



**Doctoral School for
Business
Administration**

SUMMARY OF THESES

Tamás Harangozó

INTEGRATING HUMAN CAPITAL INTO STRATEGIC PERFORMANCE MANAGEMENT SYSTEM –

The role of leadership at a leading Hungarian financial service provider

Supervisor:

László Lázár, Ph.D
Associate professor

Budapest, 2018

**Institute of Management
Department of Management Control**

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1. Literature review and research objectives

1.1 Relevance of the topic

The discussion about intangible strategic resources (or with other words, intellectual capital or knowledge capital) is not a new but still one of the ‘hot topics’ in strategy and performance management, as well as management accounting studies in the last two or three decades both from theoretical and practical aspects¹. The first phase of the intellectual capital management (ICM) dialogue in the early 1990’s was intensive and concentrated mainly on ‘theoretical basics’. Then from the mid 1990’s and early 2000’s various practical management methods have been developed, most of them consciously designed to capture intangible strategic resources and manage them from various functional aspects in an organization, including its management control and strategic performance management systems. After a relatively quiet period in the mid 2000’s, the research of more recent times has concerned by a better understanding of the practical challenges of implementing and using the developed IC management tools in practice, as well as finding possible solutions and answers to the significant critiques have emerged regarding the generic and theoretic approach and the lack of real practical impacts and implications offered by the intellectual capital management perspective (see, for instance, Bontis [2001], Juhász [2004] and [2016], Kaufmann – Schneider [2004], Tóth [2008], Dumay [2009], Guthrie et al. [2012], Dumay – Garanina [2013]).

Despite the practical challenges and critiques regarding the lower than expected impact of ICM approach on corporate management practices, most scholars still agree that intangible strategic resources and human capital often play critical role in many organizations, especially in the so-called knowledge industries like education, financial services, software development, fashion, consulting or technology innovations. In these but also in other sectors² effective and efficient management of human capital – or as Austin and Larkey refer to it, talent, skills and knowledge differentials of *knowledge workers* – is extremely critical for success (Austin – Larkey [2007]).

In addition, there are various other indications of the increased and significant role of intangible strategic resources in both corporate value creation and performance:

- The trend of an *increasing gap between market and book value* is one of them.

¹ The scientific discussion about the role of knowledge capital is going back to both the classics of knowledge management (see, for instance Davenport – Prusak [2001], Hislop [2009], Dalkir [2011], Gudas [2012]), or human resource management (see, for instance Beer et al [1985]).

² See, for instance Juhász [2004] and [2016].

As the following chart illustrates (Figure 1), the share of intangible assets in corporate value is still relevant (higher than 85%) today as well and not only before the financial crisis. Other words, even if there is a small decrease in it in general, the average price to book value ratio of the S&P 500 companies is still 2.68 (based on Ocean Tomo LLC [2015], Mahn [2015]).

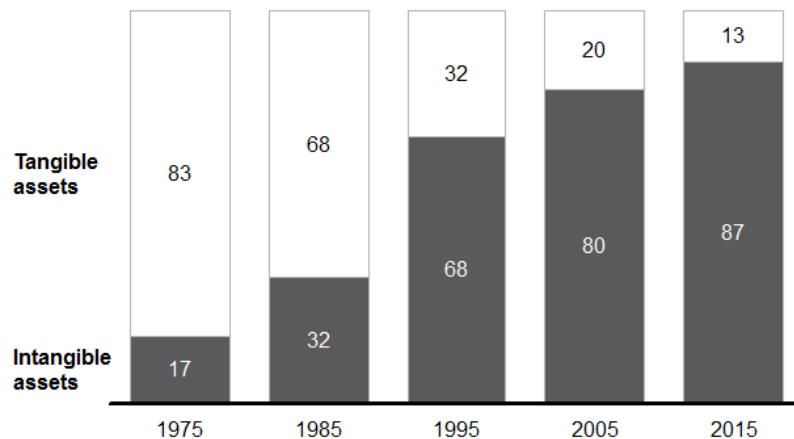


Figure 1 - Components of market value of S&P 500 companies (in %)

(based on US stock data analyzed by Ocean Tomo LLC [2015])

- The increased *investments into intangible strategic resources* and human capital in general is another one.

According to Leonard Nakamura's calculations, the US-based companies alone have already invested more than 1 trillion dollars into intangible strategic assets between until 2001 only. Considering that the increase started only in the 1980s – he estimates the long-term investments balance into intellectual capital made by private companies in the US around 6 trillion US dollars (Nakamura [2001], in Lev – Zambon [2003]).

A most recent study has also reemphasized this trend: according to Statista Database, organizations consider their people, brands, customer relations, strategic partners, innovation and patents, and flexible organization are the most critical strategic resources and tend to invest into these assets more actively (see, for instance Statista [2017]³).

- The abovementioned to financial and accounting studies are good starting points, however, they are not the only important perspectives that highlight the relevance of intellectual capital and the

³ According to the Statista's database, for instance, the top 20 US companies registered buying 60 000 patents in 2015. Besides the few investment companies in the list, we find companies such as Hewlett-Packard (10.219), Nokia (7.245), Olympus (1.990), Roche Diabetes Care (1.212), Intel (1.039) and the battery manufacturer Energizer (582). In addition, according to the database more than 3.000 new patent owners are registered regarding non-financial assets in 2014 only. These are only selected examples from Statista [2017]; for more details see www.statista.com.

need for its effective measurement and management at organizations. Looking at the phenomenon from a broader *strategic, organizational and performance management perspective*, other significant insights and research studies can be listed regarding role and impact intellectual capital on organizations.

For instance:

- One of the most commonly referred-to scholars in this area, according to Baruch Lev and his team's results in a US research projects, *experienced human resources, patents, know-how, software, customer relations, brands, well-developed organizational processes and innovative business models* play a crucial role in growth and corporate performance. As the authors emphasize, creating sustainable value is impossible without the conscious management and monitoring of these most crucial intangible components of performance (Lev [2004]). The first step is to identify and measure the key components of intellectual capital, not only financially but rather from the perspective of the strategy and organizational context.
- Similarly, another study from the early 2000s highlights the role of *market liberalization and expansion, better protection of intellectual properties, enhanced information sharing, the application of new ICT tools and systems, as well as product and technology innovations* as the most important triggers of performance (Teece [2000]). Most of these components are strongly connected to intangible strategic resources, and thus emphasize the importance that should be awarded to intellectual capital measurement and management⁴.
- In another study, *84% of top managers of US-based companies highlighted the availability of highly qualified and motivated human resources ('human capital') as a crucial factor in corporate value creation and performance*. Additionally, these managers not only believe in the reality of this situation, but expect the trend to become stronger in the future (Oliver [2001], in Juhász [2004]).
- A similar conclusion can also be derived from a Hungarian research project: in a combined study implemented by KPMG and Pannon University, *77% of the participating 130 companies in Hungary categorized intangibles and human capital as critical strategic resources of the organizations* (KPMG BME Academy – Pannon University [2006]).
- Finally, a comprehensive research approach was applied by Juhász [2016], when the author consolidated his longitudinal research focusing on 300 financial and top managers of different Hungarian manufacturing and service firms. *According to the involved managers,*

⁴ In addition, and strongly connected to this study, we need to emphasize the fact that intangible strategic resources are the perfect basis for core competences as well (see, VRIO/VRIN criteria defined by the RBV approach well; see for instance Prahalad – Hamel [1990]).

in average still 48 to 51% of their firm's value depend on intangible strategic resources.

Interestingly, most companies give little attention to measuring these items correctly.

Accordingly, if their impact and role in value creation and performance is so critical, there is a significant need to measure, monitor and manage intangible strategic resources in most organizations. From a strategic performance management perspective, this means that the related key success factors and performance dimensions need to be integrated into the SPM system – or, based on the context and management needs, selected specific components of it. This observation is also valid for human capital, as one of the key categories of intangible strategic resources.

The implementation and beneficial use of SPM systems are not simple though with various challenges, and the role leadership is one most crucial factors (see for instance, Ginzberg [1980], Gabris [1986], Kaplan – Norton [1998], Burns – Scapens [2000], Kasurinen [2002], Kennerley – Neely [2002], Pandey [2005], or Alsharari et al. [2015]) both from a generic and human capital perspective. This, combined with the various practical challenges regarding intellectual capital management tools and systems (see for instance, North et al. [1998], Juhász [2004] & [2016], Ittner – Larcker [2004], Kaplan – Norton [2005] or Bodnár et al. [2010]), creates a significant relevance for the topic. If we want to move forward from the recent state of ‘*Through disillusionment*’⁵ regarding the applicability, beneficial use and impact of the available human capital performance measurement and management methods⁶, we must first understand why, what kind of information the leadership of the firm needs about intangible strategic resources, and how strategic performance management systems can support this effectively and efficiently.

1.2 Theoretical background and research objective

Since beliefs, experiences, attitude and theoretical background – or paradigm – of the researcher have a significant impact on the way a research is built, developed and implemented in practice, these must be made clear at the beginning of each research (see, Kuhn [1962] or Burrell – Morgan [1979]). This is not different in this thesis either. In my more than 11 years of experience as a researcher and practical consultant, almost all organizations and managers I have met emphasised the importance of intangibles, and especially human capital in strategy execution and value creation. Nevertheless, in only very few cases I could find „relevant” and intensively utilized performance information or KPIs

⁵ See, Gartner [2016], applied to the topic of this thesis.

⁶ As a key component of the broader intellectual capital management perspective.

on human capital in their regular or ad hoc management reports and analytics⁷. This contradictory situation, as well as to understand why and how leadership can influence or improve it, and what kind of performance information are available of human capital (as a key component of intangibles) have been all intensively triggered my research from the beginning and was one of my key motivations when started this research project more than 10 years ago.

In my beliefs, a performance management research might need to explore practical management situations like this above, and provide „practical” and „functional” information to both practitioners and researchers in the same time. From this perspective, *my research follows a classic positivist (functional) approach* and seeks for the pattern and typical set of motives for the integration of human capital into SPM systems in a specifically selected organization.

By combining the strategic performance management perspective with the intellectual capital management and leadership studies, *the main objective of this thesis is to analyze and deeply understand the managerial motivations and practical contradictions around human capital's performance management in a properly selected knowledge-intensive organization where employees and their knowledge are the most critical and valuable assets.*

This understanding-oriented but functional research described herein does not focus on descriptive analysis only, but *aims to derive practical implications for the senior management and leaders of the selected organization regarding the integration of human capital into their SPM system.* One of the main goals regarding this point is to explore how leadership influences the use of SPM for human capital measurement, and identify a strategy and leadership combination at the case study organization where integrating human capital performance information into the corporate strategic performance management (SPM) system is more relevant and the probability of successful implementation and managerial use is higher.

The main research question of this thesis is as follows:

What is the impact of senior management's Leadership style on the integration of Human Capital into corporate Strategic Performance Management System?

⁷ This is very much aligned with the results of literature review in my thesis: although most stakeholders agree on the importance of intangibles in organizations, only in few cases we can find successfully implemented and utilized performance management tools to capture these important resources, including human capital.

During this strategic performance management research, I focus on *why* and *how* performance information on human capital is integrated into corporate strategic performance management system, and *who* utilizes this information during the SPM cycle. From a leader's aspect, the main focus of this research is a so-called beneficiary perspective, namely to understand the reasons and motives of how the leader utilizes human capital information as a part of SPM system, and what kind of performance information on human capital are relevant for him or her in an organization (not only on a communicated but in real measurement levels by the SPM cycle). Nevertheless, as a result of the expected low utilization of the related management tools in practice, it maybe also important to understand why a leader decides to formally measure (or not to measure) human capital at all, and how the related management tool has been implemented in an organization. The implementation of performance management system may have a significant impact of its later utilization in the organization.

So, my focus is on the senior leadership (or top management), and its benefits from generating and utilizing human capital measures in the corporate SPM system. For a better understanding of the human capital measurement practice at the case study organization though, I also consider the potential impact of management accounting change theories, and aim to understand why such human capital measures are implemented in the organization and how this motive impacts the future use of them.

The three key dimensions of the research question - *why*, *how* and *who* - can be clarified as the following figure summarizes it:




Why? 	What? 	How? 
<ul style="list-style-type: none"> What are the key motives and objectives of senior managers for integrating human capital performance information into corporate SPM system? What kind of other reasons can be identified to integrate human capital information into corporate SPM system? How can be the different motivations and reasons categorized? What is the relationship between the senior manager's leadership style and the level of human capital integration into SPM? 	<ul style="list-style-type: none"> What kind of human capital information is typically available in the various components of the SPM system regarding human capital performance and its contribution to strategy execution? What kind of human capital components and performance dimensions are typically measured and integrated into the SPM system? What kind of KPIs are available and discussed by the senior management as a part of the SPM cycle? 	<ul style="list-style-type: none"> Which corporate SPM system components are typically impacted or adapted to measure human capital? Who are the key stakeholders - addressees and data providers - of the human capital performance information? What is the typical frequency of human capital measurement, if it exists? What organizational and leadership patterns may support What other dimensions of an SPM system may be affected?

Figure 2 - Three dimensions of the research: division of main research goal into operational focal areas

2. Research framework

2.1 Research model and hypotheses

The main objective of this research, and the case-study-based research methodology, *this thesis aims to and can create a local understanding of the research phenomenon*. It does not aim to or can generate such empirical findings though which are generalizable to a broader range of organizations. It rather focuses on providing very deep and useful (or functional) information to the researcher and the senior management of the case study organization⁸, and generating practical insights into human capital management of the selected firm, its mother company, or potentially any similar knowledge-organization (with similar size, sector, strategy, structure, or leadership style⁹).

During the empirical research, a comprehensive but tailor-made research methodology was applied with a focus on the three main components of the scope of research, namely:

1. Leadership style and characteristics of the top management of the firm (A)
2. Human capital's integration into the corporate SPM system (B)

The following chart (Figure 3) illustrates the overall logic of the research framework applied in this dissertation in a structured but consolidated manner:

⁸For instance: How to measure and manage their strategic resources such as human capital in order to make better strategic decisions which better fit their own leadership style? What do the organization and its key opinion leaders think about the topic? Are there any discrepancies between the management's and the team's understandings? Etc.

⁹ This latter aim can be and is indirect though. Even if I analyze an organization where the research question is significant, as well as collect empirical data from various sources over 10 years, the limitations of sample size and the case study approach make the findings local and thus only potentially applicable to another organizations and contexts. However, by reading this case study research other scholars or practical managers might recognize similarities to their own results and organizations, and so utilize my findings as basis for further research or managerial solutions. To initiate this, I will also draft several potential next steps or approaches for future research at the end of this thesis.

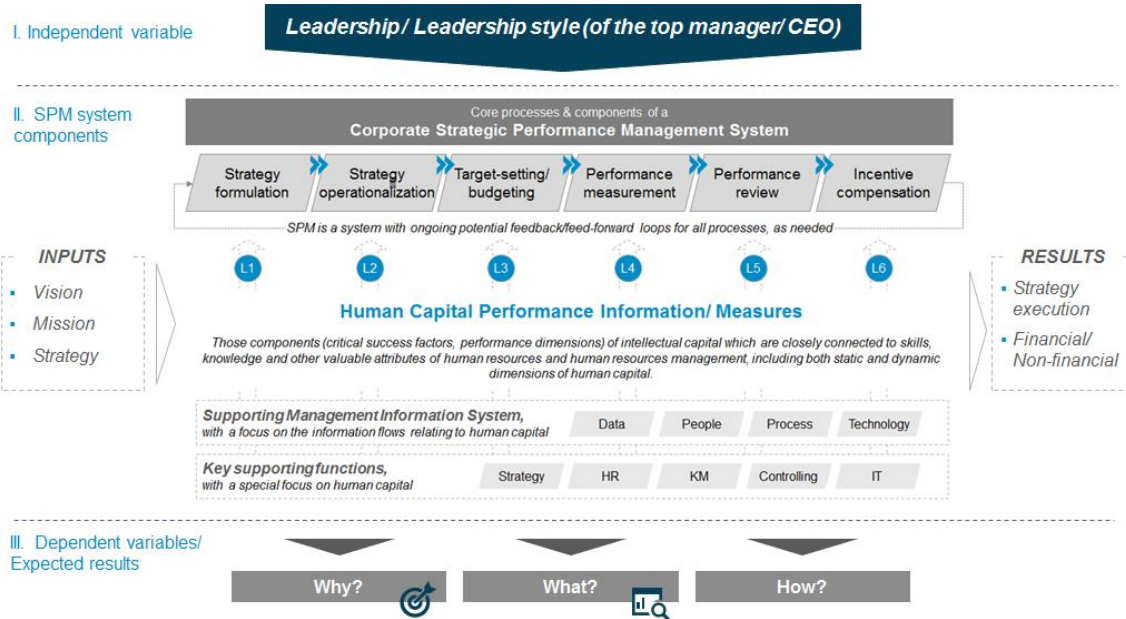


Figure 3 - Overall structure of research model applied in this thesis

I. Independent variable (A):

As the research question also highlights, the overall objective and scope of this thesis is to analyze the role and impact of the leadership style and characteristics of the senior management on the integration of human capital into the corporate strategic performance management system and its components. This is the input, or independent variable of the research model. Since this thesis focuses on the senior management of the organization and on the corporate SPM system only, under leadership in this thesis I refer to the senior management's¹⁰ *‘capability to exercise influence and control over the other members to help the organization achieve its goals’*. From another perspective, leadership means *‘influencing the activities and efforts of an organization towards setting and achieving corporate objectives and strategy’*.

During the empirical phase Goleman's consolidated leadership model is applied, with 6 different leadership styles (see, Goleman [2000]): Coercive (A1), Authoritative (A2), Affiliative (A3), Democratic (A4), Pacesetting (A5), and Coaching (A6).

¹⁰ In the case study organization: CEO.

II. SPM system components (B/1): Human capital's integration into the core processes of corporate strategic performance management

This thesis is designed to analyze the relationship between leadership style (A) and how human capital is integrated into SPM systems (B). This latter is operationalized by analyzing the human capital information available in any of the six core processes or components of an SPM system, namely: strategy formulation, strategy operationalization, target-setting and budgeting, performance measurement, performance review, and incentive compensation.

According to these six main components (or processes) of the SPM system, the following levels of integration are employed when the integration of human capital into strategic performance management is analyzed and discussed:

- **Not integrated (L0):** No specifically human-capital-related strategic objectives are defined and available in the corporate SPM system.
- **L1:** The corporate SPM contains properly defined strategic objectives regarding human capital.
- **L2:** The organization also applies KPIs for most of its strategic objectives related to human capital, however, no KPI targets are available for these human capital indicators.
- **L3:** Besides having specific human capital KPIs in the strategic performance management system, the organization also defines target values (KPTs) for majority of the human capital indicators.
- **L4:** The organization starts to monitor its human capital performance in an ad hoc manner, or regularly.
- **L5:** At this level, the target achievement of human-capital-related KPIs are not only reported, but also discussed by the senior management. This normally happens during regular strategy and performance review meetings.
- **L6:** In this thesis, this level refers to the highest level of integration of human capital into SPM, when KPIs are not only regularly reported, reviewed and discussed, but also the incentive compensation of the responsible managers (KPI owners) is connected to KPI performance and the level of target achievement.

II. SPM system components (B/2): Supporting processes as potential leadership supporters, substitutes or neutralizers

These components of the research model aim to capture how two of the key supporting functions and processes of an SPM system may influence on human capital's integration. Both can support, substitute or neutralize the managerial use and utilization of the SPM system itself. The two main areas in focus are the related

- *Management Information Systems (MIS)* (as the key data sources for performance data), and selected
- *Key internal supporting functions* with relevant connection to and impact on human capital management (especially human resources management and strategy departments or functions).

Both the availability, quality and perceived reliability of human capital data (related to MIS), as well as the maturity of key functions like HR, Strategy or others may have a significant influence on the level and method of the integration of human capital into SPM at the firm.

III. Dependent variables and expected results: Why, how and what kind of human capital is integrated into corporate SPM?

This section of the research model has been added to reemphasize the three main dimensions (why, what, how) of this thesis, as described earlier in this chapter. By analyzing the relation and correlations between leadership (A.) and the integration of human capital into SPM (B/1 & B/2), the research model aims to support us in achieving the main objective of this research. Namely, to understand why, what kind of human capital information, and how it is integrated into the corporate strategic performance management at a knowledge-intensive organization in Hungary.

According to this literature review and the above described research model the following hypotheses have been identified and studied in the empirical phases of this thesis:

Main hypothesis:
There is a connection between the senior manager's leadership style and the level of human capital integration into corporate strategic performance management at the case study organization.

Accordingly, if the senior managers at the case study firm (namely, the CEO of the company) can be described as having different specific leadership styles, the key characteristics of strategic

performance management, with a focus on human capital information integrated into corporate SPM will also be different.

In addition, there are six hypotheses regarding the impact of senior management leadership style (based on Goleman's model):

H1 – There is a correlation between senior manager leadership style and the level of human capital integration into corporate strategic performance management at the case study organization.

In more detail:

H1.1 If the senior manager of the firm is perceived as a coercive leader at the case study organization, the level of human capital information integrated into the corporate SPM is extremely low (L0).

H1.2 If the senior manager of the firm is perceived as an authoritative leader at the case study organization, the level of human capital information integrated into the corporate SPM is moderate (L2, L3 or L4).

H1.3 If the senior manager of the firm is perceived as an affiliative leader at the case study organization, the level of human capital information integrated into the corporate SPM is low (L1).

H1.4 If the senior manager of the firm is perceived as a democratic leader at the case study organization, the level of human capital information integrated into the corporate SPM is moderate to high (L4 or L5).

H1.5 If the senior manager of the firm is perceived as a pacesetter leader at the case study organization, the level of human capital integrated into the corporate SPM is high (L6).

H1.6 If the senior manager of the firm is perceived as a coaching leader at the case study organization, the level of human capital information integrated into the corporate SPM is low (L1).

Altogether, these six hypotheses are formulated to detail the main research question of this thesis: namely, what is the impact of leadership style on human capital performance measurement (as a part of corporate strategic performance management).

The second group of hypotheses (H2) concerns the *relationship between the main objectives of strategic performance management*, and the integration of human capital into corporate strategic performance management:

H2 – There is a correlation between the main objectives of using strategic performance management at the case study organization and the level of human capital integration into the corporate SPM of the firm.

In more detail:

H2.1 If the senior manager of the firm focuses on the “performance measurement” function of strategic performance management, the level of integration of human capital into the corporate SPM is high.

H2.2 If the senior manager of the firm focuses on the “decision making support” function of strategic performance management, the level of integration of human capital into the corporate SPM is high or moderate.

H2.3 If the senior manager of the firm focuses on any other function (namely “behavior orientation” or “psychological guidance”) of strategic performance management, the level of integration of human capital into the corporate SPM is low.

Finally, the last group of hypotheses is related to the most relevant supporting, substituting or neutralizing contingency factors:

H3 – There is a correlation between selected contingency factors and the level of human capital integration into corporate SPM at the case study organization.

In more detail:

H3.1 The perceived maturity of Human Resources Management (HR) function at the case study organization has a significant positive impact on the integration level of human capital into corporate SPM of the firm.

H3.2 The perceived maturity of the Strategy function at the case study organization has a significant positive impact on the integration level of human capital into corporate SPM of the firm.

H3.3 The perceived reliability and quality of human capital data at the case study organization has a significant positive impact on the integration of human capital into corporate SPM of the firm.

During the empirical research phase these 3 hypothesis categories, and 12 sub-hypotheses were analyzed at the case study organization. The case study organization then is a leading and one of the best-capitalized financial service provider from Hungary with a wide-range of innovative fund management services and more than 60 different products. The net sales of the firm in 2017 was more than 60,000 thousand EUR, while the total number of FTE is 39.

2.2 Research approach and methodology

In alignment with its scope and understanding-oriented research objective, the empirical phase of this thesis follows one of the classic approaches of exploratory research principles (see, for instance Yin [2014]). The more than 10 years long research period and the *functional case study research* applied to understand the research question better, and provide better *exploratory findings* of one of the key challenges of intellectual capital management, namely the role and impact of leadership in the design, implementation and beneficial use of SPM for human capital measurement purposes (see, for instance Babbie [2011]).

As Figure 4 below summarizes, the empirical research approach in this thesis should be considered *mixed (and action-based) research* that uses *methodological triangulation*. Capturing more than 10 years of longitudinal empirical data by using various methodologies and data sources leads to a better understanding of the phenomenon at the center, and provides a more comprehensive picture with more reliable and valid findings. These were the main reasons for applying the research approach and methodology below.

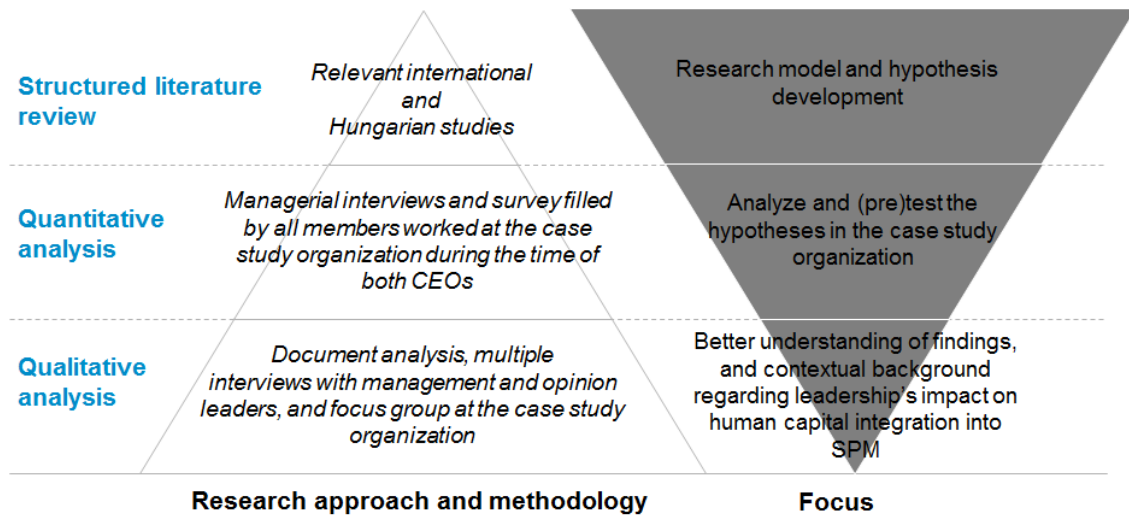


Figure 4 – Overall research approach and methodology

As the chart above summarizes:

- Based on a *structured but focused literature review*, first the research model was designed and the main hypotheses described. These latter were tested and understood during the case study analysis by using both quantitative and qualitative methods implemented in three main rounds; namely 2008, 2010-12 and 2017-18.
- In each data gathering and analysis cycle, both *document analysis* and several *in-depth interviews* with the managers and opinion leaders of the firm were implemented. In addition to this, in 2018 a *qualitative survey* and *focus group* session was also conducted with representatives of all organizational and business areas (departments) of the firm.
- As interviewees, in all *three interview cycles* the former and recent CEO, and the five directors of the organization were involved, while the focus group consisted of the five directors of the firm. The latter are Head of Portfolio Management and Head of Sales (two core functions of the firm), Head of Back Office (as the responsible individual for reports, including HR reports), and Head of Product Development (responsible for innovation and new service offerings, also, a core function in terms of Strategy). The managerial interviews and the focus group took a minimum of two hours each and consisted of both structured and open questions, with a clear focus on corporate strategic performance management and human capital at the firm.
- A *qualitative questionnaire* was sent to those members of the firm who worked at the firm under the leadership of both the former and new CEOs. Since all 15 employees filled in the survey, from a representativeness and validity perspective the questionnaire fulfilled its mission of creating the proper basis for descriptive analysis and providing representative findings that could be discussed in the focus group session. To minimize the impact of their

self-evaluation bias, neither the old nor recent CEOs filled out the survey as their answers might have significantly impacted the statistically small sample¹¹.

- Finally, to analyze the survey results, a *focus group* discussion supported me to understand the background and reasons for the survey findings. In the session, all five directors (or key opinion leaders) of the organization were invited and participated. The focus group covered all key functions of the firm, including portfolio management, product development, sales and marketing, as well as the back office as a key administrative unit in terms of HR and reporting.

Before going on to the empirical findings of this *single-case embedded case study* (based on Yin [2014]), the following points must be emphasized regarding the methodology and focus of the empirical research:

- This thesis concentrates on the *corporate level* only, both in terms of strategy execution and the SPM tools, processes and methods.
- This thesis focuses on *human capital* as a key group of intangible strategic resources. The other categories of intellectual capital, such as relational or organizational capital, are not within the scope of this piece of empirical research.
- This thesis concentrates on examining *the impact of senior management* (namely, the top manager) on the integration of human capital into corporate SPM. Nevertheless, it also considers at least *two additional key internal stakeholders* with potential significant influence, such as the HR and strategy functions (see hypothesis H3).
- Since a *case study approach* applied in this thesis, *the opportunity for generalization of the findings is limited*. Even if the case study covers almost 10 years of data and information, the results are still strongly dependent on the context, and normally cannot be generalized to another organizations. Nevertheless, it can serve as a basis for self-reflection for other similar companies, and initiate the next step of scientific and practical discussions regarding the role of one of the players in corporate SPM; namely, senior management.
- Finally, since the case study organization had two different CEOs during the research period (since 2008), besides all the sub-hypotheses in H2 and H3, only two of the six sub-hypotheses in H1 will be tested in the empirical phase. Pragmatically, two senior managers can have a maximum of two different leadership styles. Nevertheless, by comparing the leadership style

¹¹ The use of detailed statistical regression (or any similar) analysis on such a small sample is not possible and was not the goal of the research. The survey should be considered a descriptive tool for reflecting all the relevant members' opinions about the firm. Because of the high answer ratio, the survey fulfilled this objective.

and the impact of the two senior managers, H1 as one main hypotheses from the three main hypotheses can be tested in this case as well.

In alignment with my functional paradigm background and the research traditions of the Institute of Management, the case study organization, a leading financial service provider in Hungary was selected according to two main criteria:

- First, the company had to be a *knowledge-oriented (or human-intensive) organization* where, theoretically, human capital is perceived as an important group of strategic resources (see Chapter 2). This criterion was applied to help me focus on the leadership and its impacts without being concerned whether human capital is (not) measured in the firm, because this is rather not considered critical at all.
- Second, to be able to compare the impact of different leadership styles on human capital integration into corporate SPM, the case study organization *had to be led by at least two different senior managers (CEOs) for a significant amount of time* during the research period.

The main empirical results and conclusions based on the longitudinal case study analysis are summarized in the next chapter. In addition to the 3 main hypotheses described above, the availability and use of the six typical human capital dimensions – namely, (1) Skills and competences, (2) Attitude and loyalty, (3) Diversity, (4) HR stability and growth, (5) HR effectiveness and (6) HR efficiency.

3. Hypothesis analysis at the case study organization

Human capital is considered and perceived as the most crucial intangible strategic resource category at the firm: more than 80% of the colleagues agreed with this and considered it at very or rather important at the organization.

Nevertheless, from the 17 strategic objectives in the corporate SPM only 3 objectives are directly linked to human capital and measured by human capital indicators.

The corporate SPM consists of 31 indicators, of which 9 are related to human capital only.

The following table lists all the KPIs related to human capital at the case study organization:

Category	Static (stock) performance dimensions	Dynamic (flow) performance dimensions
Skills and competences		<ul style="list-style-type: none"> No of training events (per employee) ⁽¹⁾
Attitude and loyalty		
Diversity		
HR stability and growth		
HR effectiveness	<ul style="list-style-type: none"> No of conference presentations (per employee) No of publications (per employee) Planned knowledge sessions conducted in distribution network (No, %) Training days provided per distribution FTE Training satisfaction of distribution network Satisfaction of distribution network (support, operations) ^{(1) (2)} 	
HR efficiency	<ul style="list-style-type: none"> Coverage of new incentive system (%) No of transactions per FTE ⁽¹⁾ No of corrections and cancellations per FTE ⁽¹⁾ 	

Table 1 – Human capital indicators integrated into corporate SPM at the Company¹²

The total 9 of 31 strategic KPIs designed and integrated into the corporate SPM is to be considered low for such a knowledge intensive firm like the case study organization in general; however, the following aspects are important to make the picture comprehensive and complete:

- First, data availability related to financial and operational KPIs is significantly better than that of human capital indicators.
- Second, the case study organization is owned by a leading financial group in Hungary and controlled by the Hungarian Financial Supervisory Authority.
- Third, the fact that the Company does not have a formal HR Department may also have a significant impact not only on HR data availability but also on the formal integration level of human capital into corporate SPM as well.
- Finally, besides purely considering how many human KPIs are integrated into corporate SPM, it is more important how the senior management utilizes them – and the corporate BSC in general – during performance management and their decision-making practices.

Regarding the 3 main and 12 sub-hypotheses, the following analysis can be made based on analysing the various data sources (see, above):

¹² Saját elemzés alapján - Megjegyzés: (1) Kizárólag a háttértárakra alkalmazható. (2) Erősen befolyásolja a rendszer / IT minősége.

I. H1. – Correlation between senior manager leadership style and the level of human capital integration into corporate strategic performance management at the case study organization:

The two CEOs of the firm has different dominant leadership styles: while CEO 1 is a dominantly *Authoritative leader*, the CEO 2 is mainly described by the characteristics of a *Pacesetting leader*, with his relevant focus on detailed planning and avoiding conflicts inside the organization. These latter dimensions are strongly related to an *Affiliative leader*, which was also significantly often mentioned in CEO2's case.

The perceived integration of *human capital into SPM* is very similar in the case of both CEOs, although *CEO 1 scores higher* in both Strategy formulation, Strategy operationalization (and KPIs), Target setting and budgeting, Performance measurement and Performance reviews. Regarding *Incentive compensation*, the empirical data did not show any difference. Practically, both CEOs and the team were satisfied with the incentive system implemented in 2008 and since used.

The analysis of the related hypotheses is as follows:

- H1.2. regarding an authoritative leader: *This hypothesis can be only partially accepted in the case study organization.*
- H1.3. regarding an affiliative leader: *This hypothesis cannot be accepted in this form.*
- H1.5. regarding a pacesetting leader: *This hypothesis cannot be accepted in this form.*
- The other leadership styles from Goleman's model were not dominant in the case study organization.

II. H2. – Correlation between the main function of SPM at the firm and the level of human capital's integration human capital into corporate SPM system

Regarding the main function and objective of using strategic performance management, the following explorations could be made at the case study organization:

- *Performance measurement* did get the highest score in both CEOs' case. Both of them are actively using the *management-by-objectives cycle* to set targets for organizational members and measure their performance, so this was expected during this research.

- *Decision-making support* is awarded almost the same relevance in this study, especially for CEO 2, who scored higher average points in this dimension than CEO 1.
- *Psychological guidance* function of SPM is ranked second most important for CEO 1, while in the case of CEO 2 the relevance of this is lower.
- Finally, *behavior-orientation*, namely, aligning the motivation and activities of people with corporate strategy, is a less important function of SPM at the Company.

The analysis of the related hypotheses is as follows:

- H2.1. regarding performance management function of SPM: *This hypothesis cannot be accepted based on the case study analysis.*
- H2.2. regarding decision-making support function of SPM: *This hypothesis can be only partially accepted, namely at the moderate level.*
- H2.3. regarding any other functions of SPM: *This hypothesis cannot be accepted for the case study organization.*
- *Altogether, H2. cannot, or can only be partially accepted for the case study organization.*

III. H3. – Hypotheses regarding the most relevant supporting, substituting or neutralizing contingency factors

According to the literature review, even if leadership is most supportive towards SPM in an organization, it must count on various supporting, substituting or neutralizing contingency factors with a potential impact on the implementation and use of strategic performance management (see in detail Chapters 3 and 4). This hypothesis group (see Table 16) focuses on three such factors; namely, how do the maturity of Human Resources Management (H3.1) and Strategy (H3.2) functions, as well as Data availability (H3.3) influence the level of human capital integration into corporate strategic performance management.

The analysis of the related hypotheses is as follows:

- H3.1. regarding the perceived maturity of HRM function at the firm: *This hypothesis can be accepted at the case study organization.*
- H3.2 regarding the perceived maturity of Strategy function at the firm: *This hypothesis can be accepted at the case study organization.*

- H3.3. regarding the impact of data availability and reliability: *This hypothesis can be accepted at the case study organization.*

4. Summary of conclusions

4.1 Implications for practice

By applying an explorative longitudinal case study approach, this thesis focused on understanding why and how corporate SPM is used to capture human capital in a selected knowledge-intensive organization in Hungary. Even though the main objective was to analyze the role of leadership in the level of human capital integration into SPM system and not to define normative recommendations, several practical implications have been derived as well. These implications might be interesting for the senior management of the case study organization, and could also serve to trigger discussion and management ideas at other human-intensive organizations of similar size and context or challenges¹³.

First, according to all data sources, human capital is considered a key strategic resource for the case study organization, from both strategy, value creation and performance management perspectives. Practically, all key stakeholders agreed that employees and their knowledge, expertise and experience, loyalty and low fluctuation (etc.) are crucial for maintaining the Company's success and leading market position, even if no formal corporate strategic performance management system was applied to monitor or manage human capital at the firm in recent years. The active role of both CEOs in managing and leading the firm and its human capital, combined with clear processes and rules for cooperation and management, appear to be successful in leading strategy execution and performance management.

Second, even if no formal corporate SPM system has been used recently, the Company and its people are performing well and are able to implement strategy effectively and efficiently. In other words, by defining clear individual roles and processes, making cooperation transparent, and defining mid-term and annual performance targets for all individuals at the firm, the senior management has been able to manage strategy and performance properly without using a comprehensive and formal SPM system. In an organization with a size and portfolio like the Financial Service Provider, an active and supportive leadership and effective organization structure could potentially substitute a formal SPM

¹³ Because of the case study approach applied in this thesis, the generalization of results is limited for other cases or organizations. Accordingly, the following implications for practice focus on the case study firm only, and can only be the basis for ideas for further research in other cases.

system effectively and replace its key functions (especially, performance measurement and decision-making support) with another tools and systems. This claim appears to be valid for human capital management purposes as well.

Nevertheless, this has not lead to a perfect situation at the case study organization. The organizational members have flagged various topics for improvement in order to support strategy execution and performance management in a more effective and efficient way at the firm. Some of these are related to leadership style of the CEOs (e.g. communication or more support), while the other parts are areas related more to the SPM system itself (e.g. more regular feedback about corporate and individual performance). Together, the managerial use of the formal corporate strategic performance management system is perceived as too low by the organizational members of the Company. For instance, the significantly higher integration of human capital would be required in areas like strategy formulation, strategy operationalization and target setting, or performance reviews.

The next point is strongly related to this latter. Even though the psychological guidance function of corporate SPM is sometimes underestimated in practice, in the case study organization there is a clear need to enhance this aspect compared to its current level. Amongst other factors, better communication about objectives, targets and results and the middle management's involvement in decision-making process could support the CEOs and enhance this function of SPM, even though several dimensions and previous leadership and management practices have changed at the Company.

In addition, there is a need for further development in selected HRM functions and dimensions to keep human capital performance at the current level needed to maintain the Company's leading market position and high performance. Not the same level of significance, but a similar message can be derived regarding the strategy function as well. Based on the analysis of the case study organization, the integration of human capital into corporate performance management appears to be more of a HRM than strategic question, especially if we consider the tools the Company uses to manage its human capital on a day-to-day basis. The most actively used management tools (namely, Management-by-Objectives, and Bonus system) are closer to HRM than SPM tools from a practical perspective.

Finally, the gap between perceived importance and the actual level of SPM integration of human capital needs to be also recognized. While SPM focuses on monitoring HR effectiveness and HR efficiency at the Company, members of the organization have emphasized their desire for the more active measurement of performance dimensions such as Attitude and loyalty, or HR stability and

growth. This leads back to our discussion about the impact of the low data availability of human capital indicators, and to a main challenge in economics; namely, over-concentration on objects which are easier to measure (see, for instance Lakatos [2003]). One of the most important practical implications of this thesis is that even if senior management and its leadership style are supportive of human capital performance management (as in the case of the case study organization), if the necessary performance data is not available (or if it would be expensive to make it available), this can significantly neutralize the impact of leadership regarding the integration of human capital into corporate SPM.

The costs-and-benefits ratio and a positive balance in terms of managerial perceptions about the benefits of human capital measurement are significant for (not) using any performance management tool in general, or for ICM or human capital purposes. Practically, the senior management and key stakeholders of the organization must perceive the practical benefits of human capital integration into SPM to use the corporate strategic performance management system (in our case, the balanced scorecard) actively and in a sustainable manner (also for human capital purposes). Since this was not the case at the Company, it can be considered as one of the most important reasons for cancelling the comprehensive corporate SPM system and implementing only the sub-components of it (e.g. Management-by-Objectives and Incentive/Bonus system), which are perceived as functional for the Company.

4.2 Implications for theory

Even though the opportunity for generalization based on this longitudinal case study research is relatively limited outside the context of the case study organization, various implications can be derived for theory as well. These mainly involve comparisons with material from the literature review and shall be objects of future research if they are to be applied to other organizations or a broader context.

First, the history and recent status of the intellectual capital management perspective has been compared to Gartner's lifecycle model for emerging technologies and topics. According to the analysis and literature review, the ICM perspective (including the performance management of human capital) is in a state of the '*Trough of disillusionment*' after a relatively active discussion and inflated expectations regarding its impact over the last few decades. The next stage would be to reach the '*Slope of enlightenment*' once the main practical and theoretical challenges regarding the integration of intangibles and human capital are overcome.

A similar pattern and lifecycle was clearly identifiable at the case study organization as well, when the attitudes and expectations of both the management and the members of the firm changed from first sceptical to positive, then from positive to frustrated¹⁴. This, combined with the impact of a changing leadership style after the new CEO was appointed, and external contingency factors like the short time pressure of the financial crisis or the low KPI data availability, led to the current state where the active use of corporate SPM is low and only few components of it are in real use at the Company. The case study organization appears to be at the stage of disillusionment, and has solved upcoming challenges in a very pragmatic manner¹⁵.

Second, the increased and significant role of human capital and intangibles appear to be relevant for the case study organization as well. In addition to human capital, market relations and innovation are critical resources for the Company both in terms of achieving its strategy and maintaining its leading market position. Besides the resources perspective, management activities like creating transparency and improving the efficiency and the effectiveness of intangibles are also important management activities at the Company.

Third, in the literature *various objectives and challenges* (and barriers) have been identified regarding the sustainable application of ICM tools and perspective, as well as the implementation and beneficial use of SPM systems for the same purpose. Several of these are significant at the case study organization as well. The three most important ones are as follows (examples):

- *Top management's support and commitment.* This appears to be one of the most important reasons for implementing and using corporate SPM at the case study organization in general, and for human capital purposes¹⁶. While the first CEO was designed to develop a performance-oriented culture and better understand the firm's business model and operation by implementing corporate balanced scorecard, the second focused on very similar goals through reinforcing the use of management-by-objectives and bonus systems. The latter are those performance management components in the Company which have the most impact and relation to human capital. On the other hand, when the first CEO's focus and time was diverted from SPM to managing the financial crisis, this had a significant impact on SPM use and the level of human capital integration into it at the same time. Besides leadership style, the general commitment

¹⁴For more detail, see for instance, Bodnár et al [2009], Bodnár et al. [2010], or Harangozó et al. [2010].

¹⁵In addition to analyzing role of leadership on SPM and human capital management in a broader sample by using additional (potentially more quantitative) methods, comparing the Company's status and solutions to other financial sector or other knowledge intensive organizations may be a potential future direction of research.

¹⁶ This result aligned with the behavioral studies of management accounting (e.g. Kelly – Pratt [1992] or Macintosh [1994]), or different scholars with performance management background (see for instance, Simons [2002], Anthony – Govindarajan [2009], or De Waal [2013]).

and support of senior management are confirmed to be critical in the case study organization too.

- *Ability to determine critical success factors (objectives) and translate them into measurable KPIs.* During and after the BSC implementation project in 2007, the organizational members not only emphasized their questions regarding the functionality and fit of a formal SPM system at the Company, but also had intense discussions about the objectives and KPIs integrated into the corporate BSC, especially in the Capabilities perspective. This latter is where most of the human capital objectives and indicators are located. In addition, most of the human capital objectives and KPIs are not measurable at the case study organization: this is also an important factor in the low use of corporate SPM in general and human capital purposes.
- *Installation of a simple monitoring and tracking system.* This is strongly related to the previous point, namely the lack of measurability of the human capital objectives and KPIs at the case study organization. Since almost all human KPIs needed extra initiatives to make them measurable, creating a simple monitoring and reporting system for human capital at the case study organization has not been not easy. This had a significant impact on human capital integration into corporate SPM and the use of strategic performance management for human capital purposes.

The last point above leads back to another theoretical implication at the case study organization. Besides leadership, behavioral and organizational aspects, *the theory of transactional costs* also seems to be relevant not only from practical but a theoretical perspective as well. Since the use of SPM has created significant additional cost to the case study organization, this could be one of the key reasons for the low SPM use in general and from a human capital perspective at the same time. Potentially extending the scope of future research in this direction might add value to the ICM discussion of the last decades and potentially help to create a more comprehensive analysis of human capital management with a better understanding of the key reasons for the recent low use of ICM methodologies and tools at organizations. This is one of the potential directions for future research.

Finally, based on this longitudinal case study senior management's leadership style appears to be a relevant factor that influences the use of SPM and the integration of human capital at the case study organization. Nevertheless, various additional organizational and contingency factors (here, maturity of HRM and strategy functions, and data availability) have had a significant impact on how SPM is used for human capital at the case study organization. These both should be studied and tested using

a broader sample of organizations in order to generate results which are applicable to a specific context or a whole sector.

4.3 Dilemmas and potential next steps

This thesis was designed to explore and understand the role of leadership in relation to why and how human capital is integrated into corporate SPM at a selected human-intensive organization. To achieve this and provide an in-depth understanding of the Company where the performance management integration of human capital appears to be critical for success, *a functional but mainly qualitative research approach was chosen with methodological triangulation*. Based on the various interview rounds of the last 10 years, the document analysis, the qualitative survey¹⁷ and focus group, I have aimed to create the most reliable and valid empirical analysis of the case study organization. In other words, the selection of research model and methodology was conscious and pragmatic in order to generate the best local understanding and empirical findings in relation to case study, which can be good basis for further performance management research on an even wider sample or by using different methodologies (besides additional interviews or additional case studies).

According to this latter, *one of the directions for future research is to develop and implement a more quantitative research model with broader statistical analysis and methodology*. This is a future goal though, and was not the main objective and scope of the present thesis and doctoral research. At this stage, the main goal was to reach an in-depth understanding and explore an organization and its SPM practices deeply with a focus on the integration of human capital and the impact of senior leadership. This goal was served by using qualitative research methodologies instead of quantitative analysis on a broader sample of organizations.

In the future though, the key findings of this longitudinal case study could be utilized as a basis for developing a more quantitative research model and set of hypotheses, and be tested on a broader sample¹⁸.

From a methodological perspective, it is also important to emphasize the basic background of this research. This thesis has a deep *strategic performance management core* and aims to *combine this*

¹⁷ Which was filled by all members of the firm who worked under the two CEOs.

¹⁸ For instance, for the financial sector, or even involving various sectors where human capital is theoretically relevant and where it is not (as a control group).

with one of the most relevant organizational behavioral conditions of SPM implementation and use; namely the role and impact of senior management and its leadership style. From this perspective, the researcher has consciously encountered the borderline of performance management and organizational behavior, even if this may open-up numerous questions and challenges. As a researcher and practical performance management expert, I have been in situations when (‘hard’) performance management systems did not achieve their targeted impact because they did not consider several important (‘soft’) organizational factors. Leadership is one of the key success factors in SPM, although it is not the only one. Extending this research to incorporate these additional factors is also a potential direction for future research and the next steps. However, focusing on leadership style in this thesis was a conscious choice.

Finally, even if the various data sources and methods used for empirical data collection cover all aspects of strategic performance management, leadership and human capital at the case study organization, there might be also several potential limitations and dilemmas that should be considered considering the case study organization:

- The main *documents that were analyzed* were the corporate balanced scorecard and the related reports. This is the basis for corporate SPM; however, it has not been in use in recent years. So, for this latter period it might have been very useful to analyze the individual management-by-objectives or bonus shares. For reasons of privacy, these have not been shared by the firm but are only discussed at one-to-one interviews and the focus group.
- The almost *10-year time frame of the empirical research* sometimes made it challenging to meet the same persons for *interviews*, and pick up the thread where it had stopped the last time. To resolve this, the interviews were semi-structured and always started with a short summary of the last conversation we had, and inquired about the significant changes and updates in context and performance, the use and structure of corporate SPM, leadership characteristics and structures, and human capital at the Company. Since the key findings, described in former chapters, were mentioned at many occasions and by different interviewees, their reliability and validity can be considered appropriate for this case study research.
- Finally, regarding the *qualitative survey and focus group*, the main dilemma was also time-related: organizational members had to use a retrospective approach when describing the leadership style and SPM characteristics, as well as human capital management practices in the case of CEO 1. Since people tend to potentially overemphasize memories and events which are closer in time, this risk had to be handled, mainly by comparing the results with interviews from 2008 and 2010/2012 when still CEO 1 was the active top manager of the firm, and by applying

control questions not only in the survey but also in the focus group and the most recent interviews as well.

In summary, even if several different methodologies and research approach could have been used in this thesis, the previously described methodologies and tools, together with the methodological triangulation, were a conscious choice of the researcher in alignment with the main goals and questions in this doctoral thesis. Extending the research in a quantitative direction or integrating additional organizational factors besides the leadership style of senior management could be the next steps and scope of future research projects.

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