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Summaries

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MORAL CONFLICT IN PERFORMANCE MEASUREMENT

KONFLIKT MORALNY W ZARZĄDZANIU DOKONANIAMI

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Summary: Performance measurement is a relatively new concept. As such, it needs clarification in many issues which are connected with it. The paper deals with the ethical aspects related to performance measurement. The author focuses on the moral conflict which is common – if not inevitable – in such a process. The paper is based on the study of literature on performance measurement, stakeholder theory and business ethics. The considerations presented in the paper are of theoretical nature, nevertheless they lead to practical conclusions.

Keywords: moral conflict, performance measurement, stakeholders, common-sense morality, role morality, self-interest.

Streszczenie: Pomiar dokonań jest koncepcją stosunkowo nową. Jako taka wymaga ona wyjaśnienia wielu kwestii z nią związanych. W artykule zajęto się etycznymi aspektami związanymi z pomiarem dokonań. Autorka koncentruje się na konflikcie moralnym, który jest częsty – jeśli nie nieunikniony – w procesie takiego pomiaru. Artykuł bazuje na literaturze z zakresu pomiaru dokonań, teorii interesariuszy oraz etyki biznesu. Przedstawione rozważania mają charakter teoretyczny, niemniej jednak prowadzą do konkluzji o charakterze praktycznym.

Słowa kluczowe: konflikt moralny, pomiar dokonań, interesariusze, moralność ogólna, moralność roli, interes własny.

In every area of thought we must rely ultimately on our judgments,
tested by reflection, subject to correction by the counterarguments
of others, modified by the imagination
and by comparison with alternatives.

Thomas Nagel

1. Introduction

According to R.E. Freeman there is a great deal of important intellectual work to be done in business ethics [Freeman 1994]. Performance measurement, as a relatively new concept and method as well as to be ethical, needs this kind of work. As other business fields, it needs the identification of moral issues associated with it. It creates a research and practical problem which will be considered in this paper. The paper is based on theoretical considerations, but its aim is to produce empirical conclusions. The main thesis is: As performance measurement is aimed to fulfil goals of different character and realize interests of different stakeholders, it can cause conflict, especially moral. In order to solve the research problem and to prove a thesis, the study is based on the literature of such problems as stakeholder theory, performance management and measurement and business ethics.

2. Significance of performance measurement

As it is mentioned at the beginning of the paper, performance measurement is a relatively new idea. As stressed by many authors, it is involved in all aspects of a business management cycle. Performance needs to be assessed in determining the adequacy of strategies for achieving organizational objectives, in revising strategies, in communicating them, and in the development of tactical objectives as well as in its traditional role of control feedback [Abdel-Maksoud 2007; Maksel 1992; Nanni, Dixon, Vollman 1992; Neely, Adams 2000; Epstein 2006].

D. Otley notices that efficient financial management is a component of efficient overall management, but it does not subsume the latter. Performance may be managed, in part, by the transmission of corporate objectives (in a financial form) downwards as part of the process of strategy implementation, and financial measures may provide substantial insight into the overall impact of operational activities, but other, more specific, measures are generally needed to fully understand and manage the "drivers" of performance [Otley 2004].

Research conducted by Epstein among companies such as Nike, Procter and Gamble, the Home Depot and Nissan showed that they had developed a new paradigm. These leading companies do not see the conflict between managing both social and financial performances and can simultaneously manage both because they are using tension as a source for new ideas and more innovation and creativity rather than as impediments to decision making. They see social versus financial interests not as competing but as complimentary [Epstein 2010]. Nevertheless, the financial aspect is always a crucial one. According to D. Otley any organization, whether public or private, has to live within financial strains and to deliver perceived value for money to its stakeholders. The role of the financial function is to manage the financial resources of the organization, and to ensure that the financial constraints it faces are not breached. Failure to do this will lead to financial distress, and, ultimately, for many organizations, to financial failure or bankruptcy [Otley 2004].

Performance measurement, as an important component of performance management, has its roots in management theory. An idea that measurement should focus not only on the financial perspective, but also on other, is rooted in the stakeholder theory.

The stakeholder theory and the understanding of stakeholders management have affected performance measurement. J.B. Barney argues that from a stakeholder perspective, financial performance metrics are important because they are important to all firm's core stakeholders, but they are incomplete and they oversimplify the roles of and utility received by various stakeholders involved in the firm success [Barney 2011].

3. Stakeholder theory, stakeholder paradox and conflict of interests

Stakeholder theory claims that effective management of relationships with internal and external parties which impact and are impacted by an organization is a primary responsibility of managers and is central to value creation [*Encyclopedia of Management Theory* 2013]. According to many authors this theory has potential as an integrating theme for business and society discipline [Donaldson, Preston 1995; Jones 1995; Harrison, Freeman 1999; Wood, Jones 1995].

Stakeholders are defined as groups or individuals who have an interest in the activities and outcomes of an organization and whom organization relies on to achieve its own objectives [*Encyclopedia of Management Theory* 2013]. The goals of different groups of stakeholders can be similar but they can also be opposite. Moreover, there are some "scientific conflicts" about stakeholder theory itself.

J. Kuhn and D. Shriver oppose the idea that stakeholder relationships are to be managed at all, and propose a "constituency view" that sees the corporation and its stakeholders as a voluntary community [Kuhn, Shriver 1992]. M. Meznar, J. Chrisman and A. Carroll suggest connecting stakeholder management to business strategy and adopting a utilitarian ethic to it [Meznar, Chrisman Carroll 1991]. J. Boatright argue that while the special nature of stockholder claims cannot be justified there is no argument for the special nature of stakeholder claims [Boatright 1994].

K. Goodpaster diagnoses a stakeholder paradox [Goodpaster 1991]. He suggests that stakeholder analysis has two competing interpretations. The strategic interpretation claims that managing stakeholders is a means towards the achievement of both stockholder or managerial ends. So, managing stakeholder relationships makes good business sense, in that it allows a firm and its managers to achieve its objectives understood in narrow economic (profit-maximizing) terms. On the other hand, the multi-fiduciary interpretation claims that managers and directors have fiduciary obligations to stakeholders, one of which are stockholders, and that managing stakeholder relationships is non-optional, but morally required. From these two competing interpretations, K. Goodpaster deduces the stakeholder paradox: "It seems essential, yet in some ways illegitimate, to orient corporate decisions by ethical values that go beyond strategic stakeholder considerations to multi-fiduciary ones. […] It can be argued that multi-fiduciary stakeholder analysis is simply incompatible with widely-held moral convictions about the special fiduciary obligations owed by management to stockholders. At the center of the objection is the belief that the obligations of agents to principals are stronger or different in kind from those of agents to third parties" [Goodpaster 1991 after Freeman 1994].

According to T. Donaldson a corporation is the shareowner's property. A shareowner is more than the first among equals; he or she is accorded the highest status in law and in the most moral interpretations of private rights. The only comprehensive reconciliation of manager's obligation to stakeholders with his or her duty to shareowners takes place when attending the interests of other stakeholders it also serves the best interests of shareowners [Donaldson 1999].

According to A.C. Wicks financial measures offer an important but limited perspective in value creation. If the ability to create utility for stakeholders matters, and is a central predictor of future firm performance, then it is important to find ways of capturing more complex notions of value in a systematic and comprehensible fashion [Wicks 2013].

A.C. Wicks, D.R. Gilbert, R.E. Freeman observe that the emergence of the modem corporation created difficulties for theorists. They struggled to articulate its nature and the sorts of moral responsibilities appropriate to it. Stakeholder management has already become widely recognized and discussed in academic circles, and it has been practiced within numerous corporations. Nevertheless it requires ongoing re-examination, critique and development [Wicks, Gilbert, Freeman 1994]. Far from having achieved a fundamental "paradigm shift" when the stakeholder idea was first presented, its articulation and revision are a part of a process of change which is ongoing, dynamic and *ad hoc*. A.C. Wicks, D.R. Gilbert, R.E. Freeman suspect that future discourse will similarly transform what is valuable about stakeholder analysis through the use of a variety of forms of critical analysis, creative innovation, and the development of new vocabularies for thinking about the meaning of business [Wicks, Gilbert, Freeman 1994].

R.E. Freeman, the author of stakeholder theory, declares that stakeholder management is fundamentally a pragmatic concept. He states that regardless of the content of the purpose of a firm, an effective firm will manage the relationships that are important [Freeman 1999]. He proposes that stakeholder management should be treated with "a reasonable pluralism", as shown in Table 1. Governance of corporations, managers behavior and the background of the value creation depends not only on business theory but also on other factors, for example ecology.

Table 1. Reasonable pluralism

	Corporations ought to be governed…	Managers ought to act…	The background disciplines of „value creation” are…
Doctrine of Fair Contracts	…in accordance with the six principles.	…in the interests of stakeholders.	– business theories – theories that explain stakeholder behavior
Feminist Standpoint Theory	…in accordance with the principles of caring/connection and relationships.	…to maintain and care for relationships and networks of stakeholders.	– business theories – feminist theory – social science understanding of networks
Ecological Principles	…in accordance with the principle of caring for the earth.	…to care for the earth.	– business theories – ecology – other

Source: [Freeman 1994].

The presented pluralism of understanding stakeholder theory can solve the problem of scientific point of view in terms of management theory. Nevertheless, it shows how many different approaches to: who is important, what is important, what to measure and how to measure, exist. This makes the moral issues in performance measurement complicated.

4. Moral conflict in performance measurement

Apart from the differences in the theoretical background of performance measurement there are also differences from the viewpoint of different moralities. P.H. Werhane and R.E. Freeman notice that there are conflicts between common-sense morality and role morality by actors involved in performance measurement process. I.C. Kerssens-van Drongelen and O.A.M. Fisscher add that alongside conflicts between the role and common-sense of moral responsibilities, there is also a conflict between moral responsibilities and self- interest [Kerssens-van Drongelen, Fisscher 2003]. The exemplary moral dilemmas and potential fields of ethical conflict in performances measurement are presented in Table 2.

Table 2. Potential fields of moral conflict in performance measurement

Stakeholder groups	Role in performance measurement	Responsibility in performance management	Potential fields of moral conflict
1	2	3	4
Managers	evaluators of the performance of subordinates	they determine the aspects on which subordinates are evaluated, as well as the consequences linked to the measured performances	• the role gives them power over others, and opportunities to shift their own responsibilities to others, which may be used for better or for worse

1	2	3	4
Middle managers and employees	evaluatees	• the role demands they provide information that will help the evaluator form an accurate opinion of the effectiveness and efficiency of their work	• since evaluators often do not have the ability to easily verify the reported performance data, evaluatees may waver between role morality, commonsense 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
Financial controllers and other officials	assessors	• they 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"	• 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 themselves they have been involved in the process as advisors; • question 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 judgment about the moral justness of the process
External stakeholders	evaluators of the company	• they share a responsibility for the performance of the company	• by imposing certain performance criteria on a company and tying consequences to the actual performance against these criteria, they provoke a certain behavior in the company; • by not demanding or rewarding certain performances, they signal to the company that these are apparently of little importance; • a stakeholder will have to cope with the moral dilemma of balancing among the common interest of society, the survival of the company, and their own short-term self-interest

Source: own elaboration based on: [Kerssens-van Drongelen, Fisscher 2003].

As presented in Table 2, the nature of moral conflict in performance measurement depends on the stakeholder group that an individual belongs to as well as the role of this individual in performance measurement.

5. Conclusions

Considerations which are presented in the paper, based on literature study, proved that performance measurement can cause a moral conflict. The practical implications are following:

- successful performance measurement needs the identification of main groups of stakeholders and their interests;
- in order to impose the moral behavior on groups and people who are involved in performance measurement, the knowledge of their role morality, common sense morality is needed as well as the knowledge of their interests;
- it is necessary to communicate to the key stakeholders who are involved in performance measurement the possibility of moral conflict between their role morality, common sense morality and interest.

The research on moral questions in performance measurement has a scientific potential and practical importance. The ethical issues should be taken into account at different stages of performance measurement. Both theoretical and empirical studies are needed in order to increase the ethical awareness of people who participate in performance measurement, provide the data or use the information which emerges from it.

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