



When the uncountable counts: An alternative to monitoring employee performance

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Abstract This article presents an alternative viewpoint to the accepted wisdom that detailed performance measurement of individual employees is necessary to achieve superior performance. As we reveal, managers of a market-leading German energy distribution company do not utilize performance measures to manage the performance of their employees; rather, operational excellence is achieved through mechanisms ultimately based on trust and responsibility. Building on observations at this firm, we put forward a set of proposed characteristics of companies that may not require formalised individual performance measurement systems in order to achieve high performance standards.

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1. Measuring the individual employee: Is it really necessary?

The axiom, 'If you can't measure it, you can't manage it,' underpins the rationale for buying into an all-embracing performance measurement system such as the Balanced Scorecard. This approach cascades measures throughout an organisation to translate high level objectives into lower level activities. Measures are then imposed on individual employees to monitor their performance of these activities.

Yet, the case for the ubiquitous application of such extensive performance measurement systems is far from proven. Forcing individuals to deliver on

set measures may tunnel their vision, reduce their urge to experiment, and cause them to sub-optimize (Smith, 1993). Overmeasurement at the individual level may lead to gaming, creative accounting, or fraud (Kohn, 1997). While most companies utilize a range of measures at the organisational level to measure the achievement of overall objectives, not all firms translate these into measures at the individual level.

In this article, we question the accepted wisdom of individual performance measurement, and present an alternative viewpoint that shows how particular practices, relationships, attitudes, and cultures can remove the need for individual performance measurement. We illustrate this by citing a market-leading organisation where managers deliberately refuse to use their top-level performance measurement system to manage the performance of individual employees.

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We believe this analysis will enable managers to understand more clearly the extent to which there is a need for individual performance measurement in their organisations. Furthermore, it might lead them to question whether the overuse of individual performance measures may actually endanger the effective business operation.

2. Theoretical foundation

We define *individual performance measurement* as the process that supports the organisational control system by linking the work of each individual employee or manager to the overall mission of the work unit. The management of individuals is complex and can be viewed through multiple theoretical lenses; for example, via organisational behaviour, politics, power relationships, and so forth. That said, there are two contrasting perspectives which are particularly useful for understanding the actions of employees: control theory (or, principal–agent theory) and motivation theory. The first perspective imposes an inherent need for a formal monitoring and incentive mechanism (Armstrong, 1991). The second perspective recognises that there is another means of ensuring employees' commitment to an organisation: inspiring leadership, delegated responsibility, and a positive working environment provide motivation by fuelling an employee's natural need for achievement, power, and affiliation (Furnham, 1997; McClelland, 1961).

Our examination of performance measurement through the lenses of cybernetic control theory and motivation theories has identified three roles that performance measurement fulfills (Table 1).

Two roles are related to the control perspective. Firstly, performance measurement assures employee accountability by requiring people to monitor and report on their performance against agreed-upon standards. Secondly, performance measurement provides a basis for performance-related incentives. The third role is related to motivation theories: performance measurement appeals to employees' sense of achievement by showing their own performance and their contribution to the overall project or organisational performance.

In the following sections we explore how these roles of individual performance measurement are fulfilled at a successful company that has many organisational performance measures, but which does not use any individual measures. Details of the research method are given in the Appendix.

3. The Company and its approach to performance measurement

3.1. Background

The case study presented centers on the network division of one of the largest of over 800 German energy providers. The Company's core business is the supply of electricity and natural gas to over 1 million residential and industrial customers in northern Germany. The Company has a hierarchical structure with a head office and 12 regional branches, each with their own offices and maintenance centres (workshops). As of 2008, The Company had 5,350 employees in total and a financial turnover of €5.3 billion. The Company is jointly owned

Table 1. Roles of individual performance measurement

| Roles attributed to individual performance measurement | Wisdom accepted across the academic literature | References |
|--|---|------------|
| Accountability | Performance measurement assures employee accountability by requiring people to monitor and report on their own performance against agreed-upon standards | 3, 5, 6 |
| Incentives | Performance measurement provides a basis for performance-related incentives | 2, 3, 4, 5 |
| Inspiration | Performance measurement appeals to employees' sense of achievement by showing their own performance and their contribution to the overall project's or organisation's performance | 1, 6 |

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|--|---------------------------------|---------------------------------------|---|-------------------------------------|---|
| 1. von Bonsdorff & Andersin (1995) | 2. Kaplan & Norton (1996) | 3. Lingle & Schiemann (1996) | 4. Kerssens-van Drongelen, de Weerd-Nederhof, & Fisscher (1996) | 5. Schmitz & Platts (2004) | 6. Martinez & Kennerley (2005) |
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