



Why do employees take more initiatives to improve their performance after co-developing performance measures? A field study

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ARTICLE INFO

Keywords:

Employee participation
Performance measurement
Theory of planned behavior
Operations management

ABSTRACT

Performance measurements may stimulate employee initiatives to improve operational performance, especially when employees themselves participate in the development of their own departmental performance measures. Using the theory of planned behavior, we examine why this occurs in a beverage manufacturing company where we helped bottling line maintenance technicians develop measures about the results of their own work. Our analyses are based on qualitative data gathered at 156 meetings, 34 semi-structured interviews, quantitative performance data from the company's information systems, and quantitative questionnaire data. We found that the participatory development process increased employees' attitude, perceived social pressure and perceived capability to take initiative. Moreover, the departmental performance improved when the jointly developed performance measures were put to use.

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1. Introduction

The participation of employees is an important theme in management accounting research (e.g., [Derfuss, 2009](#); [Luft and Shields, 2007](#)). Most studies investigate participation in budgeting: the amount of influence a subordinate manager has for setting his/her unit's budgets. [Derfuss \(2009\)](#) conducted a meta-analysis and found 11 positive consequences of participative budgeting that generalize across samples (e.g., the positive effect of budgetary participation on budget usefulness).

Yet the participation of employees may go beyond the setting of budgetary targets per se, extending to processes for developing and implementing management accounting

systems ([De Haas and Kleingeld, 1999](#); [Eldenburg et al., 2010](#)). Considering performance measurement systems (PMS) specifically, employees may be involved in and have influence on a panoply of factors, including: the conceptualization of performance measures, defining the measures, identifying required data, adapting IT-systems, designing graphs and tables for the presentation of the measures, and even producing the periodic performance reports. There are only a few studies in management accounting that have investigated such a broader notion of participation in the development and implementation of performance measurement systems, and these generally found beneficial effects (i.e., [Abernethy and Bouwens, 2005](#); [De Haas and Algera, 2002](#); [Hunton and Gibson, 1999](#); [Kleingeld et al., 2004](#); [Li and Tang, 2009](#); [Wouters and Wilderom, 2008](#)).

Investigating participation in the development and implementation of PMS is valuable because so little is known about why performance measurement affects performance. Many studies have investigated relationships between performance measurement and organizational performance (e.g., [Chenhall, 2005](#); [Davis and Albright, 2004](#); [De Geuser et al., 2009](#); [Farrell et al., 2008](#); [Grafton et al., 2010](#); [Ittner et al., 2003](#); [Kelly, 2010](#); [Lee and Yang,](#)

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2010; Malina et al., 2007; Said et al., 2003; Widener, 2006). These studies assume performance measurement affects the behavior of individuals within the organization, which in turn facilitates the achievement of organizational goals (Burney and Widener, 2007; Burney et al., 2009; Covaleski et al., 2003; Hall, 2008). However, detailed empirical investigations into how employee behavior mediates the relationship between PMS and performance remain scarce (De Leeuw and Van den Berg, 2010; Hall, 2010; Luckett and Eggleton, 1991; Webb, 2004).

This study focuses on participatory development of performance measures and a particular type of behavior, namely employee initiative. Employee initiative is an increasingly important part of contemporary job performance (Campbell, 2000; Crant, 2000; Frese and Fay, 2001a) aimed at achieving continuous improvements in operational work processes. We define *PM participation* as the substantial impact of one or more employees on the content of the performance measures by means of which one (in this study: a department) is measured. We define *employee initiative* as self-starting, pro-active, persistent and pro-company behavior of individual employees (Frese and Fay, 2001b). The central question of our study is: why is *PM participation* related to *employee initiative*?

This study investigates performance measurement at the operational level in the organization, where performance measures are quite specific to the operational processes (Franco-Santos et al., 2007; McKinnon and Bruns, 1992; Melnyk et al., 2004). We focus on enabling performance measures that are intended to facilitate the responsibilities of employees, rather than primarily as control devices deployed by senior management (Adler and Borys, 1996; Ahrens and Chapman, 2004; Free, 2007; Wouters and Wilderom, 2008). Employees know a great deal about operational processes and the data that are generated, making it important to use their knowledge to develop and implement performance measures (Masquefa, 2008). We do not investigate the use of performance measures for formal evaluation and incentive purposes.

We intend to contribute to the management accounting literature on performance measurement systems by using a psychological theory to investigate our research question. This is important because psychological theories may give more complete and valid explanations of performance measurement effects (Covaleski et al., 2003; Kleingeld et al., 2004), thereby extending the existing management accounting body of knowledge on performance measurement. The theory we use in this study (the theory of planned behavior) has not yet been applied to employee initiative behavior, but it has been used to explore and stimulate various other kinds of behavior, such as quitting smoking, using condoms, and using public transportation (Fishbein and Ajzen, 2010). We show *employee initiative* behavior can also be studied through the same theoretical lens. Using this theory contributes to the management accounting literature because it investigates motivational, social and cognitive variables at the same time, which most likely are the major behavioral effects resulting from participation (Jeong, 2006). Earlier management accounting research has included motivation and/or capability variables, but social effects have been less investigated. In sum,

the present study intends to provide an overall explanation for why *PM participation* is related to *employee initiative* by investigating all three of these important mediating variables simultaneously.

A secondary contribution of this study lies in the report in substantive detail precisely how *PM participation* actually came about and was shaped. This kind of process has received scant attention in the accounting literature heretofore (Otley, 1999; Abernethy and Bouwens, 2005). We report on a 1-year field study in a beverage manufacturing company where we jointly developed performance measures with their maintenance technicians. Using action research makes it possible to richly describe how employees reacted before, during and after they participated in developing their own performance measures.

This study was conducted in order to develop a theoretical explanation for why *PM participation* is related to *employee initiative*, and to provide initial empirical support for it. We did this by using systematic combining—continually going back and forth between theory and data (Dubois and Gadde, 2002). However, for the sake of clarity, from the outset we structure the paper around the developed model, which provides a structure that helps to convey the theoretical and empirical insights gained throughout this study about the effects of participative development of performance measures.

This paper is structured as follows. In Section 2 we articulate the theory that supports our model, and in Section 3 we lay out our methodology. Section 4 presents the empirical results with regard to qualifying and refining our basic model. Section 5 discusses a range of implications and limitations of our overall account.

2. Theory

We define *PM participation* as the substantial impact of one or more employees on the content of the performance measures by means of which one (in this study a department) is measured. This may include any aspect of the performance measures distinguished by Neely et al. (2002): the name; the purpose; the target; the formula; the frequency of measuring; the source of data; and the responsibility. By actually participating in the development of performance measures, employees' ideas about performance measures are taken seriously (Nørreklit, 2000). The goal is manifestly practical—to make performance measures useful for the involved employees in their everyday work. Of course, participation will not be a completely autonomous affair. For example, there may be guidance in the form of strategic priorities, constraints regarding the timely availability of resources for this developmental process, and project deadlines that the employees have to consider. *PM participation* may provide positive effects to the organization if it creates better quality performance measures (Abernethy and Bouwens, 2005). Good measurement properties of performance measures (such as sensitivity, precision, and verifiability) can reduce costly management control issues (Moers, 2006).

PM participation is not the same as the interactive use of performance measurement systems, which has also been investigated empirically (e.g., Bisbe and Otley, 2004; Henri,

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