Ethical Dilemmas in Performance Measurement

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ABSTRACT. In this article we discuss the ethical dilemmas facing performance evaluators and the "evaluatees" whose performances are measured in a business context. The concepts of role morality and common morality are used to develop a framework of behaviors that are normally seen as the moral responsibilities of these actors. This framework is used to analyze, based on four empirical situations, why the implementation of a performance measurement system has not been as effective as expected. It was concluded that, in these four cases, unethical behavior (i.e. deviations from the ethical behaviors identified in the framework) provided, at least to some extent, an explanation for the lower than expected effectiveness of the performance measurement procedures. At the end of the paper we present an agenda for further research through which the framework could be further developed and systematically applied to a broader set of cases.

KEY WORDS: business ethics, common-sense morality, moral responsibility, performance measurement, role morality

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Introduction

Measuring and evaluating performance, for example by using a Balanced Scorecard (Kaplan and Norton, 1996), is currently a topical subject in both management literature and in practice. However, the *effectiveness* of performance measurement procedures in terms of, for example, more goal-directed behavior, better personnel motivation, or better decision-making, is not clear: both positive and negative effects have been reported. Why the impact of a certain type of performance measurement is positive in one particular situation and negative in another is not always clear. In this article we will explore whether differences in compliance with role morality and common-sense morality (Werhane and Freeman, 1999) by the actors involved in the measurement and evaluation process can provide an explanation for the differences in the effectiveness of performance measurement procedures. If this is the case, then it would seem that, in order to have an effective performance measurement process, not only must the format and function of the measurement procedures them-

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selves be correct, but also the people involved in the design and use of these systems should demonstrate ethical behavior.

Formal performance measurement and reporting takes place both at the level of the company as a whole, which has to report to external stakeholders, and within a company between managers and their subordinates (see Figure 1). At both levels, three types of actors, or roles, can be identified: the evaluator, the evaluatee whose performance is evaluated, and a person or institution assessing the effectiveness and efficiency of the measurement and reporting process and its outputs.

All actors have their own *moral responsibilities*, that is they are expected to act in a certain way (Fisscher et al., 2002). It is important to note that this moral responsibility concept is, in essence, a subjective opinion of an observer who appeals to the common-sense morality of the actor. Thus, the moral responsibility concept extends beyond role morality. As has been argued by Werhane and Freeman (1999), role morality points to the fulfillment of the demands and obligations of one's role. However, organizations may also ask for actions from their employees which, from a common-sense morality point of view, may be considered questionable. A simple example in this respect is that of an army demanding its soldiers to kill but, as will be shown in this paper, similar conflicts between role morality and common-sense morality can occur in business situations when it comes to performance measurement. In practice, we regularly observe that role obligations and demands are used as an excuse for what, from a common-sense perspective, is considered to be unethical behavior.

Alongside conflicts between role and common-sense moral responsibilities, there is also a conflict between moral responsibilities and self-interest. In Figure 2, the potential areas of tension between self-interest, role morality, and common-sense morality are visualized. In practice, one can observe that many actors struggle with this ethical dilemma: to act out of self-interest or to accept their moral responsibilities. This ethical dilemma can take different forms. For example:

1. Managers, in their role as *evaluators* of the performance of subordinates, determine the aspects on which these subordinates are evaluated, as well as the consequences linked to the measured performances (warning, recognition, career opportunities,

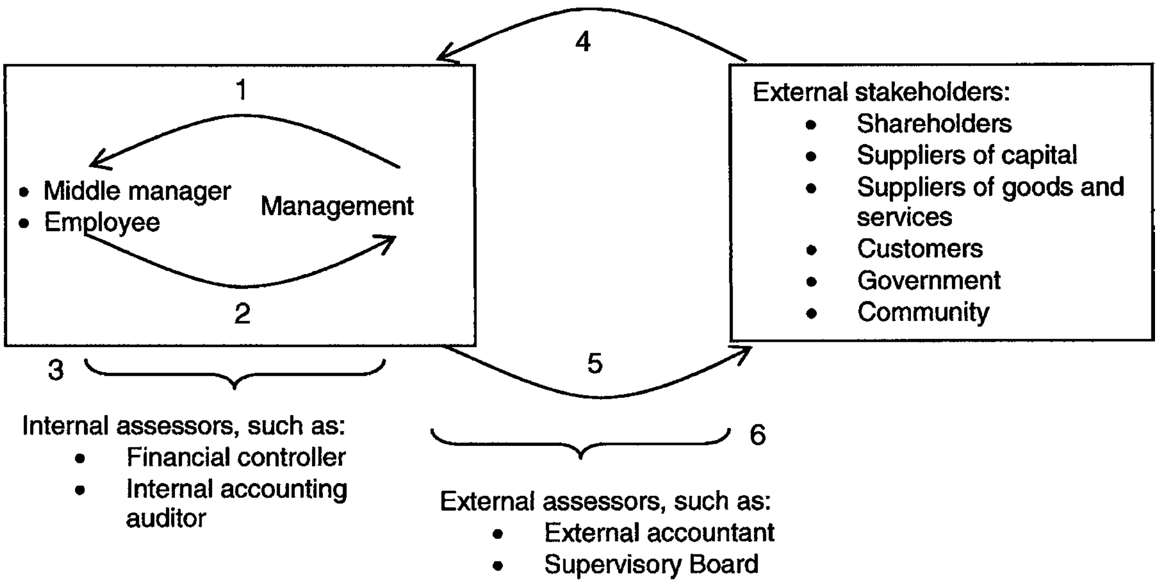

Figure 1. The different actors involved in the measurement and reporting process (Based on: Kerssens-van Drongelen and Fisscher, 2002).

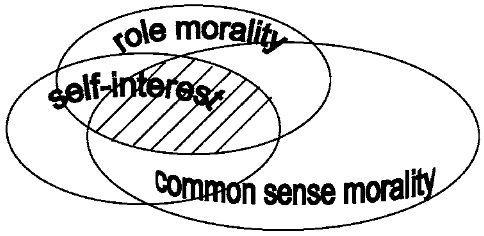

Figure 2. Potential areas of tension between self interest, role morality, and common-sense morality.

bonuses, etc.). Thus, this role gives them power over others, and opportunities to shift their own responsibilities to others, which may be used for better or for worse.

2. Middle managers and employees, in their roles as *evaluatees*, know that role morality demands they provide information that will help the evaluator form an accurate opinion of the effectiveness and efficiency of their work. However, since evaluators often do not have the ability to easily verify the reported performance data, evaluatees may waver between role morality, common-sense morality, and personal interest; especially if they disagree with the evaluation criteria or procedure, or think that it will not be in their, or other people's, interest to report their actual performance.
3. Financial controllers and other officials who have the role of *assessors* are supposed to form an independent opinion about the effectiveness and efficiency of the measurement process and its outputs, and to act as the "conscience of the company". However, when confronted with actual flaws they may struggle with the moral dilemma of whether to report them, given the possible negative consequences for the people involved, especially if they themselves have been involved in the process as advisors. Another interesting question with regard to the assessor's role is whether the task is only to evaluate and report on the *effectiveness* and *efficiency* of the measurement process, or whether one is also expected to make a judgment about the *moral justness* of the process.
4. External stakeholders, in their roles as *evaluators of the company*, should be aware that they share a moral responsibility for the performance of that company. For example, by imposing certain performance criteria on a company (e.g. short term profit), and tying consequences to the actual performance against these criteria (e.g. selling stocks), they provoke a certain behavior in that company. Also, by *not* demanding or rewarding certain performances, such as "green" production processes, they signal to the company that these are apparently of little importance. Thus, they can be said to be, in a sense, jointly responsible for potentially unethical behavior by a company. Being aware of this responsibility, a stakeholder, be it a shareholder or a customer, will have to cope with the moral dilemma of balancing among the common interest of society (e.g. no child labor), the survival of the company, and their own short-term self-interest (a cheaper product or greater profit).
5. In contrast with internal performance reporting, for which there are no explicit norms other than common-sense morality, the reporting of financial performance information by management in their role as *evaluatees*, is controlled by national and international legislation and standards, such as the US GAAP (Generally Accepted Accounting Principles) and the IAS (International Accounting Standards). However, there is often some leeway in these standards, giving the management the dilemma of whether to act in the interest of the external stakeholders, e.g. by voluntarily revealing negative developments affecting future performance, or to be swayed by the company's, and often their own personal, short term interests.
6. The law in most countries prescribes that an external accountant audits the financial report. As with the internal controller, the accountant, in his role as *assessor*, has the moral dilemma as to whether to make potential flaws public, with all the possible negative consequences for the company audited. A critical stand may also endanger future auditing and consulting assignments,

thus endangering the financial health of their own accountancy firm.

It should be noted that there seems to be a time dimension to the apparent disparity between self-interest and moral responsibilities. For an actor, in the short term, immoral behavior may seem to have benefits, at least in an economic sense, but in the longer term these economic benefits could easily disappear (e.g. a manager may have difficulties keeping personnel because they are demotivated by unethical performance measurement procedures, or an employee may get fired because his manipulation of the figures is detected), or could be offset by other criteria for personal well-being (e.g. the desire to be liked and respected).

Although the external reporting and evaluation process, with its imposed regulations, is currently very topical (for example the Enron and Worldcom affairs and related cases in the daily news), we have decided to focus on evaluators and evaluatees in internal performance reporting and evaluation processes. Many of the moral dilemmas encountered at this microlevel can also be found at the company level. In the next sections we will discuss these dilemmas more in detail in order to develop a framework of analysis that will subsequently be used to analyze examples from practice.

Moral issues for performance evaluators

The management structure of organizations implies that a division of tasks, responsibilities, and authorities has to be made. In theory, employees are expected to receive all the authority and means necessary to perform their tasks, and will subsequently be held responsible for their task performance. In practice, however, we note that responsibilities are often delegated, while the authority and means to act are withheld. Consequently, situations are created in which some employees and departments have been assigned large responsibilities and little authority, while others have a lot of authority but hardly any responsibility. When things go wrong, people can point to those to whom they have delegated the work, or hide behind "the rules". A specific situation in this respect is that of a joint, or collective, responsibility: apart from individuals, also departments and entire organizations are expected to act responsibly (Werhane and Freeman, 1999). Designing such collective responsibility is a difficult task (Fisscher et al., 2001). Unfortunately, one often seems to end up with a situation in which, despite assigned responsibilities, no one can be, or is actually, held accountable, or in which only the least powerful actually get punished. As a nurse once noted: in the event of mistakes, the doctor keeps out of harm's way, his contribution is hushed up while the nurse may get punished. A complicating factor when studying the process of responsibility and authority assignment, acceptance, facilitation, and accountability in an organization is that it is not a static situation, but a dynamic process that depends upon the circumstances and power balances at each specific point in time.

In the process of responsibility assignment, acceptance, facilitation, and accountability, a Performance Measurement System (PMS) often plays an important role. Such a PMS may fulfill several functions in this process as listed in Figure 3. Not all the functions may be relevant in a particular situation, and each function places its own requirements on the design of the PMS (Kerssens-van Drongelen, 1999).

In the literature, and nowadays also on the internet,[1] a discussion is ongoing as to whether all the seven uses of performance measurement are ethically correct. In particular the issue of performance evaluation and rewarding (function 4) raises a lot of criticisms (see, for example, Kohn (1993), Argyris (1998)). Opponents argue that such reward schemes are unethical because they convey social control over employees. Furthermore, reward schemes are alleged to be detrimental to an organization since intrinsic motivation (someone's internal drive to be successful in their tasks) is replaced by extrinsic motivation (motivation evoked by the rewards). However, others (for example Kunz and Pfaff (2002)) have argued that the concept of intrinsic motivation has many shortcomings, making it difficult to use it as a variable in research and practice. Furthermore, they argue that there is

Taxonomy of Performance Measurement System functions:

1. provide insight into deviations from objectives and into environmental factors to support the diagnosis by manager as to whether, and if so, which steering measures to apply;
2. support learning, which may lead to improved knowledge about the organization and its processes and about the impact of external factors and corrective measures on performance, and that way facilitate better organization and steering in the future;
3. support the process of alignment and communication of objectives;
4. support decision making on performance based rewards;
5. provide insight into deviations from objectives and into environmental factors to support the diagnosis by employees as to whether, and if so, which steering measures to apply;
6. help to justify existence, decisions and performance;
7. motivate people by giving them feedback about the measured performance.

Figure 3. Taxonomy of possible Performance Measurement System functions (Kerssens-van Drongelen, 1999, p. 46).

little conclusive empirical evidence supporting the detrimental effects of performance-based rewards. Last, but not least, they state that it could also be argued that rewards in fact enhance freedom of action because the system only sets boundaries and so evaluatees can decide for themselves whether or not to strive for the maximum reward. Thus, in their opinion, reward schemes are not unethical.

Next to the ethicality of the PMS functions as such, one can analyze whether managers, in their roles as evaluators, *design* and *use* the PMS in a morally responsible way. In the literature, and in practice, several moral responsibilities are normally attributed to evaluators in this respect:

– *Be honest about the intended use of a PMS and the reasons behind it, and use it in the communicated way*. In the design phase of a PMS implementation trajectory, managers should make clear for which of the functions listed in Figure 3 the performance information will be gathered. If a PMS is designed as a system to support learning, its sudden use as the basis for performance-based rewards is considered unfair and will probably raise many protests from employees. Further, the reason behind the implementation of a PMS should be openly communicated. If a performance measurement system that is said to be the basis for performance-based rewards is actually intended to select a part of the workforce to be laid off, then it will be considered unethical unless this is openly communicated.

  Note that this does not mean that the use of performance measurements can never change once they have been implemented, but rather that such a switch should be carefully explained and discussed with the evaluatees before the change is actually implemented.

– *Select and use a complete set of metrics (including performance issues such as greening the environment, and the creation of good working conditions)*. In the design phase, the selection of a set of metrics is difficult. Modern management accounting literature places a lot of emphasis on the fact that the metrics should be a balanced representation of all the important company objectives (Emmanuel et al., 1990) and of short term and long term benefits (Kaplan and Norton, 1996). As performance measures direct people's behavior, such a balance is needed to ensure that attention will be paid to all of the objectives. If, for example, attention is not given by workers to a greener environment or to good working conditions, then managers may have to look to themselves and the PMS they have put in place: what message is communicated by the PMS regarding the importance of these issues? In this respect it should be noted that it is not sufficient to just *measure* a broad set of metrics, managers must also demonstrate that they actually *use* them for decision-making, feedback, learning etc. If only lip-service is paid to the measurement of "ethically correct" metrics, and the only metrics that are really taken into account are short-term financial ones, then managers' self interest (often materializing in the form of bonuses or options based on short term financial results) would seem to prevail over common-sense morality. Probably, also, role morality is compromised since a good manager is supposed to preserve the longer-term viability of the firm.

– *Select metrics and norms that reflect an evaluatee's responsibilities and authorities*. When selecting a set of metrics to be used as the basis for performance evaluation and performance-based rewards, role and common-sense moralities demand that managers check whether the evaluatee can really influence the performance of these metrics (Pritchard, 1990; Neely et al., 1997). Further, the *targets* set for these metrics should be clear, well communicated, and seen as achievable and fair by the evaluatees (Pritchard, 1990; Anthony and Govindarajan, 1998). For example, using different targets for employees in similar circumstances will usually not be considered as fair. Involving the evaluatee in metric selection and the target-setting process is often considered as useful in order to arrive at a measurement procedure that is considered fair by both the evaluator and the evaluatee. As will be discussed in the next section, one drawback of this involvement is the risk of less ambitious targets being set.
– *Design appropriate data collection methods*. Ensuring that the selected metrics can actually be measured in an appropriate way is another practical, and also moral, responsibility of the evaluator. Depending upon the function of the measurement system (see Figure 3), objective or subjective measurement methods can be appropriate (Kerssens-van Drongelen, 1999). Especially if rewards are to be based on the measured performance, then the need for unbiased measurement methods is great. However, since appropriate data collection methods often result in high data collection costs, managers may be inclined to compromise and go for a cheaper, less appropriate, method. It may be questioned whether, in the long run, this will be the most profitable solution if it leads to personnel demotivation.
– *Ensure that others also get appropriate performance information*. As noted earlier, if employees are to be held responsible for specific tasks, and especially if part of their remuneration or bonus is based on the achievement of specific performance targets, then they should have the authority and the means necessary to excel in their job. First of all, the evaluator should communicate clearly what is expected of them. A performance measurement system could be a means to facilitate this communication (PMS function 3 in Figure 3). To excel it is necessary to have information about actual performance compared with the objectives, and about external factors impacting on the work. In other words, PMS function 5, as listed in Figure 3, should be in place. Also, intermediate feedback by evaluators on what they think about current performance (PMS function 7), and the offer of support to improve, is a moral responsibility of managers who have delegated responsibilities.
– *Appreciate non-solicited information from evaluatees*. Although most measurement procedures in organizations are established by management to fulfill the information needs they themselves have identified, managers should accept that evaluatees may also want to report self-defined performance indicators to justify their performance (i.e. PMS function 6). Role and common-sense moralities demand that management accepts this information and gives it serious consideration. Furthermore, occasionally, employees may come to management to report abuse of company property, information distortion, or business risks. Again, role and common-sense moralities demand that management seriously considers this information even though self-interest may encourage them to defer so that, if they are called to account, they can plead lack of knowledge and "wash their hands".

We have attributed the above issues to evaluators as their moral responsibilities, but this does not mean that, in practice, all evaluators will equally accept them. In the empirical part of this paper, we will use this framework of analysis for *evaluator moral responsibility* to discuss a few cases of evaluators' behavior in practice.

Moral issues for evaluatees

Just as evaluators may struggle with their attributed moral responsibilities with regards to performance measurement, so too may evaluatees. From the literature we have derived the following list of moral responsibilities that are frequently attributed to evaluatees:

- *Do your utmost, in an ethical way, to achieve the company objectives*. Role morality demands that employees act in the best interests of their company, which is usually translated as doing their utmost to achieve the company's objectives, as determined by top management, within the ethical playing field. This ethical playing field can be set either explicitly (e.g. codes of conduct) or implicitly by management (see, for example, Werhane and Freeman (1999)). In the management accounting literature, two lines of thought can be seen concerning the motivation of employees to so act. In a negative view, which is especially expressed in the agency theory, it is assumed that people are lazy and selfish by nature, and hence will not act in the interest of the firm unless this is also in their own interest (Macintosh, 1994; Moerland, 1992). Such selfish behavior is frequently possible because evaluators have difficulty in measuring whether evaluatees are doing their best. Motivation to do what is best for the firm is, according to agency theory, created by appropriate punishments and rewards (e.g. stock options). By contrast, literature strands such as empowerment (Pritchard, 1990) and sociotechnical theory (De Sitter, 1989) assume that common-sense morality prevails over self-interest. In this literature, it is argued that intrinsically motivated people do not have to be encouraged by punishments and financial rewards. Giving them the authority and means (including information) to make their own decisions (PMS functions 2, 3 and 5 in Figure 3) will be sufficient to make them act in the interests of the company. These two lines of thought on human behavior can be considered as extremes, with the reality probably somewhere in the middle (Simons, 1995).
- *Provide accurate input for metric selection*. Naturally, role morality does not only imply that the day-to-day work be executed in the best interest of the firm, but also that special projects such as the design of a performance measurement system (PMS) are likewise treated. Various authors (see, for example, Pritchard (1990) and Emmanuel et al. (1990)) recommend that evaluatees be involved in the metric selection process since they often have the best knowledge of what it is actually relevant to measure, and because this is expected to increase the acceptance of the performance measurements. However, in situations where the evaluator and/or the PMS designers have less knowledge about the tasks to be performed than the evaluatees (i.e. a situation with information asymmetry), there is a risk that self-interest will induce evaluatees to recommend less relevant or more easily achievable indicators, especially if they do not agree with, or mistrust, the intentions of management in terms of the PMS.
- *Do not distort the target setting for your own benefit*. In many organizations, evaluatees are involved in the target-setting process, which often takes the form of an annual budgeting process. In the literature, several organizational benefits of evaluatee involvement in the target setting process are noted, including more realistic targets, information exchange between evaluator and evaluatee, and an increased motivation of the evaluatee to realize the agreed targets (Van Dijk, 1992). However, evaluatee involvement also entails a major risk, especially where

there is information asymmetry: namely that evaluatees act out of self-interest and negotiate less ambitious targets. Experimental set-ups with students studied by Fisher et al. (2002) indicate that this risk is significant.

– *Provide timely and reliable information to the evaluator*. Role morality demands that evaluatees dutifully contribute to performance measurement procedures put in place by management in the interests of the firm. In some cases this could mean that they have to report their own mistakes or underperformance. Less ethical evaluatees might be inclined to distort information or to delay reporting as long as possible, especially if great importance is placed on meeting the targets (Simons, 2000). Particularly where information asymmetry exists, it may take some time for such unethical behavior to be detected, or it may never be.
– *Act "beyond measured aspects" in the best interest of the organization and mankind*. Common morality demands that evaluatees remain critical of the objectives to which they are striving: are these perhaps biased towards short-term company profits at the expense of other stakeholders' interests, or the long term survival of the firm? When confronted with such a situation, many employees may be tempted to hide behind their role responsibility and the formal set of objectives communicated to them in the form of metrics and targets. However, such behavior might be questionable from a common-sense morality point of view.
– *Provide non-solicited information (e.g. about abuses, risks) as necessary*. The role morality of employees demands that if they detect abuses, information manipulation, or business risks in their working situations, that they should report these to higher-level management, something their colleagues may not thank them for. Moreover, managers receiving such reports may also not be grateful. However, even if their managers prefer not to receive such critical information, it is the common-sense moral responsibility of the employee to shed light on these matters.

In the cases discussed in the next section, the behavior of middle managers and employees will be discussed using this framework of analysis for *evaluatee moral responsibility*.

Empirical observations of performance measurement systems

In this section, we will discuss several cases by using the evaluation framework developed above and summarized in Table I. The cases are a selection of examples from our own experiences, from our PhD case study research, and from literature.

Case 1: Unbalanced set of metrics

In a police department, the number of tickets issued was recorded and reported to the department management. The department manager in turn had to report this figure to his manager who considered it to be an important indicator of the performance of the police force. The figure was easy to measure and was used in decision-making by the department manager over corrective measures and for rewarding performance. Some policemen accepted this measure and increased the number of tickets issued by penalizing citizens for all kinds of minor violations of the law. However, other police officers were dissatisfied with the measure: wasn't the safety of citizens their primary task? If so, was the number of tickets a suitable metric to capture this – or should other indicators be added? The department manager agreed with this point of view and decided to add other measurements, including regular polls among the citizens as to how they perceived the city's safety situation. He also started to report these additional metrics to his manager.

If analyzing this performance measurement system, few would agree that the system was sound. However, the metric "number of tickets"as such was not wrong; rather the fact is that it does not properly capture the full responsibilities of the police department. The largest problem, however, was created by the way this incomplete measurement system was used.

When analyzing the actors' behaviors, the tension between role morality and common-

TABLE I
The framework of analysis for moral responsibility

Moral responsibilities assigned to evaluators and evaluatees in the performance measurement process	
Moral responsibilities of evaluators	*Moral responsibilities of evaluatees*
1. Be honest about the intended use of a PMS and the reasons behind it and use the PMS in the communicated way.	1. Do your utmost, in an ethical way, to achieve the company objectives.
2. Select and use a complete set of metrics.	2. Provide accurate input for metrics selection.
3. Select metrics and norms that reflect the evaluatee's responsibilities and authorities.	3. Do not distort the target setting for your own benefit.
4. Design appropriate data collection methods.	4. Timely provide reliable information to the evaluator.
5. Ensure that others get appropriate performance information too.	5. Act 'beyond measured aspects' in the best interest of the organization and mankind.
6. Appreciate non-solicited information from evaluatees.	6. Provide non-solicited information when necessary.

sense morality becomes clear. The department manager has two roles: he is the evaluator of the police force, but is in turn evaluated by his manager. Initially, he acted in line with role morality: he reported to his manager the number of tickets issued, and also used this indicator to steer the behavior of the force. However, from a common-sense morality perspective, this uncritical stand could be questioned: the metric does not reflect all the relevant performance aspects. Thus, the second of the moral responsibilities of evaluators (select and use a complete set of metrics) was not being observed. When some of his subordinates challenged the measurement system, he responded wisely. He not only used the new information for his own management activities, he also voluntarily reported it to his manager (the sixth moral responsibility of evaluatees) even though his manager might not have been pleased to receive negative poll results. A final remark can be made regarding those police officers who boosted the number of tickets issued. They can be reproached because, although they acted according to role morality, common-sense morality required the more critical behavior shown by their colleagues. In other words, they should have acted "beyond measured aspects" in the best interest of the organization and mankind (the fifth responsibility of evaluatees).

Case 2: Shifting functions of a measurement system

A manager of an engineering department was not satisfied with the performance of the engineering teams. He invited the engineers to develop a performance measurement system that would support them in learning and taking corrective measures when necessary. In addition, some metrics should be developed that he himself would use to track performance and to give feedback and support for improvements where necessary. After some initial skepticism, the engineering teams acknowledged the benefits of having their own set of metrics. Together with the manager, they chose a set of output metrics to be used by the manager and themselves, plus some additional process measures which they would use to take timely corrective measures (PMS functions 1 and 5, see Figure 3). Towards the end of the project, the manager suddenly started to talk about also using the metrics for internal benchmarking and as the basis for decision-making about rewards (PMS function 4, see Figure 3). The engineers were angry about this sudden switch, and some of the teams started to impede the implementation.

Although the performance measurement system has yet to be implemented, it is clear that it is not the quality of the system as such that explains the negative reaction of the engineers. It is the fact that the manager did not seem to be acting in line with the moral responsibility that the engineers had assigned to him. Either he had not been honest from the start about the intended use, or he later changed his mind and planned to use it for more than the originally intended use, both reasons transgress the first moral responsibility assigned to evaluators.

Many people do not consider the use of performance measures for decisions making about performance-based rewards as such to be unethical. Furthermore, managers could even conclude that their role morality demands that they include newly available performance information in the evaluation and reward process. However, from a common-sense morality perspective, such dishonesty or shift in PMS function does not constitute ethical behavior. Furthermore, as is shown by this example, in the longer term it may even have an adverse impact on the manager's position since the employees have lost their trust in the manager.

A final remark on the moral behavior of the engineers should also be made. Although understandable, their delaying of the implementation is not morally acceptable from both role and common-sense morality perspectives, since the fourth of the evaluatees' responsibilities is not met.

Case 3: Double agendas

Within a large company, the top management decided to implement performance-based rewards across the whole organization. The manager of one of the departments discussed the metrics to be used with his employees, and set performance targets by mutual agreement. These targets were partly based on individual performance, partly on departmental performance, and partly on company performance. In the annual round of performance evaluations, the actual performance would be compared with these targets and the flexible part of next year's salary calculated. The employees accepted this measurement system. Since they were keen to perform well, some of them asked the manager for regular feedback on how they were achieving the targets on each of the three levels. However, the manager refused, saying that he did not want the performance figures to become public since he wanted to have some leeway when reporting to top management. For example, occupancy ratios were smoothed over the reporting periods to reduce fluctuations that might lead to interference by top management.

In this situation, some people might argue that the departmental performance measurement system is in itself morally questionable since it includes metrics that can only to a limited extent be influenced by the employees. However, the main issue is in the behavior of the manager refusing to give feedback information, and hence not accepting his moral responsibility to ensure that others receive the appropriate performance information (responsibility 5). The employees are held accountable, but the appropriate means to excel in their job (i.e. accurate performance information and feedback) are withheld.

In his role as evaluatee, the manager does not show role morality since he appears to report less than fully accurate figures to the company headquarters. It could further be argued that this is also contrary to common-sense morality. However, if the manager's intention is to protect his employees from unnecessary top management scrutiny because that would only hamper the overall performance of the group, one could argue that the manager did act in accordance with common-sense morality. However, if it was purely for his own benefit, then his behavior is not acceptable since it violates the fourth of the moral responsibilities of evaluatees.

Case 4: Lack of honesty

A large multinational decided to implement a new performance evaluation system. In this system, all employees were ranked, based on their measured performance. The top 10% would get a significant bonus, the next 80% a small bonus, while the lowest 10% should not expect any bonus. After the first round of evaluations, it appeared that the lowest 10% not only did not get a bonus, but that they were actually dismissed. Some employees did not accept this dismissal, and went to court since this was the first time they had ever received a negative grading. The manager of this company was puzzled by the failure of the new system. He knew another large multinational had used a similar ranking system for years, but none of its employees had ever complained. However, in this other company, the management had experimented for several *years with the metrics and feedback sessions before it started to force the lowest ranked employees to leave.*

In this study the appropriateness of the PMS does not seem to be an issue since another company had used a similar system for many years without any problems. The key factor seems to be the low morality of the top management in that it had not communicated its true intentions with the PMS in advance (moral responsibility 1). Part of the problem also seems to stem from the years prior to implementation. At that time, the evaluation system apparently did not include an appropriate, objective, set of metrics and norms; or the managers failed to give employees an honest evaluation of their actual performance (responsibilities 2 and 3). In the comparison company, the intended use of the measurement system had been much better communicated, and the management had carefully prepared this step by first ensuring that the metrics and norms were an accurate reflection of the responsibilities assigned.

Conclusions and further research

In this article, we have developed a provisional framework for what constitutes morally responsible behavior, by evaluators and evaluatees, in terms of the design and use of Performance Measurement Systems. Such PMSs may fulfill various functions in the processes of responsibility assignment and acceptance that are at the core of modern organizations. The basic assumption underlying our framework is that performance measurement processes need to fulfill three basic requirements in order to be effective:

- the *functions* of the Performance Measurement System (see Figure 3) have to fit with the organizational context, circumstances, and power balances at a specific point in time;
- the *formats* (metrics, measurement methods, norms, etc.) of the measurement procedures have to be appropriate – and should fit the PMS function;
- the *functioning* of the actors involved in the measurement process has to be ethical.

Our framework focuses on the third requirement for effectiveness, though it should be noted that the ethics of performance measurement, and of the behavior of the actors, is intertwined with the function and format of a PMS.

If these proposed requirements for PMS effectiveness are correct, then they will have major implications for both practitioners and academic researchers. First of all, for designers of Performance Measurement Systems, they suggest that in order to make performance measurement effective, one should not only design systems that are technically sound, but also counsel and train managers to use the PMS in an ethically responsible way. Furthermore, managers that use PMSs should be made aware that, at least in the longer term, performance measurement will only be effective if it is used in a morally responsible way. This ethical requirement for effectiveness also has implications for academic researchers in the area of performance measurement. Today, most research in this area is solely focused on finding the most effective set of metrics for a specific situation. The third requirement for effectiveness suggests that one should not only be looking for the correct set of metrics, but also for the right set of behaviors to use in the Performance Measurement System.

In developing our framework of analysis, we have used the concepts of role morality, common-sense morality, and self-interest to derive from literature two sets of moral responsibilities in the area of performance measurement: one for evaluators and one for evaluatees.

As an initial test of this provisional framework of analysis, we have analyzed the behavior of actors in four different empirical case studies to explain the effectiveness of the implementations and uses of performance measurement systems. In some cases, the format and the function of the measurement system itself seemed, at least to some extent, to give an explanation for the failure. However, based on the provisional framework, we were also able to diagnose, in all four cases, ethical flaws in the behavior of certain actors that seemed to explain, to some extent, the limited effectiveness of the performance measurement system. However, we realize that our explanation is only tentative and that further research, on both the content of the framework and the relationship between the ethical functioning of actors involved in performance measurement and measurement effectiveness, is needed before reliable conclusions can be drawn. Below, a proposed agenda for such research is outlined.

First of all the framework itself needs to be expanded, based on research on performance measurement design and use in practice, on behavioral approaches towards ethical decision-making, and on organizational dynamics influencing the interactions between format, function, and functioning of performance measurement. Secondly, this improved moral responsibility framework and the operationalizations of the constructs "PMS format correctness", "PMS functions appropriateness", and "measurement effectiveness" should be translated into a case study protocol, or questionnaire, that can be used to research the hypothesized requirements for PMS effectiveness in a more structured way. This research instrument should then be systematically applied to a broader set of cases to validate empirically the impact of ethical behavior on performance measurement effectiveness.

Note

[1] See for example http:/www.zigonperf.com/resources/pmnews, or the discussion group pmaforum@yahoogroups.co.uk.

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