An Employee Perspective to Performance Measurement and Management: A Public Sector Case Study

Suorituskyvyn mitaaminen ja johtaminen henkilöstön näkökulmasta: Julkisen sektorin tapaustutkimus

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1 Introduction

1.1 Background

Performance measurement is a commonly used tool in modern management accounting practices. With the Balanced Scorecard attracting a great deal of academic as well as commercial interest, performance measurement has become a popular topic for both industrialists and academics. The performance of an organization defines how it succeeds. An organization aiming to succeed needs to produce information about its actions and functions. This can be achieved by designing measures and extensive measurement systems. As Simons (2000, 4) describes, the purpose of any performance measurement and control systems is to convey information. This information is utilized in management decision-making through the process of performance management.

Traditionally performance measurement has mainly been characterized as backward looking, internal, financial, and more concerned with local departmental performance than overall business performance (Bourne et al. 2003, 4). Dissatisfaction with using financial measures as a meter of performance is not only a recent trend. As far back as 1951, General Electric CEO Ralph Cordiner assigned a high-level task force to identify key corporate performance measures (Eccles 1991, 132). However, modern performance measurement systems, such as the Balanced Scorecard, aim to provide a comprehensive balanced measurement of the overall organizational performance, including financial and non-financial as well as internal and external measures.

Virtually all performance measurement systems start with defining the strategy and vision of the organization. The strategy and vision are then formulated into a set of strategic objectives. These objectives should be shaped into goals that the employees can understand. Although the executive management is responsible for defining the strategy and vision of the organization, it should keep in mind that it is the employees who will be implementing that strategy. When operational targets are derived straight from the strat-
egy, the employees have a major role in defining how the strategy is implemented and how the organization succeeds.

This study focuses on both performance measurement and management from an employee perspective. The employee role in performance measurement has received little academic attention. An important question is whether the employees know what performance measurement is and how it is measured. It is critical that the employees understand the alignment of the operational targets with the organization’s strategic objectives. This calls for functional communication and information infrastructure. Both the strategy and targets have to be communicated properly through interactive communication.

1.2 Objectives of the study

This study aims to examine how an organization’s employees affect its performance measurement and performance management. More specifically this study aims to determine what knowledge and understanding the employees have of performance measurement and how they participate in the whole process of designing, implementing and using a performance measurement system. The study focuses on the public sector and its special characteristics, such as its many stakeholders with conflicting needs and difficulty in target setting.

The main objective of the study is to examine:

- The role of employees in performance measurement and performance management

The primary research question is:

- How are the employees involved in the process of performance measurement and performance management?

Secondary research questions provide the understanding of the research phenomenon required to answer the primary questions. The secondary research questions are:
- What are the main challenges related to employees when measuring performance?
- What methods are used to communicate the strategy, objectives and measurement results to the employees?
- How are reward systems together with performance measurement used as a motivational or control tool?

Employee involvement in performance measurement and management is first examined generally through a literature review, keeping in mind, however, the transferability of previous findings to public sector organizations. Next further insight and empirical evidence regarding the employee role in performance measurement in public sector organizations is sought through a case study at Mikkeli University of Applied Sciences.

1.3 Methodology

The study will be performed using constructive qualitative research. The study proceeds through the constructive approach presented by Kasanen et al. (1993) in their study on the constructive approach in management accounting (cf. Figure 1).

![Figure 1. Elements of Constructive Research (Kasanen et al. 1993, 246)]

Initially theoretical models and knowledge of performance measurement and performance management are examined through a literature review. The data for the literature
review consists mainly of published studies as well as other acknowledged publications on the research topic. The qualitative analysis of the published studies is carried out mainly through thematization. Next practical functioning and practical relevance will be examined based on existing empirical studies on the role of employees in performance measurement and through a limited case study based on semi-structured interviews at Mikkeli University of Applied Sciences. Finally this interactive research approach will be used to construct a solution to the research problem and answers to the research questions.

1.4 Study structure

This study is composed of six main chapters. In chapter one a short background to performance measurement and management is introduced, the objectives and research questions of the study are defined, the research methodology is described and the study structure is presented. In the following chapter the key concepts of the study (public sector organization, performance, performance measurement, performance management, and performance measurement systems) are defined.

In chapter three the employee role in performance measurement and management is examined through a literature review. Chapter three examines themes such as participation in decision-making, knowledge and understanding of performance measurement, strategy alignment, communication and linking a reward system to performance measurement. Chapter four examines performance measurement and its distinct characteristics in the public sector.

In chapter five a case study at Mikkeli University of Applied Sciences is presented. First the background information is introduced, then the interview structure and methods are explained and finally the results of the case study are revealed and examined. Chapter six consists of the discussion and conclusions of the study.


2 Key concepts

2.1 Public sector organization

Organizations can be divided into companies, public sector organizations and third sector organizations such as non-profit organizations (Lämsä & Hautala 2004, 9). Whether an organization is classified as public or private, it is generally described as a social arrangement, which pursues collective goals (Lämsä & Hautala 2004, 9). The boundary between the public and private sectors is not always clear. In some cases the boundary is well defined: assets get transferred from the public to the private sector through privatization; assets that remain in state ownership are clearly public (Flynn 2007, 1). The process of outsourcing, by which private companies provide all or part of their services, makes the boundary less clear.

The public sector is typically divided into various sectors of activity based on a more or less hierarchical structure. The lower units in the structure are oriented to the provision of goods and services, whereas the higher entities or agencies are more concerned with administrative work, preparing budgetary requests, policy proposals and deciding matters of principle relating to the implementation of laws (Lane 2000, 247). Flynn (2007, 8) presents four elements to the distinction between private and public services. (1) Certain things are ‘public goods’ that produce benefits that accumulate to people other than those who benefit directly (e.g. education). As people cannot be excluded from certain benefits, they should pay for these services collectively rather than individually. (2) Services are public when they are mainly financed by taxation. (3) Who owns the facilities and who employs the service providers? Traditionally public services were provided by public employees situated in public buildings. Currently such a distinction is not absolute, because of outsourcing and privatization. (4) The lack of a direct connection between the ability to pay and access to the service.

This study refers to a public sector organization as a social arrangement that pursues collective goals, controls its own performance, and has a boundary separating it from its
environment as well as distinctive elements separating it from the private sector. In the context of the case study at Mikkeli University of Applied Sciences, this study mainly refers to public sector service organizations such as public universities.

2.2 Performance

The concept of performance can be a complex issue to define, and various meanings can be found for the term. Although the term performance is widely used, its precise meaning is rarely specifically defined. Performance is referred to as either an action or a result or both at the same time. Lebas and Euske (2002, 67-68) view performance as referring simultaneously to the action, the result of the action, and to the success of the result in comparison to some benchmark. They continue to state that “performance is the sum of all processes that will lead managers to taking appropriate actions in the present that will create a performing organization in the future (i.e., one that is effective and efficient)” (Lebas & Euske 2002, 68).

As Kaplan and Norton discovered, when formulating the Balanced Scorecard, historical figures may have little to do with future success. Measuring historical performance from only one perspective (e.g. financial) provides a narrow view and results in a measurement gap, which is a significant deficiency in strategy implementation (Lynch 2009, 508). Causal relationships have to be considered to identify and manage the process through which performance (future results) will be created (Lebas & Euske 2002, 68).

In his study of performance measurement in Finnish companies, Lönnqvist (2002, 14) defines performance as the ability of the measured object to achieve results in relation to the objectives. When measuring performance, performance can be examined through different perspectives in different frameworks, such as the Balanced Scorecard (financial, customers, internal processes, innovation and learning) or the Performance Prism (stakeholder satisfaction, stakeholder contribution, strategies, processes and capabilities) (Kaplan & Norton 1993, 4; Neely et al. 2002, 4). In these performance measure-
ment models, different dimensions of the organization collectively construct its performance.

**Figure 2. A Company’s Internal and External Performance (Rantanen 2001, 5)**

Performance can be simply divided into two main dimensions: internal performance and external performance. How and what elements of performance are sorted under each heading is a question of preference. In internal analysis, a company’s internal functions are examined. In internal analysis there is more useful and precise data available than in an external perspective. Viewing and analyzing a company as a whole, ‘from the outside’, is external performance analysis. External performance as a concept clearly describes how a company survives in its surrounding environment. (Rantanen 2001, 5-6) (cf. Figure 2)
In the context of performance measurement and management, this study mainly refers to Lönnqvist’s (2002) measurement-oriented definition of performance, nevertheless keeping in mind Lebas’ and Euske’s (2002) process-oriented and causal, action → result → success -description.

2.3 Performance measurement

Performance measurement as a concept is also rarely defined. Research in performance measurement can be found in a number of different fields as diverse as economics, industrial engineering, organizational theory, psychology, public policy and statistics (Austin & Gittel 2002, 81). Neely et al. (1995, 80) define performance measurement as the process of quantifying efficiency and effectiveness of action. Neely et al. (1995, 80) refer to effectiveness as the extent to which customer requirements are met and to efficiency as a measure of how economically the firm’s resources are utilized when providing a given level of customer satisfaction. Hannula and Lönnqvist (2002, 47) define performance measurement as a process used to determine the status of an attribute relevant to the performance measurement object.

The use of the term strategic performance measurement highlights the fact that performance measurement is used as a tool of strategic management. In strategic performance measurement the employees are led to execute the organizational strategy. As the measures are derived from the organization’s vision and strategy, these measures are used to translate and communicate the vision to the workforce. The results generated by strategy-originated measures can then be used to evaluate the effectuation of the strategy. (Lönnqvist 2002, 15)
The diagram above (Figure 3) represents how the Balanced Scorecard can be used in strategic management. The scorecard provides four management processes that, separately and in combination, play a part in linking long-term strategic goals with short-term actions (Kaplan & Norton 1996, 37-38). In this study performance measurement is viewed as a strategic tool and a process which consists of: determining critical success factors, selecting strategy and vision originated measures and targets, implementing these measures, using the measures as well as updating them regularly.
2.4 Performance management

Performance management has many applications depending on the purpose of its use, or the organization where it is used. For this reason it is hard to find a single established definition for the term. Hannula and Lönnqvist (2002, 46) suggest that performance management is management based on the information produced by performance measurement. This definition accentuates the active and systematic use of measurement in managing and developing the performance of various business activities.

Bititci et al. (1997, 524) define the *performance management process* as the process by which the company manages its performance in line with its corporate and functional strategies and objectives. Furthermore, they state that the objective of this process is to provide a proactive closed loop control system, where the corporate and functional strategies are deployed to all business processes, activities, task and personnel, and feedback is obtained through the performance measurement system to enable appropriate management decisions (cf. Figure 4).

![Figure 4. The Closed Loop Deployment and Feedback System for the Performance Management Process (Bititci et al. 1997, 524)](image-url)
The performance management process is defined by how an organization uses various different systems (management accounting, strategy development, management by objectives, performance measures, incentive/reward systems, personnel appraisal) to manage its performance and create a control system. Performance measurement frameworks, however, are not only tools for single organization management. A recent article by Kaplan, Norton and Rugelsjoen (2010) describes how the Balanced Scorecard can be used to manage corporate alliances successfully. They portray how two organizations with entirely different business models and cultures (research driven pharmaceutical company/operationally oriented services company) used the Balanced Scorecard to manage their alliance and align the two organizations, which among other things, resulted in a 40% reduction in the total cycle time for clinical studies.

As this study considers the employees’ role in performance measurement and their involvement and knowledge of performance measurement, the term performance management in this study refers mainly to the strategy deploying process description of Bititci et al. (1997).

2.5 Performance measurement systems

A performance measurement system often refers to an organizational control system constructed on the basis of an existing performance measurement framework such as the Balanced Scorecard or the Performance Prism. However, exact definitions vary depending on what purpose and in what organizational level the performance measurement system is used. Neely et al. (1995, 81) define a performance measurement system as a set of metrics used to quantify both the efficiency and effectiveness of actions. Bititci et al. (1997, 524-525) view a performance measurement system as the information system in the performance management process and a process that provides feedback to employees on the outcomes of actions. Bourne et al. (2003, 4) refer to a performance measurement system as the use of a multidimensional set of measures for the planning and management of a business.
In their research on the definition of a business performance measurement system, Franco-Santos et al. (2007, 795) discovered that although researchers refer to the term, they do not explicitly define what they are referring to. After a methodical literature review and reading over 300 documents, they only found 17 definitions for the business performance measurement system concept. They argue that the two necessary features of performance measurement systems are: 'performance measures' and 'supporting infrastructure'. They also state that although many roles for a performance measurement system have been identified, the only necessary role is to 'measure performance'. Because of the recent emphasis on strategic performance measurement systems, the authors find it unsurprising that many of the definitions discuss linking measures to strategy or strategic objectives of the organization. However, some measurement systems only have operational goals that may or may not be linked to the strategy. (Franco-Santos et al. 2007, 796-797)

In this study a performance measurement system is seen as a system in which an organization’s performance is measured through strategically selected measures, and has a sophisticated infrastructure that provides feedback and promotes double-loop learning and performance improvement. In this sense, the definition by Bititci et al. (1997) of an information system as a part of the performance management process is an appropriate description.
3 Employee role in performance measurement

3.1 Participation in decision-making

Employee participation in a firm’s decision-making has been studied extensively. In relation to performance measurement, participation in decision-making mainly refers to participation in measure and goal setting. Participation in decision-making is often linked with job satisfaction (cf. Yammarino & Naughton 1992; Miller & Monge 1986). In their meta-analysis of participative techniques, Miller & Monge (1986, 740-742) discovered that participation in decision-making has an effect on both job satisfaction and job productivity. Previous research also supports a strong correlation between participation in decision-making and commitment (Scott-Ladd et al. 2005, 400-402). This is an important factor in performance measurement and management as commitment is seen to direct an individual’s effort toward achieving organizational goals.

In their study on the impacts of employee participation in decision-making, Scott-Ladd & Marshall (2004) found that participation in decision-making directly contributed to task variety and autonomy, and through autonomy to task identity. Employees perceived that participation in decision-making contributed to performance effectiveness and led to gains in the workplace. They also found that participation in decision-making directly influenced job satisfaction, but it did not influence job satisfaction indirectly through job characteristics (task variety, task significance, task identity, feedback, autonomy) as they had assumed. In addition participation in decision-making was found to have an indirect influence, rather than a direct influence, on affective commitment through job satisfaction. (Scott-Ladd & Marshall 2004, 655-658)

The employee role has become more important in modern performance measurement frameworks. In Lönnqvist’s (2002, 117) study both the managers and employees agreed that non-financial measurement had increased and that the employees have a bigger role in performance measurement than before. In their study on the impacts of perform-
ance measurement on the quality of working life, Ukko et al. (2008, 87) defined the concept 'quality of working life' as consisting of work motivation, learning opportunities, job satisfaction, work atmosphere, health and safety, participation in decision-making, realization of personal/ team level targets and a reward system. In the study's interviews, both the employee and management representatives agreed that the employees should have a bigger role in the area of performance measurement, especially in setting their individual metrics and goals (Ukko et al. 2008, 93). Ukko et al. (2008, 93) also found that by allowing employees to participate in decision-making that concerns their own measures and goals, their work motivation, understanding of job contents and the company’s business, improved and the company’s overall targets were achieved more successfully.

An important question is who should participate in setting measures and goals for different levels of the organization. Should it be a top-down process, where the superiors establish the measures and goals and hand them down to subordinates for implementation? Or should the subordinates somehow be involved in the measure and goal setting process? Karhu et al. (2006, 141) suggested that employees could be increasingly able to participate in decision-making seeing as much of today's work is knowledge work. Simons (2000, 243) stated that when organizations are facing uncertain environments and the information needed to address these changes is dispersed widely throughout the organization, a participative style is appropriate. On the other hand, companies in stable environments do not exchange information about organizational goals, because the executive managers already know what to expect in the future (Simons 2000, 243). Thereby the decision regarding who should participate in decision-making depends on the managers’ view on where the relevant information is located in the organization. Is it in the hand of the managers or dispersed throughout the organization?

Simons (2000) also contemplates the agency problem in employee participation. In this view the subordinates (agents) are viewed as rational, self-interested, utility-maximizing, risk averse individuals who dislike effort. According to this view, subordinates should not be invited to participate in setting goals, because it is expected that they will attempt to bias the goal-setting process in their favor to minimize future effort. An alternative view,
prevalent in organization behavior, is that most individuals inherently enjoy achievement for its own sake and will become self-motivated to achieve the organizational goals if they:

- believe the goal is legitimate
- become committed to the goal through a process that includes their input and participation. (Simons 2000, 243-244)

Aligning individual goals to corporate and business unit objectives is not only important for implementing the strategy on all organizational levels, but it can be done in a way that increases job satisfaction and motivation through employee participation. Kaplan and Norton (2001, 242-244) describe how strategic themes, organizational objectives and measures can be made meaningful for all employees by an exercise where employees have to derive individual objectives from how they could contribute to achieving the strategy. Kaplan and Norton (2001) present how a large oil company created a small, fold-up personal scorecard for each person in the organization. The card contained three levels of information. The first level, preprinted on the card, described the corporate objectives and measures. The second level provided space for the business unit to translate the corporate goals into its specific goals. The third level enabled individuals and teams to define their personal performance objectives, near-term steps of action they would take to achieve their objectives and up to five personal performance measures for their personal objectives, as well as targets for these objectives. (Kaplan and Norton 2001, 244)

Currently participation in decision-making seems to depend on the workers hierarchic position in the organization. The main finding by Karhu et al. (2006, 145), in their study of performance measurement and employees, was that blue-collar workers have poor possibilities to participate in decision-making even if it concerns their own job or team and even though they would be eager to participate. Karhu et al. (2005, 145) note that there is a danger that even if the workers recognize and understand their targets, the lack of autonomy at work may decrease their work motivation and commitment. As participation in decision-making can have a positive effect on motivation, job satisfaction
and commitment, it should be encouraged when implementing performance measurement at the operative level. When participating in decision-making concerning performance measurement related goals, the employees can enhance their knowledge of performance measurement and the organizational strategy. As a result, the employees will become more motivated in working towards achieving the operative targets.

3.2 Knowledge and understanding of performance measurement

Aligning employees to the organizational strategy is crucial in measuring performance and managing through measures. Kaplan and Norton (2001, 213) define three distinct processes organizations use to align employees to the strategy:

- Communication and education: Employees must learn about the strategy and understand it if they are to help implement it. The objective of an effective communications process is to create employee knowledge and understanding.

- Developing personal and team objectives: Employees must understand how they can influence the successful implementation of the strategy. Managers must help employees set individual and team goals that are consistent with strategic success. Personal development plans can be customized to achieving these goals.

- Incentive and reward systems: Employees should feel that when the organization has been successful, they share the rewards; conversely, when the organization has been unsuccessful, they should feel some of the pain. Incentive and reward systems provide the linkage between performance and individual rewards.

(Kaplan & Norton 2001, 213)

Communication, its use in performance measurement and management, different communication methods and their effectiveness will be examined in the following chapter. Next goal setting and understanding the linkage between organizational and personal objectives will be reviewed. Finally incentives and linking a reward system to performance measurement will be discussed in Chapter 3.2.3.
3.2.1 Communication

Effective and efficient communication is a key variable in whether performance measurement and management are successful. When using performance measurement as a strategic tool, communication is essential in every stage of the strategy deploying process. Functioning performance measurement begins from functional communication. When thinking of performance measurement systems as information systems for the performance management process of strategy deployment and feedback, a performance measurement system by definition is also a kind of communication system. Many process models designed for the implementation of a performance measurement system mention informing the employees, but experiences have shown that the briefing is usually done too late (Ukko et al. 2007a, 37).

Organizational communication comprises of internal and external communication. The objective of the communication is to deliver accurate and reliable information to the organization’s stakeholders. External communication delivers information to stakeholders such as customers, financiers and investors whereas internal communication concerns the organization’s employees. The importance of internal communication in performance measurement has been strongly emphasized by researchers (cf. Kaplan and Norton 2001; Ukko et al. 2007b). Internal communication can be divided into three main categories: face-to-face communication, written communication and electronic communication. In their study on communication in small and medium-sized enterprises, Ukko et al. (2007b, 44), examine internal communication through face-to-face communication and system-based communication (cf. Figure 5).
In their study, Ukko et al. (2007b) also examine the use of different communication channels. The communication channels in the first group, face-to-face communication, include foremen-employee interaction, team meetings and company meetings. The second group, system based communication, is composed of handouts, notice boards, email and intranet (Ukko et al. 2007b, 44). Their significant findings were that the quality of information (exactness, reliability, intelligibility, usefulness) had the strongest influence on the success of the communication of measurement information and that face-to-face communication was seen as the most efficient and best way to communicate measurement information in the future (Ukko et al. 2007b, 57). However, these findings can only be cautiously generalized to concern small and medium-sized companies operating in the manufacturing industry. In small organizations foreman-employee communication can be the single channel of internal communication and so it is obviously seen as a good communication channel in comparison to, for example no communication at all. However, in all organizations the foreman-employee channel can be seen as the foundation of all internal communication that cannot be replaced. Other channels really complement this channel by conveying information about the big picture.
Communication is a tool used to engage the employees to the strategy and to execute that strategy. Many employees hear about the strategy, change in the organization or everyday decisions after an elite group or their managers have made their decisions, which are then presented through formal top-down communication channels. This type of decision-making rarely engages the employees. In his research on the meaning and value of employee engagement, Smythe (2008) concluded that the primary driver resulting in engaged employees and leaders is the appetite and ability of the leaders to engage their subordinates in decision-making at every level (Smythe 2008, 20). In other words leaders sharing their power, admitting as a leader that they do not know all the answers and engaging the right groups in every day decisions and in designing and executing change will benefit from both the quality of decisions and the speed of executing those decisions.

When implementing a performance measurement system, an organizational change takes place, which can lead to difficulties such as resistance to the change. Change communication (communication in change management) can help reduce and control these difficulties. The question is, what communication channel should be used in implementing a performance measurement system? Ukko et al. (2007a, 37) suggest a guideline that the closer the change is to the employee level, the more personal the communication should be. If the change has no effect on the job content or the job description, then the changes can be communicated less formally through an announcement or email. But when the change directly affects the employee, face-to-face communication should be used, as it is more personal and gives the employees a chance to present their own opinions and questions. In terms of the employee engagement that Smythe (2008) described, the bigger the expected role of the employee in performance measurement, the more the employee should be engaged through participation in decision-making. Early engagement supports future commitment to the performance measurement system.

The first phase of performance management communication is to communicate the strategy and organizational objectives to all the employees. Along with aligning the employees to the strategy, defining and communicating the objectives can motivate the
employees. Another motivator is reward systems and linking a reward system to performance measurement. In the context of communication it is important to clarify how the targets, results and rewards are all linked to each other in a reward system. The second phase of performance management communication is feedback from the measurement. As previously mentioned, face-to-face communication is seen as a good way of communicating measurement results (Ukko et al. 2007b, 57). Another key point in feedback is presenting it in a way that motivates the employees to work even better and increase performance. It is important to consider when and in what environment the employee feedback is given in. Is it done publicly or privately? In the middle of a project or after it is finished? These factors can affect how the employees perceive the feedback and how it affects their motivation depending on the status and organizational level of the employee and whether the feedback is positive or negative.

### 3.2.2 Aligning organizational and individual objectives

As performance measurement and management are, in this study, considered strategy based tools and processes, the organization using them can be thought of as a strategy-focused organization. This study has outlined the importance of aligning personal and team level goals and objectives to organizational objectives in these processes. Organizational objectives can be divided into: company objectives, business unit objectives, team objectives, and employee or personal objectives (Ukko et al. 2007a. 25). Two themes arise in cross-organizational strategy alignment in the context of performance measurement. Authors recommend either aligning other systems to performance measurement (control systems, human resource systems, quality performance reviews, and reward systems) or engaging the employees to participate in the planning of measures and targets and how to achieve these targets (goal setting, aligning strategic initiatives, personal scorecards, participation in decision-making) (cf. Kaplan & Norton 2001; Simons 2000; Karhu et al. 2005; Ukko et al. 2007a; Ukko et al. 2009a). The main purpose of all of this is to communicate the strategic objectives to the employees so that they understand what their targets are and how they are measured. Obviously the effectiveness of communication, as discussed earlier, plays a big role in the alignment proc-
In a best-case scenario, this process will lead to employee commitment to the measurement and objectives and motivate them to achieve these objectives.

In their research on the relationships among goal setting, employee engagement, workplace optimism, and individual performance constructs, Medlin and Green (2009) hypothesized that goal setting positively impacts employee engagement, which in turn positively impacts workplace optimism, which finally has a positive effect on individual performance. Their data supported their hypothesis, confirming that in their convenience sample employee engagement is positively linked to optimism and through optimism to individual performance (Medlin & Green 2009, 956). However, their study addressed goal setting in general, without examining the decision between a top-down process and a management-employee joint effort.

In companies the goal setting process can be fairly straightforward as all private businesses strive for profitability. In the public sector, on the other hand, undefined end products along with conflicting stakeholder objectives and needs can make performance measurement target setting more difficult (Rantanen et al. 2007a, 418). Many employees want to participate in setting targets, but are not given the opportunity to do so. In their study, Karhu et al. (2005, 142-145) discovered that only a third of the employees felt that they could participate in decision-making concerning their team or work group. The number was however higher for officials and top management. This conflicts with the benefits of teamwork if the purpose of teams is to lower decision-making to where the work is done and to the people who possess the operational knowledge. Ukko et al. (2007a, 29-30) present how development discussions can be used to review important work issues. In many organizations development discussions are a deep-rooted tradition and a management tool. The purpose of development discussions is to make the employees understand the matters that are relevant to the organization (Ukko et al. 2007a, 29). In the context of performance measurement and management, these discussions provide a possibility for the employees to participate in determining their job contents and setting targets. Most importantly management can use them to ensure that all the employees comprehend the organizational strategy and objectives. Usually development discussions take place privately between the manager and employee and so this is
a prime example of face-to-face communication. Through development discussions the employees can address their concerns and participate in the decision-making process in an open and confidential atmosphere.

### 3.2.3 Linking performance measurement to a reward system

Motivation is what activates people to work towards a common goal. Motivation can be classified as intrinsic or extrinsic motivation. Extrinsic motivation serves to satisfy indirect or instrumental needs. In the case of intrinsic motivation, on the other hand, the activity itself or the corresponding end goal satisfies a direct need (Frey & Osterloh 2001, 8). An example of extrinsic motivation is monetary rewards and intrinsic motivation can, for example, spur from inherently enjoying achievement. On the other hand coercion and the threat of punishment are also means of extrinsic motivation. Increased job satisfaction from increased participation in decision-making, as discussed earlier, can direct an individual’s effort toward achieving organizational goals and act as an intrinsic motivator.

When talking about incentives, people often associate the term with monetary rewards and extrinsic motivation. However, rewarding can be more than a monetary bonus. Providing employees opportunities to train and educate themselves or participate and have more influence in the work place can reward the employees. In the context of performance measurement, Hannula and Lönnqvist (2002, 40) define incentives as referring to attaching rewards to the achievement of targets set for some chosen measures.

Performance management is often linked to performance-related pay. However, empirical research has not found any connection between corporate success and performance-related pay (Frey & Osterloh 2001, 69). Studies on the use of reward systems linked to performance measurement reveal conflicting findings (Franco-Santos & Bourne 2005, 120). Most of the authors suggest that a reward system should be linked to performance measurement. For instance Ukko et al. (2008, 95-96) suggest that performance measurement systems should be fully linked to a reward system to fully exploit the potential of the measurement. Others (cf. Ittner et al. 2003) argue that using the meas-
ures for reward purposes could increase subjectivity and therefore have a negative effect on the use of the performance measurement system. The features of the reward system affect its effectiveness and motivational performance. Van Herpen et al. (2005, 307-308) discuss how the effectiveness of a compensation system depends on (1) transparency, (2) fairness and (3) controllability. In their study on performance-related pay schemes in Finland, Kauhanen and Piekkola (2006) also came to the conclusion that the features of the compensation system do matter for it to affect motivation. In addition to the motivational aspect, reward systems are used as tools to align the organization to the key strategic objectives by increasing focus and understanding of these objectives.

Kauhanen and Piekkola (2006) discovered that the organizational level of performance measurement affects the success of the performance-related pay system. According to their study, the closer the measurement is to the employee, the better the results. Personal and team level measurement is better, except for management. Generally the factors that make it easier for the employee to affect the level of payment were seen to be important. For example it is important that the employee knows what performance measures the payment is based on. (Kauhanen and Piekkola 2006, 173)

As previously stated, reward systems can be based on both monetary and non-monetary incentives. This is an important point, because monetary compensation is mainly seen to work as an extrinsic motivator. In their study on the effects of performance measurement and compensation on motivation, Van Herpen at al. (2005, 323), found no evidence or a statistically relevant relationship between monetary compensation and intrinsic motivation. Ukko et al. (2007a, 43) break rewards down to tangible and intangible rewards. Intangible rewards are, for example, positive sensations of the job such as a possibility for career development, training and education, sustainable employment, or a chance to be influential. Tangible rewards, on the other hand, are wages, benefits, stock options and different kinds of monetary rewards (Ukko et al. 2007a, 43-44). Earlier studies have underlined the motivational impact of reward systems (cf.
Simons 2000). Modern research, however, has found the motivational aspect to be limited in comparison to other benefits of rewarding. Different individuals have different goals in life and react to incentives in different ways. In their study Ukko et al. (2009b, 12-13) discovered that the motivational influences of rewarding were seen as quite neutral, while people who had more autonomy and possibilities to participate in decision-making perceived the motivational influences of rewarding as much stronger than others. Scott-Ladd and Marshall (2004, 654) had similar findings, and found a positive relation between participation in decision-making and the perception of rewards. Franco-Santos et al. (2004, 10) suggested that as the actual motivational effect of reward systems is considerably smaller than the effect on focus and understanding, the main benefits of linking performance measurement and rewards are the directional benefits, rather than the motivational benefits.

3.3 Summary

Employee participation in decision-making emerges as an important factor in a functional and effective reward system. When the employees are engaged to participate in designing the reward system, they will most likely be more committed to it and actually perceive the rewards as fair and positive incentives. The employees have to understand what they need to do to earn the reward and more importantly why this is important in terms of long-term organizational objectives. In terms of the features and specific rewarding methods of the reward system, it really depends on the type of organization in question. In public sector organizations, in a university for example, performance related pay schemes can be difficult to design, because of problems in measuring and ranking individual employee performance. However, in general it can be said that the reward system should be fair, transparent (through participation and effective communication) and linked to the organizational strategy. As a part of performance measurement and management, the reward system should be versatile and multidimensional and updated in the same fashion as performance measures and targets.
4 Performance measurement in the public sector

4.1 Public sector characteristics

As the widespread use of the Balanced Scorecard has promoted the awareness of performance measurement systems and their implementation, these systems are also being adopted in the public sector. Performance measurement in the public sector has gained a great deal of interest among researchers. Performance measurement studies cover a diverse line of public organizations such as universities (cf. Modell 2003), state agencies (cf. Phusavat et al. 2009), municipal governments (cf. Ho & Chan 2002) and healthcare organizations (cf. Modell 2001). Studies have shown that performance measurement is applicable to public sector organizations (e.g. Pestieau 2009, 154). However, there is a general view that public and private organizations are different from a measurement point of view. The well-known models developed for the implementation of a performance measurement system have mainly been developed in the context of large private industrial companies (Rantanen 2007b, 346). In these cases development is relatively clear, as the ultimate goal of any private business is profitability.

From a measurement point of view, many stakeholders and their conflicting needs cause the main difference. First of all, taking all the stakeholders into account may result in producing a large number of performance measures that satisfy no one. Second, it may be hard to set targets or make decisions based on the measurement results, when some of the stakeholders have conflicting objectives. Responding to increasing demands for performance documentation, governments all around the world have made performance measurement a core component of public management reforms (Heinrich 2003, 25). Heinrich (2003, 29) presents four common features in evolving public sector measurement systems: (1) performance measures focused on quality, outcome or results, (2) formal report requirements for comparing actual performance with performance goals or standards, (3) multiple levels of performance accountability in decentralized
programs, and (4) market-oriented provisions such as financial/budgetary incentives for performance.

In their study on performance measurement systems in the Finnish public sector, Rantanen et al. (2007a, 428) found four characteristics of public sector organizations that were the underlying reasons for problems in performance measurement. First, there are many stakeholders that need to be taken into account when designing the performance measurement system. Second, the main objective activity is unclear and not primarily driven by economic criteria. Third, there is a lack of ownership of the property, meaning everything is collective and at the same time nobody’s property. This results in confusion in terms of responsibilities and control. The fourth cause is the lack of managerial skills. The manager in public organizations is usually chosen for substance skills instead of managerial capabilities. This means that a manager in the public sector might be an expert in his field, but not the best manager. (Rantanen et al. 2007a, 428-429)

4.2 Public sector challenges

Private sector companies usually focus on maximizing shareholder value and focus heavily on higher financial performance, whereas public sector organizations have multiple stakeholders with different needs. Public sector organizations also have responsibilities defined by legislation. One of the main problems associated with public sector performance measurement has been considered to be its complex group of stakeholders, and designing strategy and strategic goals based on stakeholder needs (Pekkola & Ukko 2008, 65; Rantanen et al. 2007a, 418). A challenge public managers confront in performance measurement is reaching a consensus, on all levels of organization and management, on clearly defined public objectives (Heinrich 2003, 29). Behn (2001, 110) argues that public managers might avoid goal conflicts and could end up choosing vague, uncontroverisal, or easily attainable goals. Pekkola and Ukko (2008, 66) suggest that the key driver and starting point for designing and implementing performance measurement systems in the public sector should be the stakeholders’ needs and expectations. Another issue or challenge is the level of accountability and analysis
in performance measurement systems; should a ‘top-down’ or ‘bottom-up’ approach be used (Heinrich 2003, 30-31)? Bouckaert and Halligan (2008, 106) suggest a ‘top-down and bottom-up interaction’ and argue that the more the bottom and middle management are involved in performance measurement, the greater their commitment.

Literature also highlights the role of rewarding in performance measurement. Public sector organizations, however, do not have the same financial resources as private sector organizations do, because the municipal economy limits financial rewarding (Pekkola & Ukko 2008, 66). For example the Finnish Ministry of Education finances polytechnics based on their performance in line with its performance-based financing program. The organization receives funds on the basis of certain indicators (e.g. student placement in employment or further education) and can then use these funds to reward employees. So the potential rewarding is dependent of the performance-based financing as well as other external financing unlike private companies where profits can be shared.

On the subject of government controlled universities and colleges, the most significant governmental influence is the funding. In Finland all education is public and free of charge. Clearly there has to be a way to allocate the funds to where they are needed. In Sweden, where higher education is also free of charge, annual funding is based on key performance indicators such as, for example, the number of registered full time students and student performance in terms of annual credits achieved (Modell 2003, 342-343). The allocation of funds alone calls for some kind of goal-directed performance measurement and management. In Finland universities are required by law to carry out quality control and report figures to the Ministry of Education.

The main problems caused by the characteristics presented by Rantanen et al. (2007a, 428), from an employee perspective, are related to goal/target setting and understanding the objectives and usefulness of performance measurement. Undefined end products and goals cause difficulties in target and measure setting. It is unclear what the goal of the operations should be and how it should be measured. Different stakeholders and lack of ownership cause too many people to influence the details of performance
measurement and specific measures, which results in the employees not understanding the objectives of measurement development. Finally too many responsible people in measurement development lead to non-responsibility. Non-responsibility and poor managerial skills result in the employees not understanding the project or its usefulness and possibly ignoring and resisting it. (Rantanen et al. 2007a, 428-429)

This study has examined managing performance and deploying the organizational strategy through performance measurement. Even though there are differences in public and private sector organizations, the employees still work there to support themselves. Even if the public sector organization has many objectives and is not primarily profit driven like private companies, the employees working there are getting paid and are working for economic gain. Of course the inclination to do a specific kind of work in the public sector (e.g. nurse, doctor, and teacher) might not be primarily economically driven, and could in itself increase motivation and commitment. However, aligning employees to the organizational strategy and performance measurement still depends on successful communication and training, developing personal and team-level objectives, participation in decision-making, as well as rewarding and motivating them. In this sense, factors affecting the employee role in performance measurement are not that different in the public and private sector. The employee role in performance measurement and management in a public sector organization will be studied next through a case study and semi-structured interviews at Mikkeli University of Applied Sciences. The previously mentioned public sector characteristics will be taken into account in the analysis.
5 Case - Mikkeli University of Applied Sciences

5.1 Background

The case organization is Mikkeli University of Applied Sciences (MUAS). The Finnish higher education system comprises of two parallel sectors: universities and universities of applied sciences/polytechnics. While universities emphasize scientific research and theoretical teaching, the universities of applied sciences/polytechnics are institutes of higher education based on both theory and practice. MUAS offers 20 degree programs, three of which are in English. The total number of students is about 4900 with 760 new students enrolling each year. There are approximately 400 staff members employed at MUAS, of which 200 are full-time lecturers. About 40 members of the staff have a doctoral or licentiate degree. MUAS offers the following fields of study: humanities and education, culture, natural sciences, natural resources and the environment, tourism, catering and domestic services, social services, health and sports, technology, communication and transport, social sciences, business and administration.

MUAS has multiple stakeholders. The role of a polytechnic is defined in Finnish legislation (Polytechnics Act 351/2003), which states that a polytechnic must cooperate with the local business and working community and with Finnish and foreign institutions of higher education as well as other schools. The legislation also states that organizational goals are defined together with the Ministry of Education and that the quality of education should be appraised. The Ministry of Education defines the main goals such as the number of student entry places and the number of graduates per year. Funding, on the other hand is defined by the realization of these goals. In the case of MUAS, the Ministry of Education measures MUAS’ performance and this performance in turn determines the amount performance-based financing. In addition to the basic funding, MUAS has received performance-based financing several times for good performance in internationalization as well as research and development. At the moment the Ministry of Education’s influence can be seen in the new structural reform. MUAS’ strategic partner is now
Kymenlaakso University of Applied Sciences. This means that the two organizations will have joint negotiations with the Ministry of Education concerning target setting and performance.

As defined in the legislation, MUAS has an important role in developing the local region and municipalities. This means that the strategic goals of the Southern Savonia province influence MUAS’ activities (e.g. focus of research, entry places in certain fields). In addition, MUAS is an independent corporation under public law. The reason why many polytechnics have transformed into corporations is because, this way they can merge into larger entities. Another reason is that through this approach they can make their activities more dynamic and business-like. This means that MUAS also has shareholders like a private company. These shareholders and the owners of MUAS are the local municipalities (Mikkeli, Savonlinna and Pieksämäki) and they have representatives in the corporation’s (MUAS) board of directors. Through the new Reform Project for Regional Administration, which began operating from January 2010 onwards, the new Regional State Administrative Agencies (AVI) and Centers for Economic Development, Transport and the Environment (ELY) are also significant stakeholders and influence MUAS’ activities. The regional business community is an important stakeholder as well with both public organizations and private companies. Of course, the current students and the new applicants are a very influential and valuable stakeholder group and MUAS has a lot of cooperation and projects with general upper secondary educational facilities.

One of MUAS’ key control systems is their quality system. The General Principles of Quality Work states that: "the aim of Mikkeli University of Applied Sciences is to improve the quality of its activities" (Mikkeli University of Applied Sciences 2008, 1). It continues to state that: “The good overall quality is achieved by developing the quality of the university’s education, research and development, service operations and support services towards excellence” (Mikkeli University of Applied Sciences 2008, 1). MUAS considers the high quality of operations the source of its competitive advantage. The quality system is based on the Deming cycle (plan-do-check-act). The fundamental parts of the quality system are (1) strategic choices, (2) planning and implementation, (3) an evaluation and feedback system, and (4) development operations. The activities and quality
work are based on the development plan where the strategic choices and goals are registered. The development plan is made at least every third year and updated when needed, and annually on the basis of the evaluation of development operations.

In the planning and implementation of the quality system an operation plan and budget are made for the whole university as well as each unit. The realization of the operation plan and budget is monitored and reported to the board twice a year. In connection with the operation plan and the budget, scorecards are made for each unit. The scorecard measures are carefully chosen so that the implementation and realization of the strategy can be monitored. The scorecards are checked and updated once a year. For example, the business department scorecard (cf. Appendix 1) consists of six dimensions: education, personnel, internationalization, research and development, services, and finance. Units are reviewed at yearly management reviews, which examine unit actions, results, finance, and quality work. The university’s evaluation as a whole is carried out every third year using the European Foundation for Quality Management (EFQM) model. (Mikkeli University of Applied Sciences 2008, 2-8).

Earlier in the study, the term *performance measurement system* was defined. The MUAS quality system fits this description. On a higher organizational level performance is measured and managed through the scorecard reports and quality evaluation. Individual units measure their performance through strategically selected measures in their scorecards and the measurement information is utilized in the quality evaluation and feedback function of the quality system. The quality system is, however, a broad comprehensive system with other evaluation and measurement methods than scorecards, such as management reviews, student/alumni/customer/personnel surveys, self-assessments, and external evaluation. In this sense, the university’s performance measurement system can be thought of as a system within a system, with the scorecards producing information about unit performance, which is then utilized in the quality system and in management.
5.2 Interview structure

The case study was carried out through four semi-structured interviews. The interviews were recorded, transcribed and then analyzed through the same themes as discussed earlier in this study in the literature review. Two of the interviewees represented the employee perspective while the other two represented the measurement and management perspectives: a study affairs secretary and a teacher represented the employee perspective, a person involved full-time in the quality system represented the measurement perspective and a director represented the management perspective.

![Diagram of Interview Perspectives]

**Figure 6.** Interview Perspectives

The questions and themes of the interview were loosely based on the survey used by Karhu et al. (2005) in their study on employee knowledge and understanding of performance measurement and participation in decision-making. The basic employee interview (cf. Appendix 2) was divided into the following themes: (1) general background questions, (2) knowledge and understanding of performance, goals and performance measurement, (3) participation in decision-making, (4) communication and (5) rewards and motivation. The management interview (cf. Appendix 3) and measurement interview (cf. Appendix 4) followed the same format, apart from a few additional questions included for some possible further insight from their perspectives. The reason why the interview structures were almost the same for these two perspectives as for the employee
perspective was that the interviewees in those perspectives were also representatives of the employee perspective, only from different functions and hierarchic levels of the organization.

5.3 Findings of the case study

Knowledge and understanding of performance measurement

As MUAS' performance measurement is part of a larger quality system, a slightly different terminology is used in the organization. The interviewees were not very familiar with the terms performance or performance measurement. A common description was that MUAS' performance consists of the quality of the actions and teaching and of the knowledge in the organization. As an employee representative pointed out: "The core activity is education, educating students of higher vocational education, providing them a degree in higher vocational education and high quality teaching."¹ From the management perspective, performance was defined through the dimensions of the EFQM – model and performance was seen to relate to the realization of the development plan. In the measurement perspective performance was defined through the dimensions of the Ministry of Education's performance measurement dimensions. All the interviewees had a good idea of what is being measured and what MUAS' strategic objectives and its primary function are and how MUAS' objectives relate to their personal targets. Of course, the management and measurement representatives had a more specific knowledge of measurement. However, the huge amount of different measures made it difficult, even for the measurement representative, to describe specifically what is measured at MUAS. Although training relating to performance measurement is primarily given to managers and officials, the employees, however, felt that they had enough training in relation to the quality system, MUAS’ strategy and performance measurement. The measurement and management representatives both thought there should be more continuous training.

¹ The interviews were conducted in Finnish. The quotations were translated.
Participation in decision-making

All the interviewees felt that they could participate in decision-making concerning their job arrangement, method of work, job content, and individual targets. They were all satisfied with their possibilities to participate in decision-making. However the management representative thought that there is a substantial variation in the level of participation and was sure that, from an employee perspective, they did not have enough possibilities to participate in decision-making. The representative also expressed a need for more employee engagement and ‘communality’ in decision-making so that there would be a more operational, ‘hands on approach’ to decision-making. The management representative stated: “There are decisions that just have to be made, but there are a lot of decisions where there could be a bigger group making them… so we could see what the reality of the situation is.” The interviewees also felt that the different units should pursue a more homogeneous organizational culture so the organization would be more transparent and everyone would be working towards common goals.

Communication

The communication system was perceived as a well functioning system. The management representative felt that the communication as part of the quality system produces enough information for decision-making. The employees were satisfied with the communication and face-to-face communication was the key feature. Furthermore, the employees felt that they could participate in determining their own job features and targets through development discussions. An employee representative mentioned: “I don’t think it’s a top down process, we have all had our say and we have a lot of discussion opportunities.” From a measurement perspective, the most important features in communication were strategy seminars, management reviews and meetings. MUAS’ intranet was also seen as a core component of both faculty and student communication. In general the organizational communication in MUAS is very successful, especially in terms of strategy deployment; in the past MUAS has had a road show for presenting their strategy and currently it is communicated through, for example, posters and notices all around the university.
Rewarding

The management and measurement representatives had a good knowledge of MUAS' reward system. The reward system was seen as connected to organizational objectives, but not really linked to performance measurement. The employees had some kind of idea of the reward system, but their knowledge of the details was shaky. MUAS is in the middle of salary negotiations and in general the employees weren’t happy with their current salary. The reward system was not perceived as very motivating as it only rewards a few people each year, and the employees felt that more visible employees were rewarded and not everyone has the same possibilities for rewarding. On the other hand, the employees were happy with intangible rewards such as health care benefits and possibilities for education and training. Participation in decision-making and being engaged in projects were also seen as good methods of rewarding. As the measurement representative stated: “Being aboard in different work groups and teams, being able to participate in developing activities, and having a chance to learn and improve yourself… I think that is good encouragement.” The reward system was not linked to performance measurement, but the general view was that it could be a good thing if only individual performance could be fairly measured.

Involvement in performance measurement and management

The employees did understand the connection between their jobs and MUAS’ strategic objectives. The involvement in performance measurement varied depending on the job description. For example, the student affairs secretary had to keep all the student records in order so that certain numerical indicators could be calculated for performance measurement. The teacher, on the other hand, participated in the measurement by collecting feedback from the students. The management representative had a clear connection and a goal oriented approach with MUAS’ strategic objectives. Information produced by unit scorecards is reviewed continuously. The measurement representative felt that the MUAS’ quality work was linked to the management system and felt it was very significant work. A summary of the key findings is presented in Table 1.
<table>
<thead>
<tr>
<th>Knowledge &amp; understanding of performance, goals &amp; performance measurement</th>
<th>Employee Perspective</th>
<th>Measurement Perspective</th>
<th>Management Perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good general knowledge. Too many measures cause a lack of specific knowledge. Representatives did not see a need for training. Expressed a need for more homogeneity in the goal setting process between different units.</td>
<td>Very good knowledge. Thought there should be more training for the employees in different units and not only for officials and management.</td>
<td>Very good knowledge and understanding. Thought there should be more continuous training.</td>
<td></td>
</tr>
<tr>
<td>Participation in decision-making</td>
<td>Representatives satisfied with the ability to participate in decision-making on all levels. Involvement in performance measurement dependent on the job description.</td>
<td>Good participation possibilities. High involvement in performance measurement.</td>
<td>High autonomy and participation possibilities, a need for more employee participation and a more 'hands on' approach to decision-making.</td>
</tr>
<tr>
<td>Communication</td>
<td>Very satisfied, especially with face-to-face communication (e.g. development discussions).</td>
<td>Satisfied, but felt that it could be better. Expressed a need for more transparency in the quality work between different units.</td>
<td>Satisfied with the amount of information for decision-making and management through the quality system’s feedback function.</td>
</tr>
<tr>
<td>Rewards &amp; motivation</td>
<td>Relatively uninformed about the reward system. Dissatisfied with personal salary. Satisfied with intangible rewards. Positive attitude towards linking rewarding with performance measurement if only it is fair.</td>
<td>Good knowledge of the reward system. Positive attitude towards linking rewarding to performance measurement, if proper individual measures could be designed.</td>
<td>Good knowledge of the reward system. Perceived the reward system as connected to strategic objectives but not directly to performance measurement.</td>
</tr>
</tbody>
</table>
6 Discussion and conclusions

6.1 Key findings and conclusions

This study has examined the employee role in performance measurement and management in a public sector organization. The literature presents a number of challenges in performance measurement in the public sector. Often the biggest problem is the large number of stakeholders with different needs for information about performance. In the case study at MUAS, the employees were relatively well informed on the organizational strategy and performance measurement. The effect of the large amount of stakeholders can be seen in the large amount of measures in MUAS’ quality appraisal and performance measurement system. This results in the employees not having a specific knowledge of what is being measured. In previous studies, participation in decision-making has been found to have a positive effect on performance and job satisfaction. MUAS’ employees perceived that its performance is formed from quality and the knowledge in the organization. As MUAS can be described as a knowledge-based organization, it was unsurprising that the employees have very good possibilities to participate in decision-making. This concurs with Karhu et al.’s (2006, 141) finding that employees in knowledge work are increasingly able to participate in decision-making. At MUAS the management representative actually wanted more employee participation and a more ‘hands on’ approach to decision-making.

As MUAS is currently in the middle of salary negotiations and establishing a strategic alliance with Kymenlaakso University of Applied Sciences, it is in a rather turbulent state. Employees are engaged in negotiations and there is a high level of participation. On some level, MUAS falls into the category of an unstable organization and so, as according to Simons (2000, 243), a more participative style is necessary. It is interesting, that the management representative saw a wide variation in the level of participation, but the employees were very pleased with their participation possibilities. Maybe this case study did not capture the full variety of employee involvement at MUAS, as only four in-
terviews were conducted. Or perhaps the management at MUAS does not realize how satisfied the employees really are with participation in decision-making.

In the case study the employees were satisfied with MUAS’ internal communication. They were especially satisfied with face-to-face communication and perceived development discussions as a good way to gain knowledge of the organizational strategy and goals and a good chance to participate in decision-making. In their study, Ukko et al. (2007b, 57), also found that face-to-face communication is the most efficient form of communication. The management and measurement representatives were also satisfied with communication, but in all perspectives a need for more homogeneity between units and transparency in the organization arose. This could be achieved by more inter-unit communication.

Many authors suggest that performance measurement should be fully linked to a reward system. At MUAS, the reward system was connected to strategic objectives but not fully linked to performance measurement. The main problems are the difficulty in measuring individual performance and the dependability of rewarding on external financing. In an educational organization, individual performance measures can be very hard to design as the performance relies both on the students’ performance and the faculty’s performance. The employees at MUAS had a positive attitude towards linking performance measurement to rewarding if only it could be done fairly through proper individual measures. Perhaps in this kind of organization, an objective approach to rewarding could be used in unit performance measurement and rewarding and a subjective approach in individual rewarding.

Employee involvement in performance measurement and management is dependent on the employee’s job description and hierarchical position. The employees can be educated and trained in terms of the organizational strategy and performance measurement, but the actual role in performance measurement can be limited to keeping the records in order or collecting feedback. Of course the employees also utilize feedback to better themselves and work towards organizational objectives.
6.2 Assessment of the research

This study is evaluated through the evaluative criteria presented by Lincoln and Guba (1985, 300) using the concept of ‘trustworthiness’, which they describe as consisting of four aspects: credibility, transferability, dependability and conformability. In terms of ‘credibility’, this study was conducted after gaining a familiarity with the topic of performance measurement and management. In addition, most statements made in the study are based on a comprehensive literature review of a wide range of published studies in respectable journals. Also, the case organization and its activities were observed before conducting the case study and interviews.

‘Transferability’ in this study also originates from the comprehensive literature review. Previous studies provided the themes for the structure of this study as well as the themes for the analysis of the published studies in the literature review. In chapter two the key concepts used in the study are described in great detail and defined in the context of the study. In the case study, the interview questions are loosely based on the survey used by Karhu et al. (2005). A similarity can be found with this study in the research context of performance measurement and management. The ‘dependability’ of this study builds on the organized data through thematization and transparent documentation of the research process and measures taken in different phases of the study. The logical research process is traceable and documented.

The ‘conformability’ of this study is established through the systematic and neutral analysis of data. The literature review consists of various different sources such as published studies and acknowledged books. The case study was done through comprehensive research and semi-structured interviews. Representatives from three different perspectives (employee, measurement and management) were interviewed to provide a complete representation of performance measurement and management in the organization. In addition, the literature review and the case study together also form a cross examination of the research topic. All these elements were used to construct a solution to the research problem and research questions through the constructive qualitative research approach presented by Kasanen et al. (1993, 246). However, a limitation of this
study is the relatively small number of interviews. Another limitation is that the empirical evidence is based on data from only one organization. The extent of the study and the limited schedule made it hard to find an organization for the case study. Because of organization-specific features, the findings of this study cannot be generalized to concern other Finnish institutions of higher learning, but rather provide a basis for further research.

6.3 Suggestions for future research

Authors often suggest linking the measurement of unit/team/individual performance to rewarding. We should keep in mind, however, that there is no point in measuring and rewarding if it decreases employee motivation. In public sector organizations individual performance can be very difficult to measure. An interesting research topic would be the development of individual performance measures in a public sector educational organization. These measures could be used to link individual rewarding to performance measurement. The design and implementation of a performance measurement system in a knowledge-based public sector organization, where more intellectual capital measures rather than financial measures would be used, would also be an interesting research topic.

As the employees at MUAS were very satisfied in development discussions and the chance to participate in goal setting, the implementation of personal scorecards, where an employee could see all the organizational objectives translated into personal targets and near term steps of action, could be examined in a public sector educational organization. At MUAS the employees were generally happy with the internal communication; however, there was a need for more inter-unit communication and transparency so that the entire organization would be strategically aligned. The different communication channels and especially inter-unit communication and its role in strategy alignment are also interesting research topics in the performance measurement context.
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**Interviews:**

Measurement representative. Mikkeli University of Applied Sciences, 18.3.2010
Management representative. Mikkeli University of Applied Sciences, 18.3.2010
Employee representative A. Mikkeli University of Applied Sciences, 19.3.2010
Employee representative B. Mikkeli University of Applied Sciences, 19.3.2010
APPENDIX 1. Business department scorecard (translated)
APPENDIX 2. Employee perspective interview (translated)

- What is your job description?
- How long have you worked at MUAS? Have you worked at a different job at MUAS?
- What is your profession? What education or training do you have?

Knowledge and understanding of performance, goals and measurement

- What are the targets relating to your job description?
- What does MUAS' performance consist of?
- What does your unit’s/department’s performance consist of?
- Have you been given individual targets?
- How is MUAS' performance and reaching goals measured?
- How can the measurement be seen in your daily work?
- How are the measurement results utilized?
- How would you describe MUAS’ activity and its objectives?
- How would you describe MUAS’ goal setting process?
- How would you describe the linkage between your targets and MUAS’ objectives?
- How would you describe the relation between your job and MUAS' activity?
- Do you feel the need for training in terms of MUAS’ activity or its performance measurement or quality system?

Participation in decision-making

- How can you participate in decision-making concerning your job contents and targets?
- How can you participate in decision-making concerning your team or unit?
- Are you satisfied with the possibilities to participate in decision-making?
- In the future, how would you like to participate in:
  • decision-making concerning your job contents and targets?
  • decisions or targets concerning your own unit or team?

Communication

- How is information about MUAS’ objectives and the realization of these objectives communicated?
- In what ways do you get feedback for your job?
- How has MUAS succeeded in the distribution of information and communication?

Rewards and motivation

- What kind of reward system does MUAS have?
- On what basis are employees rewarded?
- Do you feel the rewarding is motivating?
- What would you feel would be the best method of rewarding in your work environment?
- How do you think performance measurement be linked to rewarding? How can it be improved?
APPENDIX 3. Management perspective interview (translated)
(Bold formatting emphasizes the additional questions to Appendix 1.)

- What is your job description?
- How long have you worked at MUAS? Have you worked at a different job at MUAS?
- What is your profession? What education or training do you have?

Knowledge and understanding of performance, goals and measurement

- What are the targets relating to your job description?
- What does MUAS' performance consist of?
- How is MUAS' performance and reaching goals measured?
- In what ways do you use the measurement results in your daily managerial work?
- How are the measurement results utilized?
- How would you describe MUAS' activity and its objectives?
- How would you describe MUAS' goal setting process?
- What strategic objectives does MUAS have?
- From what different stakeholders do the targets come from?
- How would you describe the linkage between your targets and MUAS' objectives?
- How would you describe the relation between your job and MUAS' activity?
- Do you feel the need for training in terms of MUAS' activity or its performance measurement or quality system?

Participation in decision-making

- How can you participate in decision-making concerning your job contents and targets?
- How can you participate in decision-making concerning your team or unit?
- Are you satisfied with the possibilities to participate in decision-making?
- In the future, how would you like to participate in:
  - decision-making concerning your job contents and targets?
  - decisions or targets concerning your own unit or team?
- **How do the employees participate in decision-making and goal setting?**

**Communication**

- How is information about MUAS’ objectives and the realization of these objectives communicated?
- In what ways do you get feedback for your job?
- How has MUAS succeeded in the distribution of information and communication?

**Rewards and motivation**

- What kind of reward system does MUAS have?
- On what basis are employees rewarded?
- Do you feel the rewarding is motivating?
- What would you feel would be the best method of rewarding in your work environment?
- How do you think performance measurement be linked to rewarding? How can it be improved?
APPENDIX 4. Measurement perspective interview (translated)

(Bold formatting emphasizes the additional questions to Appendix 1.)

- What is your job description?
- How long have you worked at MUAS? Have you worked at a different job at MUAS?
- What is your profession? What education or training do you have?

Knowledge and understanding of performance, goals and measurement

- What are the targets relating to your job description?
- What does MUAS' performance consist of?
- How is MUAS' performance and reaching goals measured?
- What dimensions of performance are measured?
- What specific measures are used to measure MUAS' performance?
- How are the measurement results utilized?
- How would you describe MUAS' activity and its objectives?
- How would you describe MUAS' goal setting process?
- How would you describe the linkage between your targets and MUAS' objectives?
- How would you describe the relation between your job and MUAS' activity?
- Do you feel the need for training in terms of MUAS' activity or its performance measurement or quality system?

Participation in decision-making

- How can you participate in decision-making concerning your job contents and targets?
- How can you participate in decision-making concerning your team or unit?
- Are you satisfied with the possibilities to participate in decision-making?
- In the future, how would you like to participate in:
  - decision-making concerning your job contents and targets?
  - decisions or targets concerning your own unit or team?
- How are the employees trained relating to performance measurement, goal setting, target follow-up and rewarding?

**Communication**

- How is information about MUAS’ objectives and the realization of these objectives communicated?
- In what ways do you get feedback for your job?
- How has MUAS succeeded in the distribution of information and communication?

**Rewards and motivation**

- What kind of reward system does MUAS have?
- On what basis are employees rewarded?
- Do you feel the rewarding is motivating?
- What would you feel would be the best method of rewarding in your work environment?
- How do you think performance measurement be linked to rewarding? How can it be improved?