AN EXPLORATORY STUDY OF ORGANIZATIONAL LEARNING FROM A PERFORMANCE MEASUREMENT SYSTEM: A GROUNDED THEORY APPROACH.

By

Joanne M. Lye
La Trobe University
Melbourne, 3086
AUSTRALIA

Tel: +61 3 9479-1773
Fax: +61 3 9479-2356
Email: j.lye@latrobe.edu.au

Abstract

Organizational learning from a performance measurement system is typically a complex and dynamic process, but research in this area tends to be more normative or functionalist in orientation, rather than interpretive embedded in the everyday activities of practice and the particular social world examined. To overcome this, a substantive grounded theory about how organizational members learn from performance measures in their everyday working life is developed. Using qualitative data, the study documents how organizational learning from a performance measurement system within a single strategic business unit of an Australian public sector utility entity occurred, thereby, providing a contextualized understanding of organizational learning that is grounded in the everyday world of the particular social world examined. The research findings are complete enough to capture the factors that influenced organizational learning and sufficiently parsimonious to follow and grasp.

Key words: Organizational learning, performance measurement and grounded theory.

AN EXPLORATORY STUDY OF ORGANIZATIONAL LEARNING FROM A PERFORMANCE MEASUREMENT SYSTEM: A GROUNDED THEORY APPROACH.

1   INTRODUCTION

Performance measurement systems in the public sector literature are well established since the introduction of new public management reforms (Hood, 1991) nearly two decades ago. According to Guthrie, Olson and Humphrey (1999) the development of a performance measurement approach was a key component of the new public management reforms, to improve the efficiency and effectiveness of government entities ((Hood, 1991, 1995; Modell, 2004; Osborne & Gaebler, 1993).

Although there is not much empirical research to date on organizational learning in the public sector, many scholars in the government literature have recognised the potential for organizational learning from performance measures ((Behn,   2003; Carter, 1991; Hofstede, 1981; Kaplan & Norton, 1996; Kravchuk & Schack, 1996; Shields, 1997; Simons, 1995). Scholars such as Behn (2003) and Carter (1991) have noted that an essential element for investigating organization learning from performance measures in the public sector is the need to understand the contextual and organizational environment that an entity operates within. For learning is unique to each organization (Cook & Yanow, 1993) which has its own history and politics (Sanger, 2008).

The organizational learning literature is a mature field of research that has been around for nearly fifty years, whereby numerous excellent reviews have appeared, each appraising the accomplishments' achieved as well as being generative of future research ideas (Bapuji & Crossan, 2004; Dodgson, 1993; Easterby, Smith, Antonacopoulou, Simm, & Lyles, 2004; Easterby Smith, Li, & Bartunek, 2009). However, as observed by Vince, Sutcliffe and Olivera (2002) there is much more to be discovered about organizational learning. More importantly, over this time an all purpose definition of organizational learning has proven elusive with little consensus about what the term means ((Bapuji & Crossan, 2004; Crossan, Lane, & White, 1999; Mazutis & Slawinski, 2008; Rebelo & Gomes, 2008).

There is evidence that past research is partial or incomplete because theories advocated focus on either individual learning or the aggregated organization. Furthermore, the introduction of new theories such as leadership, into the organizational learning domain confirms the incomplete nature of prior research. For example, Berson, Nemanich, Waldman, Galvin & Keller (2006) focus on the positive aspects of leadership and organizational learning, ignoring the negative influences. Therefore, a research imperative exists because little research attention has been directed towards the actual processes through which organizations learn (Huysman, 1999). This shortage of empirically grounded studies has been observed by some scholars (Harvey & Denton, 1999; Huber, 1991; Shrivastava, 1983). Miner and Mezias (1996) note that there is little empirical research linking scholarly work with what is happening in organizations. As recommended by Corbin & Strauss (2008) when something in a research domain has been well studied and remains elusive, such as with organizational learning research, then it is suggestive that a new approach may be needed.

Thus, what distinguishes this study is that the researcher on reflection, using Argyris and Schon's (1978) terminology, engaged in double loop learning in the context of conducting this research. That is, the researcher challenged the established research norms of going into the field with an explicit *a priori* theory (single loop learning) given that the phenomenon of organizational learning had existed in the academic literature for nearly fifty years and was considered recently by Easterby-Smith et al. (2009) to be still a "black box". Rather, in this study theory was to be generated from practice with the focus on how organizational practitioners go about their everyday activities.

Therefore, the aim of this research is to offer an understanding and better insights of organizational learning from performance measures in action. Given the importance of context to understanding how organizational learning unfolds in the everyday world of practice, and the nature of the research problem did not conform to *a priori* theories, an interpretive mode of research was considered to be the most suitable mode of inquiry. The grounded theory research strategy was employed to formulate an interpretation of how organizational learning occurred from performance measures grounded in the everyday world of practice.

The research findings of this study suggests how organizational learning occurs is particularized by context and thus cannot be statistically generalized beyond the current setting because aspects of learning are idiosyncratic to Zappo Corporation Ltd, and is not easily transferred to other contexts. Nonetheless, the findings provide an important contribution by explaining the recursive nature of organizational learning from the viewpoints of participants within the historical and business context to improve our understanding and thereby contribute to existing knowledge by revealing that organizational learning is socially constructed (Hines, 1988, 1989) in the world of practice, providing a new way of "seeing". This paper, therefore, extends the work of scholars who have already begun to explore the social construction of organizational learning within a specific context of activities where the learning and social practices occur. Thus, this study will contribute to the small body of organizational learning literature referred to by Shipton (2006) as "practice-based approaches" (e.g. Cook and Brown, 1999; Gherardi, Nicolini & Odella, 1998).

Initially this article provides a brief introduction to the performance measurement and organizational learning research in the accounting literature. The various perspectives on defining organizational learning in the literature are briefly traced out. Next, is the research methodology and design section followed by the research findings. The concluding comment and implications are discussed in the final section.

2   PERFORMANCE MEASUREMENT AND ORGANIZATIONAL LEARNING

The domain of research enquiry investigating the link of organizational learning and performance measurement in the contemporary academic literature is primarily in the field of accounting (Kloot, 1997; Van Helden et al. 2001; Rouse et al. 2002; Chenhall, 2005; Henri 2006; Huikku, 2007; Wouters & Wilderom, 2008). In the majority of these studies scholars adopted some perspective of *a priori* organizational learning theory up-front with some exceptions. These exceptions were Van Helden et al.

(2001) and Rouse et al. (2002) who discussed organizational learning as an outcome of change.

In Kloot's (1997) exploratory case study selected two local government entities considered *a priori*, sites of organizational learning because of an external environmental change, the introduction of compulsory competitive tendering, imposed by the Kennett government in the state of Victoria, Australia. In response to the process of change to fit the new environment, Kloot found the two councils exhibited different levels of organizational learning. Moreover, the significant finding from her empirical evidence is that the relationship between the two concepts of organizational learning and management control systems "is both recursive and two-way, with the concepts inextricably interwoven" (Kloot, 1997, p.69). That is, organizational learning both influences and is influenced by management control systems.

Chenhall (2005) employed a cross-sectional survey research design sampling eighty strategic business unit managers drawn from Australia's largest 200 organizations. The newly developed construct for the variable organizational learning that Chenhall used was measured based upon respondent's perceptions to four dimensions of Huber's (1991) information perspective. However, the nature of cross-sectional survey research design provides confirmation of statistical relationships at one point in time. Thus, the nature of this research method fails to capture the relevance of specific environmental contextual factors impacting upon an organization over a longitudinal period. Furthermore, the danger of using the survey method to capture the concept of organizational learning as a defined variable is that by its definition it is a dynamic process and thus necessitates a longitudinal research design (Mazutis & Slawinski, 2008).

Henri (2006) adopted a resource based perspective to examine the performance measurement system and strategy through the deployment of four capabilities: market orientation, entrepreneurship, innovativeness and organizational learning. For this survey study, the variable organizational learning comprised of four items employed from an existing instrument developed by Hult (1998). Thus, Henri did not build upon the constructs developed by Chenhall (2005) suggestive that the variable definition at this time is not stable.

The study by Wouters and Wilderom (2008) investigated the characteristics for designing and implementing a performance measurement system that results in the system being used as a tool to enable employees work rather than being seen chiefly as a management control device used by senior managers. Their study adopted a mixed-method research design. The findings of the study implicitly suggest that learning from performance measures is a recursive experience on the part of organizational members.

To sum up the empirical accounting literature linking performance measurement with organizational learning there is considerable variation between the studies conducted. First, the research domain in which scholars have investigated organizational learning varies. Second, where survey research has been employed scholars have defined the variable organizational learning differently in search of generalizable results. Third, scholars have used differing *a priori* organizational learning theories to inform their

studies. For example, Kloot (1997) used Senge's (1990) "adaptive" and "generative" learning perspective, Huikku (2007) and Chenhall (2005) used Huber's (1991) four learning perspectives and Wouters and Wilderom (2008) adopted the perspective of Zollo and Winter (2002). Fourth, in terms of research findings, Wouters and Wilderom (2008) and Kloot (1997) both had findings that indicated that organizational learning was recursive. Consequently, the use of abstract theory and the search for generalizable results has privileged decontextualised forms of knowledge over situated learning that captures the actions of organizational members and the nuances and complexities of practice.

3 ORGANIZATIONAL LEARNING: PERSPECTIVES AND THEMES

Some scholars have identified the theoretical importance of linking individual, group and organizational levels of learning. For instance scholars have noted that there is a fundamental difference between individual learning and organizational learning (Argyris, Schon, & A, 1978; Cook & Yanow, 1993; Weick, 1991). For example, it was argued by Argyris and Schon (1978, p.9) that, "organizational learning is not merely individual learning, yet organizations learn only through the experience and actions of individuals". Thus, they implicitly conceptualized organizational learning as being a phenomenon at more than one level. Similarly, Kim (1993) developed a theoretical model whereby shared mental models were the conduit that linked information transferred from the individual to the organizational level. Subsequently, Crossan et al. (1999) developed a theoretical multi-level framework conceptualizing organizational learning as a dynamic process linking the individual, group and organizational level (known as the 4I framework). The dynamic framework of Crossan et al. (1999) is underpinned by the promotion of dialogue captured in the feed-forward and feedback processes at each of the levels. Given Argyris and Schon's (1978), Kim (1993) and Crossan et al's. (1999) theoretical conceptualizations of organizational learning more empirical research is needed to explore how individual learning is transferred into learning at the organizational level.

The process of organizational learning by authors have been variously described (Miller, 1996). Given that there is no consensus by scholars on a definition of organizational learning in the academic literature is suggestive of the need to examine some definitions given to date in more depth. Table 1 provides a summary of some definitions of organizational learning.

Table 1: Summary of some theoretical literature defining organizational learning

Author(s)	Working Definition
Argyris and Schon (1978)	Organizational learning is the process by which organizational members are able to detect and correct errors.
Hedberg (1981)	Organizational learning includes processes by which organizations adjust themselves defensively to reality and offensively to improve the fit between their internal and external environment.
Shrivastava (1983)	Organizational learning is seen as a process of knowledge sharing; an organizational process.
Fiol and Lyles (1985)	Organizational learning is defined as a process of improving actions through better knowledge and understanding.

Levitt and March (1988)	Organizational learning is defined as a process by encoding inferences from history into routines that guide behaviour.
Huber (1991)	Organizational learning is defined as a process whereby an entity learns if through processing information (acquisition, distributing or interpreting) and organizational memory the range of potential behaviors is changed.
Cook and Yanow (1993)	Organizational learning is defined as capturing the intersubjective meanings through communication and the collective actions of the group.
Miller (1996)	Organizational learning is defined as actors acquiring new knowledge and is both able and willing to use that knowledge in influencing others or making decisions within the organization.
Popper and Lipshitz (1998).	Organizational learning mechanisms are defined as the institutionalized and structural arrangements that allow organizations to systematically process and use information relevant to the organization and its members.
Mazutis and Slawinski (2008)	Organizational learning is a process that must be led.

From analysis of the definitions given in Table 1 some observations can be distilled. Most significantly, the analysis of the definitions reveals that they are similar because they either refer to organizational learning as a *process* or by the authors' definition imply that it is a process. For example, the process of organizational learning has been defined as the detection and correction of errors (Argyris & Schon, 1978), organizational members trying to improve the fit between their external and internal environment (Hedberg, 1981) and an organizational process of knowledge sharing (Shrivastava, 1983; Fiol & Lyles, 1985). Organizational learning is implied to be a process by Cook and Yanow (1993) and Popper and Lipshitz (1998). Cook and Yanow (1993) suggest that the process of organizational learning is to capture the intersubjective meanings through communication and the collective actions of a group. Similarly, Popper and Lipshitz (1998) imply organizational learning is a process through the focus on the structural arrangements used by organizational members to process and use organizational information. Finally, Mazutis and Slawinski (2008) focus on the core process of organizational learning being led by strategic leaders who influence the learning process within and between differing levels.

Although the theoretical studies discussed above provide insights into organizational learning phenomena, this brief review of studies suggests that more work is required to uncover the actual processes involved. There are three reasons for this. First, the studies take the form of theoretical arguments derived primarily from a review of the literature or insights from secondary case data. For the studies reported in Table 1 there were eight for which no empirical data were collected; the remaining two involved secondary case data drawn from earlier studies. The shortage of empirically grounded studies has been noted by some scholars (Shrivastava, 1983; Huber, 1991; Harvey & Denton, 1999). Thus, to date, there has been a lack of substantive empirical work connecting scholarly work with what is happening in organizations (Miner & Mezias, 1996).

Second, more significantly and related to the first, these studies define and investigate organizational learning in isolation from the characteristics of the total organization. Therefore, there exists an imperative for empirical research that seeks a contextualised understanding of the learning processes of managers and employees at differing levels situated in practice. In other words, there is a need to investigate the "action part of the story" (Huysman, 1999, p.63).

So, whilst there seems to a reasonable level of consensus that the field of organizational learning is a dynamic and complex process (Crossan et al. 1999; Easterby-Smith et al. 2009), more empirical scholarly work is required to examine contextual influences as well as to uncover how individual learning is transferred into learning at the organizational level capturing an organization's context and history (Easterby-Smith, 1997).

This research responded to the assertions in the literature that organizational learning had been divorced from the organizational context and there was a need to focus on the actions of organizational members who act as agents on behalf of the organization. Thus, this study is positioned in the growing but sparse domain of learning from an organization's performance measurement system.

4 RESEARCH METHODOLOGY AND DESIGN

In this research, the aim was to develop an understanding of how organizational members of one strategic business unit learn, or if they learn, construct their own organizational reality around performance measures in their everyday working life. The methodology being employed throughout this study is an "interpretive" approach in an attempt to acquire a deeper understanding of work processes and shared meanings. The rationale is through the use of the interpretive mode of research, a better understanding of organizational learning situated in a specific context will be obtained.

4.1 Research Design and Setting

The purpose of this study was to inductively build a substantive theoretical framework grounded from everyday practice that explains how organizational learning from performance measures can occur, in a specific context. Although the grounded theory method for building theory from practice has remained rather rare within the organizational learning literature[1], the use of this method was appropriate because it allowed the researcher to (1) answer the "how" questions about a multi-dimensional subjectively constructed social reality and (2) to understand the reality of the actors and to illuminate unforseen relationships (Blumer, 1969).

Access to the organization where the interviews were conducted was gained through an informant from an Australian Auditor General's Office who had made the

---

[1] It should be noted, where scholars in prior studies have used the grounded theory approach investigators have done so in conjunction with *a priori* theory. For example, see the studies of Zietsma, Winn, Branzei and Vertinsky (2002), Autio, Hameri and Vuola (2004) and Pauleen, Corbitt and Yoong (2007).

recommendation of the entity to the researcher because the entity was regarded as well managed and a leader in the area of performance measurement. Following McKinnon's (1988) recommendations about the importance of setting the scene for data collection before entering the research site, a one page summary outlining the purpose of the study and estimated time commitment was emailed to the strategic business unit General Manager before the initial meeting. The initial meeting was successful and the manager provided access to the unit's team to be interviewed and there were no restrictions on who the researcher could approach within the unit.

The focus of this research was an in-depth case study of a single strategic business unit, the Corporate Services unit, of Zappo Corporation Ltd, a government owned utility entity, responsible to the state Minister for Water, Environment and Climate Change, based in Australia. The corporate services unit has the responsibility for providing support to all areas of the business in relation to the development, implementation and maintenance of strategies, systems, policies and procedures. At the time of the study the structure comprised seven units: six cost centres and one profit centre. The six cost centre units within the corporate services unit were Finance, Contract Services (including Supply), Information Technology, Corporate Strategy, Regulation and Planning, Risk Management and Insurance, Corporate Secretariat and Legal Services. Thus, there were a diverse range of functions under the control of the Corporate Services General Manager.

Zappo Corporation Ltd had introduced the performance measurement system during the mid nineties. Thus, over a decade the entity had a proven, long evolved history, commitment and use of its performance measurement system providing a unique opportunity to investigate the research questions of interest.

4.2 Data Collection and Analysis

The selection of participants for this study was on the basis of their direct involvement in the use of performance measurement information. Using a purposive sampling approach (Patton, 1990), nine semi-structured interviews were conducted first. Subsequent participants' were identified either through the initial participants, or as their role related to the emergent theoretical framework (Glaser & Strauss, 1967; Sandelowski, 1986). To ensure primary data were analysed before the next interview, where possible first round interviews were scheduled roughly three weeks apart. In total, 31 interviews were conducted; eighteen first round interviews and thirteen second round interviews[2]. Interviews lasted between 50 minutes and two hours and 45 minutes, and all were conducted on location of the interviewee after informed consent from the participant had been received. Interviews were recorded and transcribed. It should be noted that participants were drawn from three differing levels of the organizational hierarchy.

Social scientists, such as Glaser & Strauss (1967), Glaser (1978), and Charmaz (2000) have emphasized that grounded theory methods of data collection can be utilized in a flexible manner. As asserted by Eisenhardt (1989) this flexibility permits adjustments

---

[2] All second round interviews were conducted with participants that had previously been interviewed. Of the eighteen first round interviewees two were unavailable and three were not interviewed in round two because of conflicting schedules of the interviewee and the researcher.

to be made to the method throughout the data collection process, is a key feature of theory building from case research. For example, Greenhalgh (2002) added new questions to the interview protocol before each subsequent meeting in response to the emergent grounded theory which was the approach adopted in this study. The initial interview protocol used for the first couple of interviews is given in the Appendix.

Following Glaser (1978) and Glaser and Strauss (1967) suggestions, the grounded theory techniques of coding, constant comparative method, memo-writing, diagramming and theoretical sampling were employed simultaneously throughout the process of data collection and analysis and including the write up of the study. Whilst these techniques were employed simultaneously, for clarification purposes, they are discussed here in a sequential manner.

A striking feature of research that is designed to build theory is the simultaneous coding and analysis of data (Glaser & Strauss, 1967; Eisenhardt, 1989). Thus the first stage, coding of the interview transcripts, commenced after the first interview. Informed by the analytical techniques advocated by Glaser and Strauss (1967) and Glaser (1978), the researcher used open (substantive) coding to simultaneously code and analyse the data. That is, breaking the data down into smaller component parts and labelling the newly segmented data. Following Glaser (1978) the researcher used some basic questions for opening up the data had proven useful. These were: (1) What are these data a study of? (2) What category does this incident indicate? (3) What is actually happening in this data? (Glaser, 1978, p.57).

All interview data were coded by making comparison of one piece of data to another, in this first level of analysis[3]. In this way of constantly comparing one piece of data with another and the subsequent labelling with a code name the researcher was forced to identity similarities and differences from the outset of coding. Although scholars such as Glaser (1978) and Strauss (1987) acknowledge that this approach can be painstaking, time consuming and tedious, they recommend persistence with this level of analysis. For such an approach to coding enables the researcher to remain in tune with the participant's perception of his/her reality (Charmaz, 2000), and also minimizes the chance of missing an important category (Glaser, 1978). As recommended by Glaser and Strauss (1967) and Glaser (1978) this approach leads to the discovery of a dense rich theory that is thoroughly grounded.

Coding is best illustrated with an example of how a discrete incident in the interview data is labelled. During the coding of the interview data code names were derived by the researcher as well as through the use of codes that originated from the words used by the interviewee. In grounded theory terminology the latter codes originating from the interviewees own words are called *in vivo*[4] codes because they capture in a succinct manner the essence of the incident being coded. For example, the first level of coding from an interview transcript is illustrated below in Table 1:

Table 1: Observation of Open (substantive) Coding from First Interview

---

[3] Data that were not coded to a relevant concept that emerged from coding when analyzing the interview data were coded to a concept called "uncoded data". All interview data were loaded into the computer program NVivo after the hand coding of each interview transcript had been completed.

[4] For more on information on *in vivo* codes see Glaser (1978) p.70-71, and Strauss (1987), p.33.

Interview Extract	Open Coding
…and while I am sure there are pockets of our business where people can be very literal about the interpretation of these things, in an engineering organisation that without wanting to sort of pigeon hole people I think engineers can often be quite black and white.	People
But generally speaking, while I'm sure that happens in certain parts – um generally we try and go and have a more holistic discussion.	Discussion
And that also extends to, you know, with our plans that we establish, our individual plans that we establish in June for the next twelve months because we align it with our corporate planning measuring processes (20515, 5-6, 148-159).	Plans / Alignment

These first level codes called open (substantive) codes were subsequently compared and contrasted so that they could be clustered into groups at a higher level, called categories. Categories represent the highest level of abstraction from the original interview data. From this first level process, thirty codes tentatively called categories were discovered and are listed in Table 2 below.

Using the constant comparative method, all the tentative thirty codes were analysed comparing incidents and actions within the category to elaborate upon the dimensions of the main categories. For example, the original category of "People" subsequently became the category "Diverse Organizational Members" through conducting *within* code analysis to be supported by the sub-categories of "Classification of Organizational Members", "Managerial Style", "Drivers of People and Performance Viewpoints". To assist this process of within code analysis the researcher wrote memos as appropriate to capture the ideas and thoughts about what was happening in the data.

Finally, a third level of analysis was undertaken using the constant comparative method to integrate similar categories together to capture parsimoniously an illustrative model of the substantive grounded theory grounded in practice. For example the final category labelled "Contextual Influences" included from the first level of coding the codes of "Culture" "Improvement" and "Influences". Four major categories emerged as significant and relevant. These were: Organizational Reporting Regime, Contextual Influences, Diverse Organizational Members and Social Worlds.

In summary, the constant comparative method was used by the researcher in three stages. Firstly, the constant comparative method was used during the process of analysing and coding first round interview data. This first level of coding focused on similarities and differences *between* codes. Secondly, the constant comparative method was used for *within* code analysis to analyse the thirty codes derived from the first round of coding (see Table 2) to elaborate upon the sub-categories that supported each major category. These processes of within code analysis lead to the development of the sub-categories properties and dimensions that were relevant and

Table 2:
First Level Coding Using the Constant Comparative Method

	Open (substantive) coding
1.	Achievement
2.	Action
3.	Bonus (**)
4.	~~Challenges~~
5.	Changes
6.	Culture
7.	Discussions (*)
8.	Evaluation (*)
9.	Feedback (*)
10.	Focus (*)
11.	Information (*)
12.	Interaction (*)
13.	Interpretation (*)
14.	Improvement (**)
15.	Influences
16.	Links / Alignment
17.	Outcomes
18.	People
19.	~~Philosophy~~
20.	Plans
21.	~~Politics~~
22.	Reporting Regime
~~23.~~	~~Risks~~
24.	Strategic Business Unit[1]
25.	Structure/Framework (**)
26.	Tension
27.	Types of Performance Measures
28.	~~Update~~
29.	Viewpoints
30.	~~Uncoded data~~

Notes:
1. The category labelled "Strategic Business Unit" captured information about the unit under investigation. It was decided after reflection that the content of the interview extracts would be more appropriately used to inform Chapter Four about the case entity.
2. Where codes have a "strike-through" line indicates that when developing the parsimonious illustrative model that these codes did not meet the test of "significance" or "relevance", and were subsequently dropped.
3. For this study all first round interview data were coded. That is the relevant extract was coded to one of the categories above, or was coded to a category titled "uncoded data". Thus, "uncoded data" represents interview extracts that did not fit one of the relevant categories.

supported each of the four main categories. Thirdly, the constant comparative method was used to integrate the findings of the study into a parsimonious illustrative model. Each of these stages was an important step that helped the researcher to understand the data and its relevance to the emergent theory and thereby enhanced the chances of identifying the core category. Finally, it should be noted that effectively the constant comparative method was used by the researcher from the start of the collecting the interview data until the final write-up of the study.

As recommended by Glaser (1978) memo-writing was a constant process from the time of the first interview until the project was completed. Memos are considered by Glaser (1978) to be the "bedrock of theory generation" (p.83), because they give the researcher the freedom to record observed relationships in the data without concern for expression, punctuation and grammar. To ensure that the emergent grounded theory was systematic and rigorous, memos were classified by the researcher according to their type or function. The variety of memo's employed in this study included field, method, operational, theoretical, and reflective memos. Briefly, "Field" memos recorded impressions, observations and hunches of the researcher immediately after engagement in the field. "Method" memos captured the application of the grounded theory method during the process of analysis in which the researcher was following. "Operational" memos captured questions that emerged from coding of the interview data or "to do" tasks that signalled further investigative work to be undertaken. These memos in part contributed to theoretical sampling. "Theoretical" memos were written throughout the coding process from open (substantive) coding through to saturation of each of the final relevant categories. Theoretical memos captured what was happening in the data from the coding process or captured the emergent thinking of the researcher about a category or sub-category. Finally, reflective memos were written by the researcher as and when required and capture the emergent thinking of the researcher about what is happening in the data and the integration of open (substantive) codes into theoretical concepts and categories.

Following the recommendations of Glaser and Strauss (1967), Glaser (1978), Strauss and Corbin (1990, 1998), theoretical sampling is intimately linked to the coding process was used as pivotal technique in the development of the substantive grounded theory. Theoretical sampling in a grounded theory study is directed by the emergent theory, not the people interviewed (Glaser, 1978, Strauss and Corbin, 1990). In this study, theoretical sampling was halted after the eighteenth interview because the categories derived from analysis of the first four interviews had proven to be both repetitive and robust over time with no new themes emerging by the end of analysis of the eighteenth interview. As recommended by Glaser (1978) when no new properties of a code/category emerge then it can be considered saturated, and data collection may cease.

The final step in the data analysis process for this study was the selection of the core category that was not undertaken until the four major categories were developed and refined. The discovery of the core category emerged from using the techniques of the constant comparative method, memo writing and the drawing of diagrams. The refinement of the core category was undertaken until the core was relevant and worked as an integrated category for the substantive grounded theory. At this time, the core that emerged was labelled as "aligning levels of organizational members changing episodic learning experiences".

Finally, there are no generally accepted criteria for assessing the quality of qualitative studies. So, the guidelines recommended by Corbin and Strauss (2008) were followed. When a first draft of the illustrative substantive grounded theory had been completed, second interviews were conducted with thirteen participants to discuss the researcher's interpretation of the substantive grounded theory to see if the findings had "fit", "relevance" and were "validated" by organizational members experience and understanding of the performance measurement system in their organizational context. All of the categories (Organizational Reporting Regime, Contextual Influences, Diverse Organizational Members and Social Worlds) sub-categories and the core have depth and variation. Furthermore, the substantive grounded theory discovered here gives a holistic account providing a new understanding from the extant literature about organizational learning from performance measures. The paper now turns to the findings that emerged from the use of the grounded theory approach.

5   RESEARCH FINDINGS

The holistic substantive grounded theory discovered from the use of the grounded theory research strategy captures how organizational learning occurred from the performance measurement system used at Zappo Corporation Ltd. The model comprises a core category that permeates four auxiliary categories, which simultaneously influence and are influenced by the core. The four auxiliary categories are Contextual Influences, Organizational Reporting Regime, Diverse Organizational Members and Social Worlds. The purpose of this section is to define and explain the core category and each of the supporting categories. It should be noted, that all of the conceptual components elaborated upon here have been created from an interpretation by the researcher of interview data collected and analysed from participants as well as information embedded in documents gathered since the commencement of involvement with the case entity. The parsimonious substantive grounded theory will be discussed in sequential order to make it easier for the reader to follow. Nonetheless, it must be remembered that this is a dynamic, multi-faceted process that is continuously changing and overlapping temporally.

5.1   The Core Category

The central phenomenon that emerged from this substantive grounded theory around which all of the other categories are related and integrated is defined in this section. An illustrative diagram of the core category and the four auxiliary categories of the substantive grounded theory is illustrated in Figure 2. In this study, the core category around which organizational learning from the performance measurement system occurred in the case entity was discovered to be a process of:

> Aligning levels of organizational members changing episodic learning experiences.

Aligning diverse organizational members can be either direct or indirect. In terms of the hierarchical structure, at the vertical levels there is a strong two way alignment of individual performance plan targets. That is, a manager has a strong alignment with his or her direct reports as well as with their one-up manager. For example, aligning is direct when an employee is setting, discussing and reviewing performance targets

with their one-up manager during the annual performance cycle. Outside of these hierarchical relationships interviewees felt that the alignment was weakened and thus is considered to be indirect.

Another important dimension of aligning that is considered to be direct is with some powerful stakeholders such as government, regulators, customers and to a lesser extent the community. For example during the course of this study Zappo Corporation was required by a regulator to prepare three yearly plans in order to obtain funding. However, in the majority of instances alignment is indirect although in varying degrees.

Second, "levels" reflects that individuals are employed at differing levels within the organizational hierarchy; therefore organizational members have a different visibility of what is happening based upon their differing roles. The levels are usually functionally aligned at the lowest level, with a more broadened view of what is happening across the diverse functional units of the Corporate Services Unit at the senior manager level. Additionally, levels capture organizational members coming together to work alongside one another in cross-functional teams.

Third, organizational learning from the performance measurement system can only occur through the experiences of the organizational members. Intuitively this makes sense given the term "organization" is an amorphous concept representing a group of people, in this case employed by Zappo Corporation Ltd. However, learning can only occur through individuals. Learning may occur interactively with another member of the entity either formally such as in the one-on-one meeting or informally, through other means such as meetings or email or interaction with someone from either within or outside the entity, through a change adopted or imposed by a stakeholder, or could occur through self-reflection by an individual that has an impact on the organization. Through experience learning can lead to either positive or detrimental outcomes. On the one hand individual learning experiences transferred to the organization can lead to positive outcomes. For example, in the context of this study, the improvement of an internal reporting process through the utilisation of a spreadsheet instead of being prepared manually could lead to a saving in time. On the other hand, learning can be detrimental. Two examples of detrimental types of learning are given. First, reflecting on the past an organizational member recalled an experience where their one-up manager insisted on a performance target outside of their control being included in their performance plan. The effect of this was that the staff member subsequently learned to not query the target with that manager. Second, another interviewee articulated in a general fashion what can happen when one segment of the business impacts what other people in the organization are doing. For example, one interviewee articulated the negative impact of behaviour by a manager from one area on another:

> ... So you can get some resistance or negative perceptions because that certainly does happen. The last one or two things that somebody needs to do or one or two key things that they need to do or they haven't done it and in the last month their - jumping on people around the organization to say you got to do this and when that starts happening, people start to smell a rat and get a bit sceptical shall we say....He's in a hurry for me to do this and us to do this because - so he can get his bonus. It does not go down very well surprisingly.

Fourth, the term "changing" in this study is ubiquitous and reflects the dynamics of the business environment at every level within Zappo Corporation. For example, changes are constantly occurring in the **"Contextual Influences"** which if significant are subsequently reflected in one of the reports making up the "**Organizational Reporting Regime**", the organizational membership is fluid with members leaving and new ones arriving, and all of these changes impact on the interactive nature of "**Social Worlds**".

The performance measurement system is a significant tool for learning by capturing and signalling changes to organizational members at all levels, temporally. More specifically, the "**Organizational Reporting Regime**" captures documents at all levels, but particularly at the individual level, are a useful way for the organization to signal to individuals the philosophy of continuous improvement. The flavour of this continuous improvement is to capture the evolutionary nature of changes to improve processes and to bring about better business outcomes in response to changes in the contextual environmental influences that the case-entity operates within. For example, tweaking changes can be operationalized through the individual performance plan documentation as one interviewee remarked:

> *...so a lot of it can be done through performance plans, so as long as you've identified what needs to be changed you can – yeah, use the performance plans to get that done (20521, #1, para 285).*

Fifth, "Episodic" is used to reflect that learning occurs in episodes that can either be constant or sporadic, either closely connected (within the boundary of the entity) or even occur independently. For example, the performance planning documentation provides a constant closely connected forum for discussing individual performance on a regular basis with a staff member and their one-up manager. By contrast, a board member raising a query about the disposal of computer equipment from independent discussions with a director of another firm can become an issue subsequently responded to within the boundary of the firm at the appropriate level.

The four supporting categories that support and are reflected by the core category are: "**Contextual Influences**", "**Organizational Reporting Regime**", "**Diverse Organizational Members**" and "**Social Worlds**". The core category can be seen in each of these supporting categories. And each of these supporting categories has sub-categories that help to explain the relevance of each of the categories. The core category "aligning levels of organizational members changing episodic learning experiences" permeates the supporting categories. Each of the supporting categories also influences the core. Thus organizational learning is recursive.

5.2   Organizational Reporting Regime

The term "**Organizational Reporting Regime**" came about in part from an *in vivo*[5] code from one of the interviewees in the analysis of interview data. The term emerged from an interviewee referring to the structure of the reporting regime in place at Zappo Corporation Ltd. In the context of the case entity "Organizational"

---

[5] Codes originating from the interviewees own words are called *in* vivo codes. For more information about *in vivo* codes see Glaser (1978, pp.70-71), and Strauss (1987, p.33).

captured the widespread applicability of the process of setting performance measures at varying levels such as organizational, operational, team and individual levels. The performance measures can be expressed in either quantitative or qualitative terms. "Reporting" is defined as being subordinate to or responsible to an external or internal stakeholder to give information about what is happening about specific measures often comparing planned against actual performance. "Regime" captures both the external and internal reporting requirements that are well established at different levels within Zappo Corporation. The term "**Organizational Reporting Regime**" is both broad enough to capture performance information contained in the monthly operational reports as well as planning documentation at the organizational level and for individual organizational members.

From analysis of the data the key documents identified as relevant in the "**Organizational Reporting Regime**" are classified either under the sub-category headings of "**Planning Documentation"** or "**Operational Reports**". At this point it should be noted that there are linkages at various levels between the different components of the "**Organizational Reporting Regime**" that are either vertical or horizontal in the organizational hierarchy. The consequence of this is that performance is interpreted in a variety of ways by differing organizational members at differing levels.

5.2.1   Planning Documentation

Planning, either short term (annual) or long term (three years) captures the process of predicting in advance key deliverables for the future. In the context of this study, the plans maybe expressed in written format and/or as key performance indicators. Documentation is included in the name of this category because the key performance indicators are written in the plans generated within Zappo Corporation Ltd.

5.2.1.1 Organizational Planning

At the organizational level, the measures are described as compliance with licences reported on an annual basis to both the Board and relevant external regulators. A review of the 2005/06 annual report reveals the reporting of a number of Key Performance Indicators (target against result) in key business areas of Environment, Social as well as statutory reporting disclosure requirements. Additionally, in line with the recent changes documented in the compliance with the ESC Reporting Framework, Key Performance Indicators were also published for three years into the future. Thus, the majority of measures reported at the organizational level are focused around the core nature of the business.

5.2.1.2   Individual Performance Planning

Pivotal to the performance measurement system and organizational learning are individual performance plans completed annually by the majority of organizational members at Zappo Corporation. That is, both management and non-management staff[6] link artificially individual performance measures to goals within the corporate

---

[6] In this entity organizational members have been classified as either management or non-management. The significance of this classification relates to the calculation of the bonus which will be discussed

strategy. The performance planning year is in line with the annual financial accounts reporting period ending on 30th June. The process is initiated by email from the Human Resources department who send out the pro-forma documentation and outline dates for the completion of the plans in August.

The targets in the individual performance plan are agreed through interaction of the organizational member and their one-up manager. Targets relate to the organizational member's role in the company, are over and beyond day-to-day duties, with the aim of focusing upon improvements in what is currently being performed, often called "stretch" targets. Thus importantly, the performance plans do not capture everything that an individual has to do which is contained in the position description. Rather the targets capture what will be used at the end of the year to determine the amount of performance pay earned by way of bonus. Unless the role of the individual changes during the year, the performance targets are considered static. Nonetheless, there is an opportunity for changes to targets to be documented throughout the year and to be included in the annual review process, dependent on the manager. Thus, a number of interviewees considered the individual performance plans as a guide.

Two significant changes were made in the individual performance planning documentation during the course of data collection. These were the introduction of behavioural targets and for enterprise agreement organizational members a component for the completion of day-to-day duties. These were introduced to open up discussion about the behavioural approach of an individual.

The performance planning documentation specifies a key aspect of the measure is to be expressed as an action target. Other characteristics that emerged are that where possible it must be specific and measurable. In a number of instances the way the action is expressed is completion of a task by a particular date. For example, one of the team managers in response to the adoption of the new strategic sustainability framework was now required to draw up guidelines for assessing capital expenditure projects from a triple bottom line assessment, rather than only a financial economic perspective. The adoption of this new initiative captured in various individual plans illustrates how the new focus on sustainability influenced the work of the regulation and planning team members as well as the cascading of action targets to subordinates:

> *...So in my plan it would simply say produce a set of guidelines by a certain date. I would then put into my financial analyst's plan a number of things that will support the achievement of that, so I'd break it down, I'd establish the steering committee in terms of reference by, complete economic financial assessment by "x" time and run a training course (20513, #2, #137).*

The individual performance plan documentation has evolved since its inception and also during the period of this study. In the earlier versions there was a focus on completion of the task, to a more recent focus of not only was the task completed (approximately seventy percent weighting) but additionally were the right behaviours exhibited (approximately thirty percent). To this end, the generic documentation provides assistance in outlining some of the expected standards of behaviour.

---

separately. At this point it is relevant to note that non-management staff are those covered by the Enterprise Agreement.

5.2.1.3 Individual Development Plans

The development plan document prepared annually is complementary to the individual performance planning process completed by most organizational members and through the process provides an opportunity for individual learning. The development planning framework is structured around the organizational member's development and improvement in terms of technical skills, career aspirations, behavioural and leadership competencies.

The development plan provides a learning opportunity and is discussed at a different time in the year from the individual performance plan, usually operating from November to November. A couple of reasons were put forward for why this plan is completed later in the calendar year. First, by separating the two plans this would ease the vast amount of paperwork and time entailed with completing individual planning documentation. Second, the gap in time can be useful in some instances to identify skills required to complete the target deliverables outlined in the performance plan.

The development plan identifies development actions to be undertaken within the ensuing twelve month period. There are a variety of courses available to organizational members that range from gaining technical knowledge relevant to their position description, management courses and personal development courses. An example of a personal development course is an assertiveness course.

The development planning process can involve a self-assessment process conducted by both the organizational member and their one-up manager over a range of areas such as "role specific technical skills", "behavioural competencies", and if applicable "leadership competencies". The discussion around the rankings (range of one to five) for each of these components provides a learning opportunity for both parties to discuss the agreed development and training actions of the subordinate in their current job as well as planning for the intermediate and long term future. One interviewee talks about a recent experience with the development plan with career aspirations in mind in deciding their targets agreed to with their one-up manager. The interviewee articulated below:

> *So for myself some examples were I needed more experience in people management and I participated in a mentoring program of graduates at Zappo Corporation Ltd, did some training, some management training. I identified I need to be more assertive so I did an assertiveness course and then came back and tried to actively I guess put into place what I had learned (20527, #1; 149).*

The development plan process is another example of interactive learning of two parties in terms of an organizational member's current and future role within the company. The development plan is also linked tenuously to the organizational member's performance plan making it an integral element of the **Organizational Reporting Regime**.

5.2.1.4 Bonus

At Zappo Corporation Ltd, the "**Bonus**" system is an integral element of the individual performance planning documentation that is part of the "**Organizational**

Reporting Regime". The bonus system operates differently depending on what staff employment classification is considered: "Management" or staff falling under the boundaries of the Enterprise Agreement (EA). Although the range of percentage amounts received by way of bonus for management and non-management organizational members are different, effectively the underlying conceptual structure of the way the bonus is calculated is similar. That is, the bonus is calculated on the achievement of individual targets, plus a component related to either corporate or team performance dependent on the classification of the organizational member.

The individual performance planning documentation by documenting agreed targets in a twelve month period provides the information for review and thus calculating the performance bonus amount at the end of the year. For the management staff the bonus system linked to financial rewards is viewed as a powerful motivator for achieving individual performance targets. The structure of the bonus in this classification of staff is 75 percent of the bonus allocation is based on individual performance and 25 percent is related to the achievement of corporate organizational performance targets.

For the non-management people under the Enterprise Agreement the bonus can be related to an annual salary increment or a one to two percent "one-off" type bonus if already at the top of a salary band. Thus, for staff other than management, the pivotal document outlining the bonus arrangements is the Enterprise Agreement. A major factor contributing to the smaller bonus for this group was that they had little influence relative to their management colleagues, to influence outcomes. A specific incidence of where people could not influence outcomes can be gleaned from the changes made in the Enterprise Agreement in relation to team bonuses. This change arose because an environmental incident had occurred at a treatment plant that resulted in an environmental target being breached. In their words:

> *So as a result of that – because that was one of the KPIs in our enterprise agreement it meant that everybody across the business missed out on that 1%. And then the, I guess with involvement of the unions people turned around and said but hang on, that's not my fault, I don't work at that treatment plant, what can I possibly do to have stopped that incident, it's not fair that I missed out on my pay rise because of something I had no influence on. So that sort of collective KPI's been taken out and replaced with a team based KPI. You go away and develop your own KPIs on what your team actually can influence, which was seen as fairer I guess (20527, #2, 245).*

Furthermore, non-management staff typically felt that the bonus component was a bit low for the work involved in achieving targets over and beyond your normal workload and was not perceived as a motivator. As stated by one interviewee who had heard a non-management staff member talk about having to write up a procedure as an action target in their individual performance plan, the comment was,

> *An extraordinary activity for an ordinary reward (20510, #8,209).*

In summary, the individual performance plan and development plan documentation was generic. Notwithstanding this however, organizational members' learning and viewpoints on the bonus differed along the lines of whether they were classified as

management or fell under the ambit of the Enterprise Agreement. On the one hand, typically, management staff reflected that it was a good thing to have financial rewards by way of a bonus linked to performance planning. On the other hand, non-management staff typically felt that the bonus component was not a significant financial sum for the tasks involved in achieving targets over and beyond your normal workload and thus was not seen always as a driver of individual performance.

5.2.2   Operational Reports

Underpinning the organizational and individual performance planning documentation are quarterly and monthly operational reports prepared at differing levels that are a complement to the planning documentation. In the operational reports more detail is provided about the "nuts and bolts" of operational performance issues. These operational reports provide a platform for discussion about day-to-day operational performance issues and improvement. This operational performance reporting is linked and supports the individual performance planning processes of setting targets therefore it is very much integral to how learning occurs within the Corporate Services unit specifically and Zappo Corporation Ltd more broadly.

Monthly operational reports are prepared by the leadership team about key issues, measures and achievements that are considered to be important for the board to know about. For instance, the Corporate Services SBU manager prepares a report that is also part of a wider monthly reporting process whereby senior mangers of the leadership team report to the managing director, who ultimately reports to the Board of Directors. The Corporate Services manager report summarises significant targets or issues from their unit that the board needs to be aware of drawing upon much of the monthly operational reports information provided by each team manager. This report is subsequently forwarded to the Managing Director. Similarly, the Managing Director provides extracts of relevant key indicators and significant issues that they believe the Board should know about from reports compiled by the leadership team. Hence, there is a focus on exception reporting.

One team manager reflected on the contents of the monthly operational report to their one-up manager outlining how the report was constructed around key measures and whether they were being met or not. If the target was met, then there was a tick, if not a cross and a brief explanation was provided. If there were ticks in all the boxes for one month then there is a good news story. However it was also noted that if there were ticks all the time then it could be considered that the target needs to be revised as perhaps it is pitched a little bit low.

Thus, **"Operational Reports**" are an integral element for learning about what is happening in each of the functional areas in terms of operational performance issues at differing levels. Furthermore, they are a complement and underpin the **Planning Documentation** at both the organizational and individual level in the process of aligning levels of organizational members changing episodic learning experiences. In addition these operational reports provide broader visibility of performance to managers as the reports are sent up the organizational hierarchy.

5.2.3   Types of Measures

From analysis of the interview data, internal documents' and publicly available reports of Zappo Corporation Ltd it emerged that there are a variety of types of performance measures reported upon and used dependent on the mode of communication, level that the measure is set and whether it is reported externally or internally. For instance, the level of usage could be organizational (corporate and compliance), operational (functional), team, or individual (technical or behavioural action targets) performance. Notwithstanding the variety of measures reported and used, all the measures are similar because they hold the organisation or individuals accountable for the delivery of targets that are compared to an actual result reporting on a particular dimension of performance.

Some key attributes of the measures that are reported or used are frequency, controllability, and type of target. First, the frequency of usage and reporting ranges from two-weekly, monthly, quarterly and annually.   Second the attribute of controllability refers to whether the target is within the control of the organisation or the individual or not. Third, the type of target refers to the nature of the measure and could be considered to be either objective or subjective. An objective target can be described as a hit or miss target and unambiguous. By contrast a subjective target is considered to be softer and is open to interpretation as to the achievement of that target.   Additionally, at the individual level the targets are referred to as "action targets" that are required to be "stretch" targets.

For each individual target there are two components. The action to be undertaken is the first, and second is the measure designed to assess whether that action has been achieved or not.   One, both or neither components could be stated ambiguously. Some examples of how action measures are expressed are now given. First, an example of a subjective measure assessed by the one up manager is "plans in place to develop people and ensure appropriate skills in the team" (20524, 5, 61). Second, an objective measure for an organizational member could be "successful completion of guidelines written up" and the target date by "31st January" (20521, 3, 93).

Behavioural targets were introduced during the course of this study because a number of the managers reflected on the need to consider both technical and behavioural aspects when assessing individual performance. For example, it was noted that some organizational members were brilliant technically in their role yet their social skills were not strong. For instance, examples of social skills not being strong included getting people offside, not sharing information, nor being friendly or a team player. The change in the performance planning documentation that included behavioural targets during the period of this study was a lever to use to develop the organizational member in these areas. An example of a humanistic behavioural measure developed by a manager who had reflected on their own role and behaviour within the organization who came up with the following behavioural measure was:

> *More tolerant of shades of grey thinking less of black and white as assessed by the [one-up] manager. So these are things that I came up with* (20526, #2).

On the whole, the category "**Organizational Reporting Regime**" and its sub-categories are critical structural documentary tools that the management of Zappo Corporation Ltd use for planning and learning about what is happening at all levels as

well as to obtain information about planned measures comparing planned performance against actual. Furthermore, it is also an effective tool for engaging in conversation and capturing changes that arise from a dynamic business environment. However, this tool is insufficient on its own. Next we look at the category "**Diverse Organizational Members**" to discover how organizational members interpret this tool.

5.3 Diverse Organizational Members

At the micro level, the category "**Diverse Organizational Members**" was developed to signify that each organizational member is simultaneously a separate and distinct individual as well as a member belonging to the Corporate Services sub-group within the organizational boundary of Zappo Corporation Ltd. There is a commonality in that each organizational member interprets learning from the performance measurement system in conjunction with their experience. Yet, there is also difference in that each organizational member experiences learning in their own way because each person is unique. Of the "**Diverse Organizational Members**" who were interviewed from different hierarchical levels and different functional responsibilities, it was apparent from the data there were individual differences in "**Classification of Organizational Members**", "**Managerial Style**", "**Drivers of People**" and "**Performance Measurement System Viewpoints**". The essence of this variation was captured succinctly by the words of one of the interviewees in the following quote:

> *How people relate to it both from manager to one of their team and vice versa, I think because of human nature, can vary significantly (20515, #4, 186).*

5.3.1 Classification of Organizational Members

As noted earlier, organizational members of the Corporate Services Unit are classified as either Management or Non-Management. The non-management people coming under the Enterprise Agreement. Whilst such differences seem obvious they are influential in explaining differing individual attitudes to the performance planning process at the different levels some of which have already been discussed under the heading of "**Bonus**" (see above).

The other variation that emerged from the data linked to the classification of organizational members was a perception by one interviewee that senior managers have a degree of responsibility and ownership attached to their measures and would engage with the system. By way of contrast, someone on the Enterprise Agreement could see the performance measurement system as a process that has to be undertaken on an annual basis. The relevance of "**Managerial Style**" will be discussed in the next section.

5.3.2 Managerial Style

An *in-vivo* code, "**Managerial Style**" emerged as of key importance and noted as a pervasive influence mentioned by most interviewees in terms of the success of the performance measurement system and its processes. A number of interviewees observed a variety of managerial styles. Each interviewed manager controlled the

operations of a functional area of the business, with the strategic Corporate Services Manager responsible for the unit.

The "**Managerial Style**" of both the managing director and Corporate Business Services manager was commented upon by some participants. First, a new managing director[7] commenced during the time when the first round of interviews were undertaken. The Corporate Services manager had a human resources background and was perceived to be more focused on individual planning processes and would be more involved in scrutinizing the plans, than senior managers of other segments of the business. The influence of organizational and individual managerial style permeating the performance measurement system including how the system could be used to thwart somebody's individual performance plan targets is reflected upon by one interviewee:

> *The fact that within what is I'm sure officially as documented very much the same system that there can have been such differing experiences over the last five years with different managers in the positions says to me that it's still true that the individual managers have a pretty significant influence on how it's actually implemented. I mean certainly at the moment as I say if I say I've achieved everything that's under my control that tends to be accepted whereas as I say a few years ago it wasn't…so therefore those differences are purely ones of management attitude in implementation and so I suppose my suspicion is that if the management culture were to change again next year it'd go back to being the way it was probably, would be bad (20509, #2, 305).*

At management levels "**Managerial Style**" differs from one manager to the next. Many organizational members at the lower levels observed how the individual and team performance targets were managed depended upon the managerial style of the one-up manager in conjunction with the nature of the relationship between the manager and direct report. By way of contrast at the senior management level it was recognised that a range of managerial styles existed and the focus was on trying to get more consistency between leading and engaging **diverse organizational members**. Two examples are used to reflect contrasting differences in **Managerial Style**. First, one manager believed their role was to manage and lead their direct reports. This manager believed in intuitive leadership, restructured their team so that they did everything, and met weekly to discuss operational issues, provide leadership and emotional support. Second, another manager had shifted during the course of the study from few one-on-one meetings to monthly one-on-one meetings with their direct reports. Nonetheless, this manager believed that it was up to the individual to drive the discussion rather than to be left up to the manager driving the individual.

The "**Managerial Style**" differences that emerged during the interviews of particular relevance were: in the setting of targets; flexibility; reasonableness and meetings. First, of the managers that discussed their style for setting targets with their staff each disclosed a differing approach. One manager broke the targets down in sub-parts so that they could hold the person accountable for the task to be undertaken. Another manager was conscious of including at least some targets that the staff member had

---

[7] The new managing director joined Zappo Corporation in February 2005 (Sustainability Report, 2005/06).

developed to ensure that there was a commitment to the process. Yet another manager stressed the reasonableness of targets when they were being set. When setting targets most people indicated that there was a joint process of setting targets which came about because they were in the role and were best positioned to understand what was needed to be done. Nonetheless, tensions could emerge through a gap in interpretation in what was expected to be done and what could actually be achieved. Additionally, whilst the setting of targets may vary with the role undertaken by an organizational member, members' ownership of targets at the lower levels may vary when agreement cannot be reached about what a stretch target is with the manager. For instance, tension between the manager and the subordinate could emerge over interpretation of a stretch target. By way of elaboration the subordinate believes a task to be a stretch target because it is adding value to a particular process and outside what they would normally do. Yet, the manager's interpretation of the target is that is what you are paid to do. Here is an example of where **Managerial Style** could lead the subordinate to learn to not question the setting of a target and consequentially lose ownership.

Individual "**Managerial Style**" was influential in determining what was perceived to be reasonable and/or unreasonable in the annual assessment of an individual member's performance plan, and thereby how the performance management system was used. Furthermore, one interviewee noted that the system was up for abuse therefore, people needed to work on the system to ensure it was perceived to be as fair as possible. For example, the managerial approaches for interpreting achievement of targets in the annual review ranged from interpreting the targets in black and white terms as given in the plan with no room for alteration. The implication here is that implicitly the manager uses it as a tool to penalize the staff member. The counter factual position is recognition that changes occur during the twelve month period leading to a discussion of the reasons surrounding the achievement or not, of a target, with these considerations reflected in the re-assessment of the targets by the manager exercising judgement without penalizing the organizational member.

Fourth, differences in "**Managerial Style**" were noted as to how regularly managers met with their staff to discuss the performance plan. The majority of managers met monthly with their staff discussing the organizational member's performance plan on a line-by-line basis, although not all. Alternatives to meeting monthly that emerged from the initial round of interview data were firstly to meet six monthly with reminders sent out "every now and again" about the performance plan and secondly, as one manager did met fortnightly with their staff.

In summary, the managerial culture from the top, and more specifically individual "**Managerial Style**" have a significant influence on how the performance management system is used and what organizational members learn from the system. Furthermore it was noted that a variety of managerial styles were reflected in the data and organizational members learning varied in response to their manager's way of managing.

5.3.3   Drivers of People

There are two key drivers of people identified from the data that emerged in this study: monetary rewards and career aspirations. When monetary rewards from the

bonus are a significant amount thus driving the achievement of personal goals by some organizational member's to achieve targets on their performance plan, to the detriment of business outcomes. For example a few interviewees commented upon a conflict of interest arising at the end of the financial year (the latter part of the planning cycle) where managers will pursue completion of a task possibly to the detriment of the business. Whereas, on the lower end of the monetary rewards continuum some organizational members were more motivated by pride in doing their job well and passion for the sustainability of the resources entrusted to Zappo Corporation Ltd.

Career aspirations were also touched upon as being a driver of performance when setting action targets that could be used in this context by both the manager and the staff member for learning new skills. For instance, learning from the planning process can be used by a manager to develop a subordinate's skills, and identifying future leaders within the company. As one manager stated:

> *So for example say you've got someone who is showing the spark of being a good manager in the future but at the moment they're just focusing on their patch but you want them to show some leadership within the team, then you can put that in as one of their behaviours (20528, #1, 73).*

For the current study the two key drivers of people that emerged from the data were monetary rewards and career aspirations' of organizational members. Additionally, the action targets in both the performance and development plans were useful learning tools simultaneously for both the organizational and individual levels. For instance, at the organizational level identification of future stars could be made and succession planning implemented. At the individual level, the career aspirations could be identified and what skills a particular individual would need to develop be suggested.

5.3.4   Performance Measurement System Viewpoints

Some differing viewpoints about elements of the system emerged from the interview data collected. These differing viewpoints of "**Diverse Organizational Members**" are considered to be areas of tension whereby aspects of the system were perceived to interact in a conflicting manner. More specifically the elements of the system that have caused tension are related to principles and people. The most significant of these conflicts to emerge from the data about what could be done better in the performance measurement system were in the areas of weightings of achievement of targets, bonus weighting aspects of the system and engagement of managers with their staff.

First, the bonus and in particular, the weightings applied to the achievement of the performance measures in the review process also attracted comment from a few interviewees. Most notably was the perception that managers were seen to be loathe to rate individuals above average for achievement of a performance measure. Average in this instance attracting a score of fifty percent meaning the target was achieved, with a grading of either 75 percent or 100 percent above expectations which was perceived to be given rarely. Even though it was acknowledged that the manager should have a discretionary element. So, there is a perception gap identified here that needs more consideration.

Second, in relation to the issue of assigning weightings to the achievement of targets or not "**Managerial Style**" emerged as relevant. That is, a couple of managerial interviewees expressed the viewpoint that from an employee level there was a perception of inconsistency across the organization because it depended on who your manager was. The perception existed that some managers were fair, some were lenient, some are tough and some are unfair.

Third, three interviewees from differing levels, expressed the desire for more personal engagement going both ways around the performance planning process. As one interviewee suggested if you are to be a good manager and consider staff to be your most valuable resource it is important to make engagement a priority. And in that context six monthly discussions are insufficient.

There was also a variety of perceptions about performance plans that range from this is a good system to this is not such a good system. On the one hand it is seen as a useful system because it provides focus for what is required during the year and there is the opportunity for discussion. On the other hand, it is seen as something that has to be done, a bit of a chore that and more emphasis now on achieving the targets because they are in the manager's plan. That to some degree maybe explained by the level of the interviewee in the hierarchical structure. For example a senior manager felt that their performance plan reflected what they considered they were probably paid to do. Team managers saw the system as something that had to be completed with no choice therefore staff should make the best of what they can do. And lastly, some organizational members felt that it was an additional burden on top of their everyday activities.

Another area that created tension among organizational members particularly those from the lower levels was the perception that emerged from the interview data in the context of "**Managerial Style**". More specifically, around the manager-direct report relationship was who got credit for the achievement of tasks and the subsequent bonus amount associated with performance plan targets. Here there was the potential for conflict to emerge between different levels of staff. For instance,

> *Well as I mentioned to you before I see a couple of issues. One, a lot of them as I mentioned to you are filtered down from mangers' 'til they get down to the people at the bottom to do. So long as we do it they get a tick in theirs, like it's been completed, um, so I find that a bit hard to deal with sometimes, you know, it just seems that we do the work and they get the big bucks for it. And the second thing is the remuneration for it, like as I said we get two percent or something or other and they get I think it's fifteen percent on a far higher salary. So where they talk about getting their kitchen done up we might talk about getting a new dish drainer or something like that (20516, #1, 385).*

Finally, it was noted by one interviewee that the SBU chosen to participate in this study had certain characteristics that would distinguish this group of people from others within the company. More specifically, the Corporate Services unit was a group of "**Diverse Organizational Members**" who were used to rules and regulations, meeting deadlines and reporting on a regular basis. The effect of these characteristics on this group of "**Diverse Organizational Members**" is that this group potentially could be an exemplar of what performance management could be.

Yet, within the same organization for other groups responsible for operations for instance, the result could be quite different.

Overall, the viewpoints on the performance measurement system by diverse organizational members, was that they had learned how the performance measurement system operated at an individual level and felt that the system provided focus for the achievement of targets in a twelve month period. Nonetheless, aspects of the system were seen to be applied in an inconsistent manner most notably the weightings of targets achieved linked to the bonus. Also there were aspects of the system that organizational members were unable to understand. Here there was a difference to the way a senior manager perceived their individual targets to those staff that were on the lower levels. This was causing a clash between different organizational members at differing levels.

This section on "**Diverse Organizational Members**" captures the diversity that exists within the collective of people that make up the Corporate Services unit at Zappo Corporation Ltd. Inherent in any organic system that has a constantly changing membership are the individual differences such as "**Classification of Organizational Members**", "**Managerial Style**", "**Drivers of People**" and "**Performance Measurement System Viewpoints**" all vary significantly at differing levels.

5.4   Contextual Influences

For this study "**Contextual Influences**" refers to influences that have either a direct or indirect impact upon the business organizational outcomes at Zappo Corporation, as captured in the corporate plan, key performance indicators at the organizational level, operational targets, and/or organizational members' individual performance plans. With the case-entity being in the public sector and the nature of the industry that the entity operates within means that there are a range of "**Contextual influences**" that impact upon the business outcomes that are subsequently incorporated in the performance management system through the "**Organizational Reporting Regime**" at all levels (organizational, operational, team and individual). Thus, "**Contextual Influences**" captures the environmental conditions specific to the company within which the strategic business unit operates. The strength of these influences varies depending on level and function at which the influence is exercised. The sub-categories of this major category include "**External Influences**", "**Internal Influences**" and "**Organizational Culture**". Each of these is now discussed in turn.

5.4.1   External Influences

At the organizational level, "**external influences**" are many and varied with their strength of influence ranging from a direct to indirect impact. Those that have a direct impact on Zappo Corporation in achieving alignment at the inter-organizational level are the State Government as shareholder, and a group of stakeholders referred to as "technical regulators". Each of the technical regulators has an impact on the business in terms of outcomes and expenditures of Zappo Corporation.

For instance, from analysis of interview data from the initial round of interviews it emerged that a new regulatory reporting regime had been imposed at the state level

that subsequently influenced planning and expenditure decisions for the whole organization. For the first time at the state level, Zappo Corporation became regulated with respect to pricing and service output. The nature of this contextual influence is considered to be direct and strong. Under this new system of reporting to a newly established external regulatory body, Zappo Corporation was required to plan three years in advance what their projected outcomes as measured by performance indicators, both financial and non-financial, would be during that period of time in exchange for an amount of money.

Additionally, there are a number of other stakeholders' in addition to the "technical regulators" that impact on the strategic and operational measures'. All of which exert a degree of influence that must be considered when calculating the expenditures, prices and key performance indicators to be reported upon.   As one interviewee explained, the impacts of the external influences affect the organization at different levels:

> *... so, obviously heavily influenced, just about every level in our organization by regulators, customers, and to some extent the community…(20515, #5, 87).*

Besides external stakeholders, legislation is another example of an external influence in the development of performance indicators cascaded into an individual's performance plan. One interviewee, although referring to their previous role, elaborated on how new legislation that Zappo Corporation had to comply with created an action measure in their performance plan to develop a risk management plan to ensure the company complied with the new Act.

So, it is the organizational members at differing levels who assess the significance of the influences on their functional role within the organization. How these external contextual influences are interpreted will be discussed in the next section on internal influences.

5.4.2   Internal Influences

The primary internal influences were the Board of Directors and Zappo Corporation Ltd's **diverse organizational members** identifying and questioning what the issues within their span of responsibility are. Thus, often it is the organizational members' dialogue and interpretation of what needs to be discussed that is subsequently included in the **Organizational Reporting Regime**. That is, learning occurs from experience, interaction and judgement of organizational members at all levels as they react and respond to the range of **Contextual Influences**.

More specifically, at the operational level there exists variation about the impact of internal and external contextual influences on the functional teams within the Corporate Services strategic business unit. That is, each of the teams has differing external and internal contextual influences that impact upon their area of focus either directly or indirectly. Some illustrative examples are now given.

For the Corporate Secretariat and Legal Services team it was difficult for this functional area to set specific targets in advance because it depended on what legal advice was sought by the business, but not always known in advance. Nonetheless,

there are also some external influences that are described as being general in nature that impact upon business processes. For example, a member of the legal team elaborated upon the ESC Statement of Obligations, an external influence that had a general impact upon the way corporate governance processes are managed within Zappo Corporation but the specifics were to be interpreted by relevant organizational members.

In the Regulation and Planning team the change of reporting directly to the ESC imposed upon the case entity can be traced to performance targets for the team and in an organizational member's performance plan. For example, for one staff member of the team there was both an objective and subjective measure that the interviewee mentioned when talking about the measures in their individual plan. They stated:

> *...there was a quantity point, for example minutes from those meetings completed within a week of the meeting or something; I can't remember what the target was. But, there was also a quality one and that was maintain a good relationship or productive relationship with the retailers and that was as assessed by my manager, so there was a bit of sort of expert judgement in evaluating that one. But in the end the results were the group delivered good results and you can't do that without a good relationship so that was OK (20528, #1, 201).*

The influence of the State Government's sustainability approach, captured by Zappo Corporation Ltd's change of name for their strategic framework is filtered down throughout the organization at all levels. For example in the Contract Services (including Supply) group the organizational member responsible for fleet was required to consider the environment and green impact of motor vehicles leading to an increase in the use of hybrid vehicles. This was to achieve alignment with the enactment of the new sustainability framework.

In another team, Risk Management and Insurance, the team manager described how they experienced learning from the internal and external influences on their segment of the business. The manager identified key areas of responsibility under their role and monitored the relevant internal and external pressure areas. Through this monitoring of influences they see this learning as being fluid to capture issues appearing "on the radar" for consideration and potential subsequent inclusion as an action in someone's individual performance plan.

5.4.3   Organizational Culture

"Organizational Culture" is a sub-category of "Contextual Influences". All interviewees expressed a comment either explicitly or implicitly on culture that was interpreted to be relevant. In this study organizational culture is about the articulation of the goals and values in either written or verbal communication as well as the beliefs expressed by the organizational members.

There was widespread belief by organizational members that the performance measurement system, no matter at what level, was a tool used to improve performance and add value leading to better business outcomes. These shared beliefs about improvements by organizational members relate to their individual jobs at all levels. For it is in the individual performance plans, that organizational members identify

tasks, activities, processes, and skills that can be improved upon. Not only was the idea of continuous improvement a shared belief it was also embedded in the performance planning documentation. This observation is gleaned from the internal generic planning documentation (both the development and performance plans) and outlined in the "Strategic Framework" and other publicly available documentation such as the "Sustainability and Annual Report".

Within the organizational culture, many sub-cultures co-exist. For example, the organizational culture of Zappo Corporation Ltd, being a legislative protective monopoly, and the team culture of the profit centre are quite stark largely due to the differences in the nature of the business undertaken by each. For instance, one reason for these cultural clashes was differences in the measurement of performance. For Zappo Corporation Ltd, the entity measures performance over very long term time frames sometimes over a hundred years whereas the profit centre has short term annual time frames.

Second, in recruitment processes at Zappo Corporation Ltd culture permeates the selection of potential staff members. For instance one interviewee stated that the recruitment strategy at Zappo Corporation was significant in relation to whether a potential employee would fit into the behavioural culture of Zappo Corporation. This interviewee was aware of technically brilliant individuals that had been denied a role in the entity because on a behavioural perspective it was considered they may not fit in.

Another sub-culture that existed within Zappo Corporation that was mentioned by interviewees related to the primary nature of the business being an engineering firm and the gender mix of staff. A macho male culture was said to exist and at the time of the study women made up just over a quarter of all employees. Many interviewees noted that Zappo Corporation was considered to be an engineering focused entity which over a long period of time permitted the existence of a culture of "we're right or we're wrong". Although it should be noted that this was changing with the newly introduced focus around behavioural attitudes being included in the performance planning documentation reflecting that how an organizational member undertakes a task is nearly as important as the technical aspects.

This change of focus to include approximately thirty percent weightings on behavioural attributes was a significant change introduced to the performance planning documentation during the duration of the study reflecting the importance of promoting desired behaviours[8]. One interviewee elaborated in more detail what some of those behaviours that were being sought were and their weightings in the individual performance plan:

> So the performance plan describes what expected standards there are, for example, anticipating problems and challenges, pursuing goals, demonstrating an organisation wide mindset and staying current on what's happening in the external working environment, share my learning's with others. So some of the performance plan measure this year is weighted toward actually it's now – I think

---

[8] The 2008/2009 Sustainability Report also notes the importance of constructive behaviors that are recognized as the foundation upon which the work culture is built.

it is about thirty percent weighted towards how I do things and about seventy percent towards doing them, getting the job done, yeah so it's which is good. So it's a change from just getting your job done to doing it the right way and involving other people (20527, #1, 61).

By way of overview, the category "**Contextual Influences**" discussed in this section outlines the context within which Zappo Corporation Ltd operates. The organizational culture permeates the performance measurement system through organizational members' beliefs and there are many external as well as internal influences that are dynamic and constantly changing. These changes are occurring all the time at various levels throughout the organization against a background of organizational culture and sub-cultures that co-exist. One tool for capturing those changes and learning opportunities' in the performance measurement system is through the "**Organizational Reporting Regime**" of the organization.

5.5   Social Worlds

Initially during data collection and analysis the researcher named this category simply "Interactive Strategies". From further analysis of the data collected the interactive strategies employed captured differing people interacting together in relation to the performance measurement targets whether they were individual, team, operational or strategic measures as an essential element of learning episodes from the performance measurement system. Whilst this term captured the underlying purpose of interaction at differing levels of performance it was felt that the term was not adequate. There were a couple of reasons for this. First, although organizational members interact within the boundary of the firm formally and informally, many also interact with a variety of regulatory agencies and stakeholders outside of the organizational boundary for learning purposes through communicating, sharing knowledge and building relationships in an on-going manner. Thus secondly, closely related to the first reason, the researcher wanted to capture the idea in the name of this category that the choice of the term "**social worlds**" was driven by the emergence in the data of the need to capture interaction and communication that both included and transcended the formal organizational boundary of Zappo Corporation Ltd. That is, the term needed to capture the interactions at the interface between the internal and external environmental context of Zappo Corporation Ltd. This was determined to be important because of the large number of stakeholders influencing this public sector organization.

Upon reflection of the interview extracts coded and a search of texts written by Strauss (1987) the researcher discovered the term "social worlds". Kling and Gerson (1978) define a social world as "a set of common or joint activities or concerns bound together by a network of communication" (p.26). Thus, based upon the definition of Kling and Gerson the term "**Social Worlds**"[9] captured the nature of the interaction

---

[9]   Scholars such as Star, Bowker and Neumann (2003) consider that the concept of "social worlds" have the same meaning as the concept of "communities of practice" developed by Lave and Wenger (1991). The concept of communities of practice is a small branch within the organizational learning literature. However, the researcher chose to use the term social worlds rather than communities of practice because of Hofstede's contention that in public and not-for-profit organizations, organizational

and communication employed within and external to the firm by the **diverse organizational members** experiences around the performance measurement system. Additionally, the term captured the diffuse stakeholder groups and organizational members that coalesce into a domain of interest and involvement around activities. In this study the "**social worlds'**" maybe either tightly or loosely associated and/or are constantly changing. The key interactive strategies that emerged from the data were "**Knowledge Exchange**" and "**Action Processing**". Each of these will be discussed below.

5.5.1   Knowledge Exchange

In Zappo Corporation generally, and more specifically the Corporate Services strategic business unit "**Knowledge Exchange**" is where each of the categories "**Contextual Influences**", "**Organizational Reporting Regime**", and "**Diverse Organizational Members**" intersect with people engaging in discussion about performance metrics at various levels. Thus, this category captures the actions, interpretations and processes employed by organizational members at various levels within Zappo Corporation to give and receive information in order to bring concentrated attention to support learning from the use of the performance measurement system.

At the organizational level, the performance planning documentation provides a systematic structure and interactive focus to add value to the business through discussion of performance measure action targets of organizational members that are tenuously linked to strategic organizational outcomes to be undertaken at various times throughout the financial year. The level of exchange about performance measures in this study is primarily focused at the sub-organizational level (Strauss and Corbin, 1990) and captures within that team, group and individual exchanges. The overall underlying purpose of this "**Knowledge Exchange"** is driven by a desire to improve organizational and individual performance. As stated by one participant:

> *...through that [performance planning] process it gives the focus for discussion, the focus for business improvement, without it individually and organizationally you just – how do you know whether you are getting there or not? (20515, #14, 155).*

The preferred mode of "**Knowledge Exchange**" used for the discussion of individual performance measures is what is termed "one-on-one meetings" whereby the subordinate and one-up manager engaged in a line-by-line discussion of performance metrics contained in the annual performance plan. Additionally, the frequency of these meetings could range from fortnightly to six monthly as discussed under the sub-category of "**Managerial Style**".

At the beginning of the year, the focus of discussion is around setting the measures and formalizing a plan for the coming twelve months. This is where the subordinate learns what is important from the one-up manager and the tasks considered being above and beyond their normal day-today tasks or special projects required to be

---

tasks should be broken down to the "level of activities" (Hofstede, 1981, p.194). However, it should be noted that the two concepts are seen to be similar.

undertaken. And the converse is also true. That is, where the manager learns from the subordinate what is important. How this "**Knowledge Exchange**" occurs depends on the "**Managerial Style**" of the manager. For example, some managers are conscious of getting commitment from their staff so will ensure that one or two measures developed by the employee are included in the plan. At the other end of the spectrum the team manager will assign tasks that fit within the role of the subordinate providing only token detail.

During the year, "**Knowledge Exchange**" occurs formally through the one-on-one or group discussion around the individual performance plan. This provides a learning opportunity focused around providing an update on the tasks scheduled in the plan, providing feedback, and taking corrective action in a timely manner. For example the one-on-one discussion updates the manager on where a team member is in relation to a specific target, provides an opportunity to discuss problems or obstacles encountered and thereby gives the manager a chance to initiate corrective action, come up with new ideas of how the target can be achieved or asking for assistance from someone else.

A further outcome of "**Knowledge Exchange**" mentioned by managers' is to reduce the impact of "surprises". That is, by meeting regularly with their team members' managers were updated about a whole range of things through an in-depth discussion so that both parties have a better understanding of where they are at, avoiding a situation occurring of finding out a target would not be achieved at the last minute or ignore the target. Furthermore, this provides an opportunity to talk about a number of other issues, such as is there any personal issues happening that are impacting upon work performance that the manager needs to be aware of.

At the end of the year, "**Knowledge Exchange**" in one-on-one discussion focuses around achievement of targets, review of the performance plan and what happened over the prior twelve months in order to make an assessment of individual performance. From the data it emerged that a manager who met monthly one-on-one with their staff often kept a record of meetings and appended the notes made during the year to their performance plan. Thus, the manager was able to pull out that monthly information either before the one-on-one meeting or during the review process and incorporate these notes at the end of the year capturing what had happened. For instance, in the review the manager could say I have this piece of information from this month, you've achieved these targets, you didn't do this but you achieved this instead. Such an approach facilitated learning from the review process rather than having to go back and think what did I do in the last twelve months? Another interviewee talked about a scenario where the individual had not achieved all the targets and expressed a feeling of nervousness. The interviewee expressed the opinion that if everyone was reasonable and the non achievement of targets could be justified because other things emerged that had to be done. Notwithstanding this, it was noted that it depended on the **managerial style** of who your manager was.

The process of interaction is integral to aligning organizational members actions through "**Knowledge Exchange**" that occurs in the one-on-one meetings tenuously linked to the strategic sustainability framework. Complementary to this sub-category

"**Knowledge Exchange**" is the sub-category "**Action Processing**" which is discussed in the next section.

5.5.2 Action Processing

The sub-category "**Action Processing**" is a process because it occurs in three stages. First the sub-category "Action Planning" provides evidence of how the targets are set at the beginning of the year. Second, "Managing" captures how the information is used during the year. Finally, "Reviewing" captures why setting the targets is important in determining the bonus at the end of the year. Thus, the category "**Action Processing**" is about changing actions in response to interactive "**Knowledge Exchange**" in a timelier manner reflecting the changing dynamics of business captured in the category "**Contextual Influences**". Each of the three stages, Action Planning, Managing Actions and Reviewing of Actions will be discussed.

5.5.2.1 Action Planning

The first step in the management of individual organizational member performance is determining the action targets to be undertaken for the next twelve month cycle, itemised in the individual performance and development plan. Importantly, these action targets provide focus on what is to be achieved and remain on the plan unchanged once signed off through the protocols. Thus, these targets are purposeful in their orientation and static for the twelve month period.

In this stage of the performance planning process the relevant issue is how the actions are fleshed out. Some of the actions may derive from topical issues that have emerged from the "**Contextual Influences**" either internally or externally. For instance, one team manager elaborated in detail about the process of how they learn what the issues are through identifying influences on the horizon for the current year, capturing that information in their performance plan and the subsequent allocation and alignment of tasks to various team members. The learning process followed in the development of the annual targets is articulated in the following quotes:

> *I suppose it's a watching brief...it can be from things like in terms of my commitment to just reading or keeping abreast of current issues with risk and all that sort of stuff, like there might be an emerging risk standard coming out so I might suggest well for 2006 we will need to look at the implications of that in terms of Zappo Corporation Ltd. So there is a bit of watching brief stuff. There is a little bit of – you get the feel through from the Board and external influences. I mean even SBU manager although he is not really an external influence, but when I take myself out of my insular role he is an external influence because he might say well this is where we need to go in terms of an organisation (20510, #3, #109).*

> *So annually what I do is I come up with an action plan for the team of, you know, based on months in terms of delivery, so these are the significant items obviously of what I think the team collectively need to deliver. From that, both mine and my team's performance plans evolve, so I pick up on the key items in there and put them in my performance plan (20510, #2, #77).*

The process of determining development plan actions is similar. That is, the development actions need to be stated specifically but here the focus is on behaviours and competencies. The development plan has been described as a useful tool for career progression. For example, if an organizational member wants to become the finance manager in five years time the question is what skills are required to be developed to achieve that objective. The objective provides a basis for determining what the development needs is in terms of behaviours and competencies.

This section has briefly identified how some of the individual performance and development action targets are fleshed out at the beginning of the year. The next section discusses how these targets are used in managing organizational members' performance during the year.

5.5.2.2 Managing Actions

The use of performance measures in both individual plans (development and performance) and operational reports are pivotal to managing performance of individuals, teams and operations. Importantly, they provide a focus for subsequent learning and action.

From individual plans, many managers conduct a monthly line-by-line discussion of targets contained within the plan with subordinates. Through this interaction issues are identified, obstacles encountered elaborated upon, alternatives for achieving the target discussed, feedback, and an update of what is happening. This line-by-line discussion achieves a number of things succinctly captured in the following quote:

> *Well it's a one on one meeting, he and I, and we go through amongst a whole range of things, but we go through, as I do with my people and vice-versa, we go through it line by line, performance, where you are at with this particular target, how you are going, is there any issues, all that sort of stuff, you know, or I've got a delay here, I cannot meet this deadline because of this or, you know, I'm not going to do this, I've struck a brick wall here or whatever. So it is a pretty good discussion (20523, #1, #75).*

The process of discussion not only updates the managers on where staff is at, but also allows changes that occur to be documented on the individual performance plan and provides the opportunity for the reassessment of priorities and advice to be collectively agreed upon. Thus, everyone is informed and subsequent action is agreed upon.

The operational reports prepared monthly by team managers provide a focus to managers up the hierarchy right up to the managing director about how performance is being managed in their respective areas. These operational reports tend to give visibility and focus on "headlight" issues that have been deemed to be important to the business.

The Managing Actions occurs in episodes of "**Knowledge Exchange**" that contribute to the alignment of operational and strategic objectives of Zappo Corporation Ltd. The management of actions is also useful for transferring information both upwards

and downwards in the organizational hierarchy. In the next section, the third element of "**Action Processing**" is discussed.

5.5.2.3   Reviewing of Actions

Reviewing of performance happens both during the year and also at the end of the year. During the year performance reviews take the form of discussion with both parties often taking notes to avoid trying to remember everything that happened at the end of the year and forgetting some important behaviours or achievements. The end of year review is formally documented and provides the basis for calculating the bonus amount for each organizational member. The formal review of performance works through each of the targets in the plan is agreed and signed off by both parties. Here the organizational member is given a sense of how they went for the year on each of the targets, however, the percentage weighting of the bonus amount to be received is less transparent, often being referred to as a standardisation process for which little is known.

In terms of the bonus methodology there are two key components that are used to calculate an overall ranking score. First, each individual action target is assigned a weighting in terms of importance and then also the achievement of the target is ranked according to whether it met expectations or not for which there are five categories. This process is reasonably transparent between the manager and the organizational member. However, where it could be ambiguous is how the achievement of a target would be interpreted by the manager. For example, in the words of one participant:

> *...I have seen examples of both, some people take it very black and white, other people take it, um, I'm prepared to listen to your reasons and if I think they are reasonable we will make some adjustments. But it is open I think to abuse. I would not replace it, I just think you have got to work at it, and work at it so that it is perceived to be fair, as fair as possible (20513, #3, #365).*

The review of individual performance occurs both during the year and at the end of the year. Individual performance is assessed by whether the actions as outlined in the performance plan were achieved or not noting changes that have occurred. During the year the focus of review is interaction and being updated with what is happening, thus the performance plan provides a platform for the focus of discussion in a timely manner. By contrast, at the end of the year the primary reason for the formal review is for determining the weightings assigned to each action target and consequently the percentage to be applied in the calculation of the bonus. Of course, it must be remembered that the bonus amount available in any given year is tied to the financial resources of the entity.

6   CONCLUDING COMMENT AND IMPLICATIONS

To conclude this study, given that there was no one over-riding theory of organizational learning to use, an interpretive study, using the grounded theory approach was undertaken to uncover how the process of organizational learning

occurred from performance measures within a specific organizational context. This research offers a holistic perspective for understanding how organizational learning occurs from the performance measurement system that is more attuned to practice not previously recognized in the accounting research literature. Further, organizational learning is a socially constructed process illuminating that the use of performance measures is embedded in everyday thinking of the particular social world examined. The findings of this study contribute to the literature by stimulating a more integrated and comprehensive understanding of organizational learning from the use of performance measures.

Importantly, what are the implications of this study? First, this research supports the relevance of using alternative research perspectives where traditional methods leave research domains fallow of insights into dynamic and complex situations grounded in practice. Second, the substantive findings of the study for practitioners are broad enough guidelines to be interpreted in light of the characteristics that exist within their own organization rather than appearing as strict guidelines to be followed in detail, thus, the conceptual schema is malleable. Third, managerial style is heterogeneous when managing staff. This suggests greater opportunities to initiate a leadership development program to provide advice to managers how to more effectively engage with staff for the purposes of improving relationships with staff, and ultimately improve business outcomes. Finally, the use of performance measures being discussed with the one-up manager as a learning tool within an organization create conditions that could lead to possible tensions and disagreement. This is an essential component of the system and should be relished rather than shied away from.

A limitation of this study is that the unit under investigation comprised primarily professionals in a support role to the core business, albeit of differing disciplines, located in a head office environment that arguably was more likely to be accepting of the paperwork involved on an annual basis compared to those employees in the field. This limitation could explain in part why there wasn't more diversity of opinion about the performance measurement system.

Finally, it should be noted that if the goal is to understand organizational learning, more attempts must be made to situate the research within specific organizational contexts. Such research responds to calls by accounting academics for research to investigate the use of management accounting procedures in their organizational context (Hopwood, 1983; Otley 1994), for organizations are heterogeneous. Only through conducting contextually based research can scholars and practitioners come to more fully understand how organizational learning occurs as a dynamic process. This exploratory study of the daily affairs of organizational members learning from performance measures is a small first step along the path that will contribute to the practical relevance of public sector management accounting research.

Appendix

Interview Protocol

Purpose: **The provision of open-ended questions to provide suitable foci for discussion during the first <u>couple</u> of interviews only**

1. Can you please explain the performance measurement reporting structure of your unit within the Business Services Unit?
    Prompt for:
        a. What aspects of performance are measured?
        b. What are the different levels of reporting?
        c. Frequency of reporting at different levels?

2. How are the measures chosen? That is, do factors in the external and internal environment influence the performance measures used? If so, what are those factors?
    Prompt for:
        a. What are the regulatory influences?
        b. Are there customer driven influences? Social factors? Stakeholder influences (for example, employees and community)? Parliamentary? Policy issues?

3. Describe an ordinary occurrence when you receive a report on performance measures (allows interviewee to define what is important).

4. How is each of the performance measures used at each of the various reporting levels? (types of measures and objective versus subjective use)
        a. Are they clearly communicated?
        b. Are they understandable?

5. In your view what does performance measurement mean to people at different levels in the organization? How do you feel about performance measurement and management changes?
        a. On yourself?
        b. On your work?
        c. On your staff?
        d. On the organization?

6. If you were going to change something about performance measurement/management in your unit, what would it be?

7. Is there anything that I haven't asked that you think I should have?

References

Argyris, C., Schon, D., & A. 1978. *Organizational Learning: A Theory of Action Perspective.* Reading, Massachusetts: Addison-Wesley.

Bapuji, H., & Crossan, M. 2004. From questions to answers: Reviewing organizational learning research. *Management Learning*, 35(4): 397-417.

Behn, R. D. 2003. Why measure performance? Different purposes require different measures. *Public Administration Review*, 63(5): 586-606.

Berson, Y., Nemanich, L. A., Waldman, D. A., Galvin, B. M., & Keller, R. M. 2006. Leadership and organizational learning: A multiple levels perspective. *The Leadership Quarterly*, 17: 577-594.

Blumer, H. 1969. *Symbolic interactionism. Perspective and method*. Eaglewood Cliffs, New Jersey: Prentice Hall, Inc.

Carter, N. 1991. Learning to measure performance: The use of indicators in organizations. *Public Administration*, 69: 85-101.

Charmaz, K. 2000. Grounded theory objectivist and constructivist methods. In N. K. Denzin, & Y. S. Lincoln (Eds.), *Handbook of Qualitative Research*. Thousand Oaks: Sage Publications, Inc.

Chenhall, R. 2005. Integrative strategic performance measurement systems, strategic alignment of manufacturing, learning and strategic outcomes: An exploratory study. *Accounting, Organizations and Society*, 30: 395-422.

Cook, S. D. N., & Brown, J. S. 1999. Bridging epistemologies: The generative dance between organizational knowledge and organizational knowing. *Organization Science*, 10(4): 381-400.

Cook, S. D. N., & Yanow, D. 1993. Culture and organizational learning. *Journal of Management Inquiry*, 2(4): 373-390.

Corbin, J., & Strauss, A. 2008. *Basics of qualitative Research* (3 ed.). Thousand Oaks: Sage Publications, Inc.

Crossan, M. M.,Lane, H. W., & White, R. E. 1999. An organizational learning framework: From intuition to institution. *Academy of Management Review*, 24(3): 522-537.

Dodgson, M. 1993. Organizational learning: A review of some literatures. *Organization Studies*, 14(3): 375-394.

Easterby, Smith, M., Antonacopoulou, E., Simm, D., & Lyles, M. A. 2004. Constructing contributions to organizational learning. Argyris and the next generation. *Management Learning*, 35(4): 371-380.

Easterby Smith, M., Li, S., & Bartunek, J. 2009. Research methods for organizational learning: The transatlantic gap. *Management Learning*, 40(4): 439-447.

Eisenhardt, K. M. 1989. Building theories from case study research. *Academy of Management Review*, 14(4): 532-550.

Fiol, C., Marlene, & Lyles, M. A. 1985. Organizational learning. *Academy of Management Review*, 10(4): 803-813.

Gherardi, S., Nicolini, D., & Odella, F. 1998. Toward a social understanding of how people learn in organisations. *Management Learning*, 29(3): 273-297.

Glaser, B., & G. 1978. *Theoretical Sensitivity*. Mill Valley: The Sociology Press.

Glaser, B. G., & Strauss, A. L. 1967. *The discovery of grounded theory. Strategies for qualitative research*. New York: Aldine publishing Company.

Greenhalgh, R. W. 2000. Information and the transnational SME controller. *Management Accounting Research*, 11: 413-426.

Guthrie, J., Olson, O., & Humphrey, C. 1999. Debating developments in new public financial management: The limits of global theorising and some new ways

forward. *Financial Accountability & Management*, 3 & 4(August/November): 209-228.

Harvey, C., & Denton, J. 1999. To come of age: The antecedents of organizational learning. *Journal of Management Studies*, 36(7): 897-916.

Hedberg, B. 1981. How organizations learn and unlearn. In P. C. Nystrom, & W. H. Starbuck (Eds.), *Handbook of Organizational Design*. New York: Oxford University press.

Henri, J. F. 2006. Management control systems and strategy: A resource-based perspective. *Accounting, Organizations and Society*, 31: 529-558.

Hines, R. D. 1988. Financial accounting: In communicating reality, we construct reality. *Accounting, Organizations and Society*, 13(3): 251-261.

Hines, R. D. 1989. The sociopolitical paradigm in financial accounting research. *Accounting, Auditing & Accountability Journal*, 2(1): 52-76.

Hofstede, G. 1981. Management control of public and not-for-profit activities. *Accounting, Organizations and Society*, 6(3): 193-211.

Hood, C. 1991. A public management for all seasons? *Public Administration*, 69(1): 3-19.

Hood, C. 1995. The "new public management" in the 1980s: Variations on a theme. *Accounting, Organizations and Society*, 20(2/3): 93-109.

Huber, G. P. 1991. Organizational learning: The contributing processes and the literatures. *Organization Science*, 2(1): 88-115.

Huikku, J. 2007. Explaining the non-adoption of post-completion auditing. *European Accounting Review*, 16(2): 363-398.

Hult, G. T. M. 1998. Managing the international strategic sourcing process as a market-driven organizational learning system. *Decision Sciences*, 29(1): 193-216.

Huysman, M. 1999. Balancing biases: A critical review of the literature on Organizational Learning. In M. Easterby-Smith, J. Burgoyne, & L. Araujo (Eds.), *Organizational Learning and the Learning Organization*: 59-74. London: SAGE Publications.

Kaplan, R. S., & Norton, D. P. 1996. Strategic learning & the balanced scorecard. *Strategy and Leadership*, 24(5): 18-24.

Kim, D. H. 1993. The link between individual and organizational learning. *Sloan Management Review*: 37-50.

Kloot, L. 1997. Organizational learning and management control systems: Responding to environmental change. *Management Accounting Research*, 8: 47-73.

Kravchuk, R. S., & Schack, R. W. 1996. Designing effective performance measurement systems under the government performance and results act of 1993. *Public Administration Review*, 56(4): 348-358.

Levitt, B., & March, J. G. 1988. Organizational learning. *Annual Review of Sociology*, 14: 319-340.

Mazutis, D., & Slawinski, N. 2008. Leading organizational learning through authentic dialogue. *Management Learning*, 39(4): 437-456.

McKinnon, J. 1988. Reliability and validity in field research: Some strategies and tactics. *Accounting, Auditing & Accountability Journal*, 1(1): 34-54.

Miller, D. 1996. A preliminary typology of organizational learning: Synthesizing the literature. *Journal of Management*, 22(3): 485-505.

Miner, A. S., & Mezias, S. 1996. Ugly duckling no more: Pasts and futures of organizational learning research. *Organization Science*, 7(1): 88-99.

Modell, S. 2004. Performance measurement myths in the public sector: A research note. *Financial Accountability & Management*, 20(1): 39-55.

Osborne, D., & Gaebler, T. 1993. *Reinventing Government*. New York: Penguin Books USA Inc.

Popper, M., & Lipshitz, R. 1998. Organizational learning mechanisms. *Journal of Applied Behavioral Science*, 34(2): 161-179.

Rebelo, T. M., & Gomes, A. D. 2008. Organizational learning and the learning Organization. *The Learning Organization*, 15(4): 294-308.

Rouse, P., Putterill, M., & Ryan, D. 2002. Integrated performance measurement design: Insights from an application in aircraft maintenance. *Management Accounting Research*, 13: 229-248.

Sandelowski, M. 1986. The problem of rigor in qualitative research. *Advances in nursing science*, 8(3): 27-37.

Sanger, M. B. 2008. From measurement to management: Breaking through the barriers to state and local performance. *Public Administration Review*: S70-S85.

Shields, M. D. 1997. Research in management accounting by North Americans in the 1990s. *Journal of Management Accounting Research*, 9: 3-62.

Shipton, H. 2006. Cohesion or confusion? Towards a typology for organizational learning research. *International Journal of Management Reviews*, 8(4): 233-252.

Shrivastava, P. 1983. A typology of organizational learning systems. *Journal of Management Studies*, 20(1): 7-28.

Simons, R. 1995. *Levers of Control: How Managers Use Innovative Control Systems to Drive Strategic Renewal*. Boston: Harvard Business School Press.

Strauss, A., & Corbin, J. 1990. *Basics of Qualitative Research*. Newbury Park: Sage Publications, Inc.

Strauss, A. L. 1987. *Qualitative analysis for social scientists*. Cambridge: Cambridge University Press.

Van Helden, G. J., Van der Meer Kooistra, J., & Scapens, R. W. 2001. Co-ordination of internal transactions at Hoogovens steel: struggling with the tension between performance-oriented business units and the concept of an integrated company. *Management Accounting Research*, 12: 357-386.

Vince, R., Sutcliffe, K., & Olivera, F. 2002. Organizational learning: New directions. *British Journal of Management*, 13: S1-S6.

Weick, K. E. 1991. The nontraditional quality of organizational learning. *Organization Science*, 2(1): 116-124.

Wouters, M., & Wilderom, C. 2008. Developing performance-measurement systems as enabling formalization: A longitudinal field study of a logistics department. *Accounting, Organizations and Society*, 33: 488-516.

Zollo, M., & Winter, S., G. 2002. Deliberate learning and the evolution of dynamic capabilities. *Organization Science*, 13(3): 339-351.