

Different levels of performance evaluation – individual versus organizational

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Abstract. *One of the biggest challenges for performance measurement is integration of different aspects of organizational performance, which are very different by their nature, are measured by completely different, not comparable indicators. Organizational and individual-level performance indicators, although naturally and organically linked, but, nevertheless, are measured in different dimensions, could serve as an example. Performance measurement, in one or another form, is spread across various management disciplines: Strategic management, Quality management, Process improvement, and Performance appraisal as a part of Human resources management. Organizational level indicators prevail in Strategic management systems, both organizational level and individual level performance indicators can be found in Quality management and Process improvement systems, and individual level performance indicators are dominant in Human resource management. The link between the indicators of these two levels is of particular importance, if they are not properly connected, employees' motivation and compensation for work becomes quite formal and does not match overall goals of organization. The difference of the performance measurement in the public and private sectors is determined not only by the different nature of these sectors, but also by different historical traditions. Because of the complexity of the public sector organizations' mission, private sector organizations' performance evaluation can be regarded as an isolated case of performance evaluation in public sector organizations. Performance indicators should be clearly distinguished from the factors determining the level of performance, which are no less important, however, are often confused with each other. The first are used to monitor performance, the latter – to improve it. Individual level performance indicators could be more useful in searching the factors determining performance.*

Keywords: *performance measurement, performance indicators, effectiveness, individual performance, organizational performance, public sector.*

Raktažodžiai: *veiklos matavimas, veiklos indikatoriai, efektyvumas, individo veikla, organizacijos veikla, viešasis sektoriųsio*

Introduction

Each organization, regardless of its size, type of product or service, belonging to the public or private sector, strives to be effective. For this purpose, various performance monitoring systems are being developed, starting with the traditional financial management systems and ending with complex strategic management systems, which provide ability to monitor so important to the success of the organization aspects as the stakeholders' satisfaction, the quality of the internal processes, the ability to change and improve, and some others. We would not be able to answer the basic questions, such as where we are at the moment respectively to our objectives, how do we look in comparison with its competitors, what are our development opportunities, as well as what and how we have to change first, without such multi-faceted monitoring.

Charles Lusthaus (Lusthaus, 2002), summarizing the research related to organizational effectiveness results, identifies four activity levels: the individual employee's performance (performance appraisal), work groups or teams' performance, programs performance and organizations' performance. By and large such division can be contracted in two levels: the individual and the organization (sub-organization).

Umit Bititci et al. believe that “the real challenge lies in the development of an integrated and holistic understanding of performance measurement, i.e. performance measurement as a social system that enables learning in autopoietic networks“(Bititci et al., 2012).

One of the biggest challenges for performance measurement is integration of different aspects of organizational performance, which are very different by their nature, are measured by completely different, not comparable indicators. Organizational and individual-level performance indicators, although naturally and organically linked, but, nevertheless, are measured in different dimensions, could serve as an example. Very often we are making the same mistake when we are trying to compare disparate things, and just as often get misleading us assumptions under which decisions can be costly for the entire organization.

Performance measurement, in one or another form, is spread across various management disciplines: Strategic management, Quality management, Process improvement, and Performance appraisal as a part of Human resources management. Organization-level indicators prevail in Strategic management systems, both organizational level and individual level performance indicators can be found in Quality management and Process improvement systems, and individual level performance indicators are dominant in Human resource management.

Historically, performance measurement systems used in different management areas are quite different and very rarely integrated with each other. This is especially true for a very weak relation between the measurement used in quality management and process improvement on the one hand, and the organizations performance evaluation and employee performance appraisal on the other. The difference of the performance measurement in the public and private sectors is determined not only by the different nature of these sectors, but also by different historical traditions

Performance indicators should be clearly distinguished from the factors determining the level of performance, which are no less important, however, are often confused with each other. The first are used to monitor performance, the latter – to improve it. Individual level performance indicators could be more useful in searching the factors determining performance.

1. Organizational performance

Kim S. Cameron (Cameron, 1986) attempting to summarize definitions of effectiveness (together with efficiency these are the most important elements of performance) provided five aspects for which researchers almost unanimously agree, despite their different views on other things.

1. The construct of organizational effectiveness is central to the organizational sciences and cannot be ignored in theory and research.
2. No conceptualization of an effective organization is comprehensive.
3. It is impossible to define the best or sufficient set of indicators of effectiveness.
4. Different models of effectiveness are useful for research in different circumstances.
5. Organizational effectiveness is a problem-driven rather than a theory-driven construct.

There are some areas, where lack of agreement still remains:

1. Effectiveness evaluators often use efficiency models and criteria, relying primarily on the basis of convenience criterion.
2. Researchers choose the effectiveness criteria which are often either too broadly or too narrowly defined, or are unrelated to the organizational performance.
3. Outcomes are the dominant type of criteria used to define effectiveness for researches, while Effects commonly used by the public policy decision-makers.

According to Joseph S. Wholey, performance “is not an objective reality out there waiting to be measured and evaluated. Instead, performance is socially constructed reality that exists in people’s mind. Performance should be defined broadly enough to capture the key dimensions of performance that are of interest to important stakeholders“(Mayne, Zapico-Goñi, 2007, viii).

Lukas Summermatter and John Philipp Siegel (Summermatter, Siegel, 2009) analysed 320 papers from 14 journals looking for various elements of performance definitions trying to identify what performance means to various authors. The result of their study is presented in table 1.

Table 1. Terms and concepts of performance dimensions (Summermatter, Siegel, 2009)

Dimension	Subsumed terms and concepts
Input	Costs, budgets, expenses, revenue, expenditure, economy, resources
Throughput (activities)	Process, production process, organizational processes, activities, capacities, operations, volume of work, workload, levels of activity or of proficiency, operating characteristics
Output	Results end of the production process; quantity and quality of outputs, services
Outcome	Effects, results, impacts, benefits, public value, accomplishments, consequences
Efficiency	Relation of efforts to outputs, the ratio of output to input, technical efficiency, cost per unit of output, relative efficiency
Effectiveness	How well services or programs meet their objectives, a measure of outcome, illustrating the result or impact of a service, the extent to which customer requirements are met, cost-outcome measures
Additional types of ratios	Productivity, value for money, cost effectiveness, return on investment, return on taxpayer money, unit or per capita costs
Quality	Quality of staff activity, services or outputs, extent to which the nature of the output and its delivery meet requirements or are suitable to their purpose, conformance, reliability, on-time delivery.
Requirements (needs)	Targets, goals, objectives, standards, timeliness, pledges, benchmarks
Stakeholder-related aspects	Consumer's evaluation of various features or facets of the product or service, based on a recent consumption experience, satisfaction, trust of actors and stakeholders, customer satisfaction
Value and ethical aspects	Equity, transparency, or other democratic values, equity, equitable distribution of benefits, fairness.

Although organizations both in private and public sectors have a lot in common, but there are some “genetic” differences. Profit maximization objective absolutely natural for the private sector organizations is not typical for the public sector organizations, and the criteria for which to measure their activities are not sufficiently clear and defined. Paul Arveson (Arveson, 1999) summarized the differences and similarities of two sectors (Table 2).

Robert Kaplan and David Norton proposed a balanced scorecard system (Kaplan, Norton, 1996), transforming simple performance measurement systems

into powerful strategic management tool. Their concept is based on the assumption that the manager must have a balanced set of measurable indicators, covering financial, customer, internal processes, and innovation and development areas.

Table 2. Comparing Strategy in Private and Public-Sector Organizations (Arveson, 1999)

Strategic Feature	Private Sector	Public Sector
General Strategic Goal	Competitiveness	Mission effectiveness
General Financial Goals	Profit, growth, market share	Cost reduction, efficiency
Values	Innovation, creativity, good will, recognition	Accountability to public, integrity, fairness
Desired Outcome	Customer satisfaction	Customer satisfaction
Stakeholders	Stockholders, owners, market	Taxpayers, inspectors; legislators
Budget Priorities Defined by:	Customer demand	Leadership, legislators, planners
Justification for secrecy	Protection of intellectual capital, proprietary knowledge	National security
Key Success Factors	growth rate, earnings, market share uniqueness	Best management practices sameness, economies of scale

Howard Rohm (Rohm, 2002) suggests to focus on the mission statement in the Balanced scorecard system for the public sector organizations, reverse the cause-effect links in regard to the Financial and Customers perspectives, to change Customers perspective into Customers & Stakeholders (mission-driven customer requirements, including to this perspective not only proximate customers, but also other interested public members and related organizations), to rename Learning and growth perspective to the Competence of the employees and the organization's capacity perspective, emphasizing the importance of human resources.

Other authors (Griffiths, 2003) (Olve et al., 1999) instead of expanding Customers perspective, propose to introduce a fifth Stakeholder perspective, to rename Internal business processes perspective into Activities, but even in this case, the main idea of Norton's and Kaplan's model remains the same - the organization's strategy is the cornerstone of the system, ensuring a balance between different perspectives, which are linked by the cause-effect relationships, the perspectives reflect the organization's past, present and future.

Different balanced scorecard system's versions for the private and public sectors, where financial indicators are dominant for business organizations and the stakeholders interests are the most important for the public sector organizations, are determined by differences in performance measurement between the private

and public sectors. Financial indicators can be easily derived from each other, the links between them are much more visible than the interests of stakeholders, which are very different and complicated. The main problem we face in case of the public sector organizations is their very complex missions, which are determined by the multiple stakeholders, whose interests may conflict with each other, including the public interests, which may be in conflict with one to another, even within the same organization. In this case, in addition, performance criteria adjustment and harmonization procedure is needed.

S. Cameron (Cameron, 1986) states that is impossible to reach a consensus on the performance criteria set and is hard to disagree with it, but it is possible to point out the area where the search of such indicators could take place - it is the organization's mission, which makes possible to conceptualize and determine the efficiency of the organization. Because of the difference in missions there is a clear distinction in the concept and criteria of the effectiveness between the public and private sector organizations. One of the biggest issues in assessing the organization's effectiveness is that it can not be considered as instantaneous construct but is expanded in time and includes the past, present, and future prospects.

Performance evaluation of the public sector organizations due to the mission complexity is much more complicated process in comparison with the private sector. In some respect, private sector organizations' performance evaluation can be regarded as a partial case of performance evaluation in public sector organizations. Assessing the performance of the public sector, some authors: Jeess Stroobants, Geert Bouckaert, Cristofer Pollitt (Pollitt, Bouckaert, 2011), (Stroobants, Bouckaert, 2013) suggested to look at performance evaluation in a broader context, providing a performance element dependencies (Fig. 1).

In order to assess the performance of the public sector, not only quantitative and qualitative information about the different elements of the public sector production process is needed, namely the resources used (Inputs), the activities carried out (Throughput), the goods/services produced (Outputs) and the effects achieved (Outcomes). Also the relationships between the different elements of the public sector performance, such as Economy, Efficiency, Effectiveness and Cost-effectiveness are important too. Cristofer Pollitt and Geert Bouckaert (Pollitt, Bouckaert, 2011) introduced Relevance (relation between Needs and Objectives), Utility and Sustainability (relation between Needs and Outcomes) and Cost effectiveness (relation between Input and Outcome). Outcomes were subdivided into Final Outcomes and Intermediate Outcomes.

Organizational performance evaluation and improvement process starts with selection of the criteria, then followed by identification of the factors performance, what is widely considered the process improvement and quality management disciplines. It is very difficult to derive performance influencing factors from the organizational level performance indicators, as they usually reflect complex and more general concepts. Individual level performance indicators as more simple could be more useful in searching the factors determining performance.

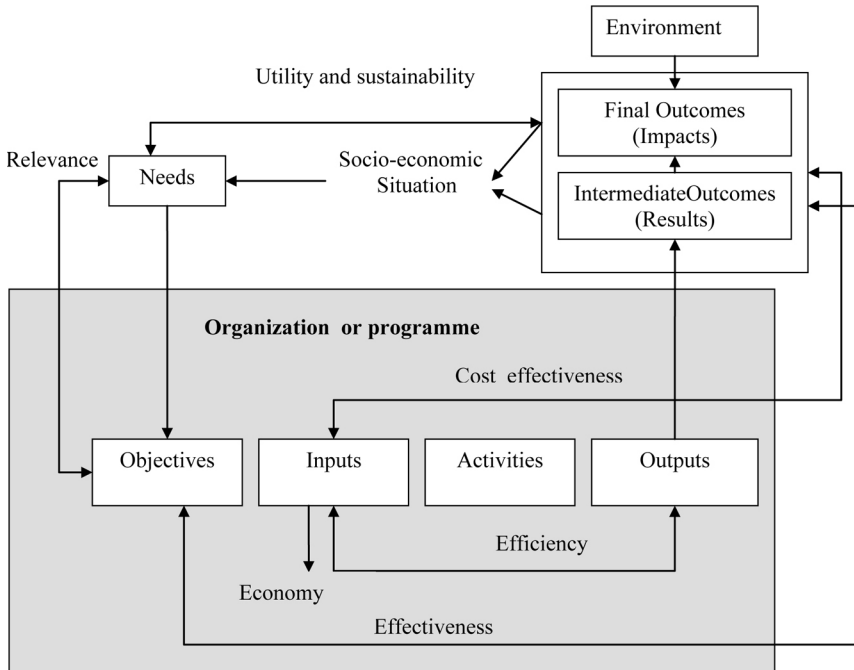


Figure 1. Public Sector performance (Pollitt, Bouckaert, 2011, 16)

2. Individual-level performance.

Some of the organization’s performance elements (Fig. 1) are inapplicable on the individual level performance: the role of Outcomes, both final and intermediate, takes over Output. The role of Needs on the individual level of performance takes Objectives, Environment (external to organization) takes over the function of Inputs (Fig. 2).

Integral performance measurement system, where organizational and individual level indicators are not distinct would create a set of problems. Marshall W. Meyer (Neely, 2002, 52) states that the creation of the optimal performance measurement system is hardly possible, because of the large number of indicators, the difference in their orientation in time - past, present, and future; the constant change of indicators. Moreover, compensating people for very general and aggregated organizational level indicators which are not related to individual performance is extremely difficult. If measures are combined formulaically, people will game the formula. If measures are combined subjectively, people will not understand the connection between measured performance and their compensation.

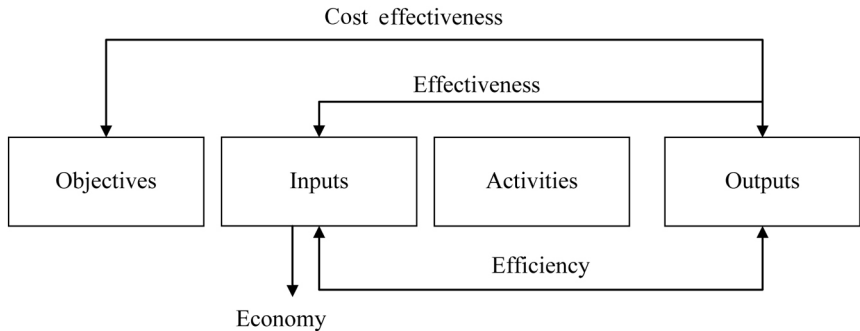


Figure 2. **Individual level performance**

Unlike the organizational level of performance evaluation, where public service institutions are faced with more difficulties compared to the private sector, individual-level performance appraisal in both the public and private sectors do not have radical differences.

More than half a century ago Douglas McGregor (Grote, 1996) writing about employees' performance appraisal systems has identified their main purposes: acquisition of information for decisions on staff promotion or downgrading, payment raising, as well as the feedback on employees' skills, knowledge, attitudes and behaviour matching the needed requirements and opportunities for the development. John Bratton and Jeff Gold (Bratton, Gold, 2003) supplemented this list with such aspects, as each individual performance efficiency increase, clearer expectations for the future and a more objective understanding of employees' contribution to the organization's activities, higher motivation.

There are two types of requirements for performance:

Technical requirements relating to the employee's position in the company: output quantity and quality, work completion on time and efficient use of the resources, etc. Such indicators relatively easy to establish and trace.

Behavioural requirements are equally important as the technical requirements, but it is more difficult to deal with them. Such requirements are associated with certain aspects of the activity, e.g., adjustment to the company's culture, employee communication with customers, co-workers and managers, achievement orientation, organizational commitment, etc.

Behavioural requirements are closely related to the research in competency management. R. E. Boyatzis defines a competency „as a capability or ability. It is a set of related but different sets of behaviour organized around an underlying construct, which we call the „intent“ (Boyatzis, 2008). Lyle M. Spencer and Signe M. Spencer proposed more specific, related to performance definition of competency as „an underlying characteristic of an individual that causally related to criterion-referenced effective and/or superior performance in a job or situation“ (Spencer, Spencer, 1993).

Individual performance appraisal, based on employees' competency assessment, together with assessment of technical requirements could compose the core of individual level performance evaluation. In this case competency can serve as either as performance indicator or performance determining factor.

Conclusions

1. Because of the complexity of the public sector organizations' mission, private sector organizations' organizational performance evaluation can be regarded as an isolated case of performance evaluation in public sector organizations, while there is no radical difference in performance evaluation on individual level between public and private sectors.
2. Individual and organizational performance aspects are very different by their nature; they are measured in entirely different, mutually disparate dimensions and are reflected in the different management areas, such as strategic management, quality management and human resource management.
3. The proper matching between individual and organizational level performance indicators is necessary prerequisite for effective compensation and motivation systems, as well as for individual performance alignment with the overall organizational performance.
4. Performance indicators should be clearly distinguished from the factors determining the level of performance, however, are often confused with each other. The first are used to monitor performance, the latter – to improve it.

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Skirtingi organizacijos veiklos vertinimo lygiai – individualus ir organizacinis

Anotacija

Vienas didžiausių iššūkių veiklos matavimui yra tai, kad daugelis organizacijos veiklos aspektų yra labai skirtingi savo prigimtimi, matuojami visiškai skirtingomis, tarpusavyje nesulyginamomis dimensijomis. Ryškus pavyzdys galėtų būti organizacijos lygmens ir individo lygmens efektyvumo rodikliai, kurie nors natūraliai ir organiškai susiję, tačiau, vis dėl to, matuojami skirtingomis dimensijomis. Vienu ar kitu pavidalu veikla ir jos matavimas (Performance Measurement) yra pasklidęs per įvairias vadybos disciplinas: strateginį valdymą, kokybės vadybą, procesų tobulinimą, o taip pat žmoniškųjų išteklių vadybai priskiriamą darbuotojų veiklos vertinimą (Performance appraisal). Strateginio valdymo sistemose dominuoja organizacijos lygmens rodikliai, kokybės vadyboje ir procesų tobulinime galima sutikti kaip organizacijos lygmens, taip ir individo lygmens veiklos rodiklių, tuomet kai žmogiškųjų išteklių vadyboje dominuoja individo lygmens veiklos rodikliai. Šių dviejų lygių rodiklių sąsajos yra ypač svarbios, jei tarp jų nenustatytas tinkamas ryšis, atsilyginimas už darbą ir darbuotojų motyvavimas tampa formaliu. Veiklos matavimo skirtumai viešajame ir privačiąjame sektoriuose, sąlygojami ne tik skirtingos šių sektorių prigimties, bet skirtingų

nusistovėjusių tradicijų. Efektyvumo vertinimas privataus sektoriaus organizacijose galėtų būti nagrinėjamas kaip dalinis viešojo sektoriaus organizacijų efektyvumo vertinimo atvejas, dėl pastarųjų misijos sudėtingumo. Reikėtų skirti efektyvumo lygį nusakančius rodiklius nuo šių lygį apsprendžiančių faktorių, kurie organizacijai turėtų būti ne mažiau svarbūs, tačiau tarpusavyje būna neretai painiojami. Individo lygmens efektyvumo rodiklių tyrimas galėtų labai pasitarnauti nagrinėjant efektyvumą lemiančius faktorius.

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