http://www.nordea.com/sitemod/upload/root/www.nordea.com%20-%20se/Investorrelations/nordea_annual_report_2010_se.pdf

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Swedbank

http://www.swedbank.se/idc/groups/public/@i/@sbg/@gs/@ir/documents/publication/cid_208128.pdf

Page: 170 (accessed 2011-05-15)

SEB

http://np.netpublicator.com/np/n37991953/AR_sve_2010.pdf

Page: 19 (accessed 2011-05-15)

APPENDIX

Exhibit 1

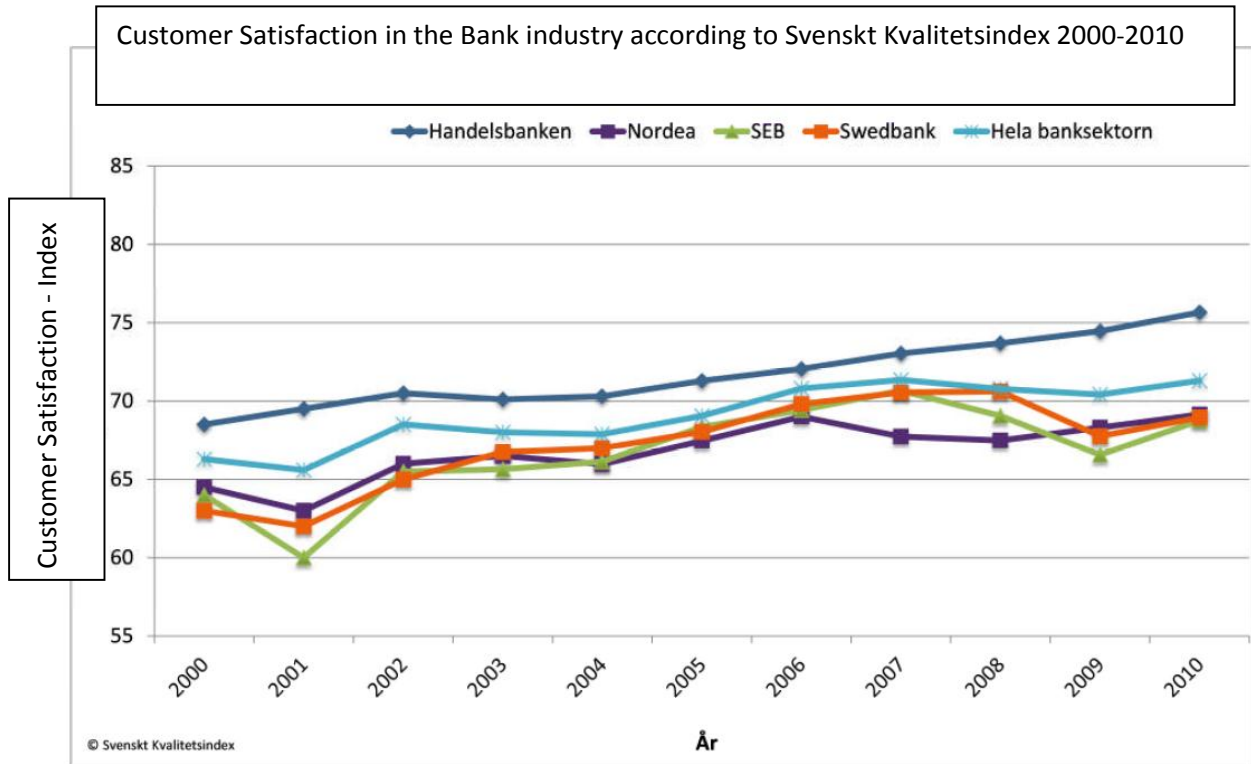


Exhibit 2

C/I ratio	2010	2009	2008	2007
SHB	48%	47%	44%	46%
Nordea	52%	50%	53%	52%
Swedbank	57%	51%	50%	51%
SEB	65%	61%	59%	54%