



LUND UNIVERSITY
School of Economics and Management

**A comparative analysis of the design and use of performance measurement in
two Universities - Lund University and Liepaja University**

By

Kaspars Sokolovskis & Liwaalislam Joudeh

May 2017

Master's Programme in Accounting and Finance

Supervisor: Anna Glengård

Abstract

Title: A Comparative analysis of the design and use of performance measurement in two Universities - Lund University and Liepaja University

Seminar date: May 2017

Course: BUSN79 Business Administration Degree Project in Accounting and Finance, 15 credits

Authors: Kaspars Sokolovskis & Liwaalislam Joudeh

Supervisor: Anna Glenngård

Keywords: Management control, performance measurement systems, public sector, university

Purpose: The purpose of this thesis is to compare the performance measurement tools and indicators used in both Lund University and Liepaja University and point out to the advantages, disadvantages and challenges in both systems.

Methodology: qualitative approach, 2 university cases, semi structured interviews

Theoretical Framework/Perspectives: The first part includes a description of the performance measurement approaches 1) Total Quality Management 2) Economic Value Added 3) The Balanced Scorecard. The second part is an overview about the rewarding and compensation systems in universities. Literature used from Neely, Del Sordo et al. Farid In explaining The Balanced Scorecard, performance management and measurement. Ryan and Deci, Kerr in the rewarding system section.

Empirical Framework/Foundation: Three semi-structured interviews with university top-management employees

Conclusions/Implications: Through process of interviewing, analyzing interview data and then connecting to literature researched, expected findings were uncovered, it can be noted that both universities are working differently, however, both universities expressed idea that it is hard to measure human performance as well as, well-performing models may differ from university to university.

Acknowledgements

We would like to thank all the people who helped and supported us with writing this Master Thesis.

Firstly, we would like to thank to both involved organizations and their employees for taking part in author's in-depth interviews as part of the data collection.

Secondly, we would like to thank our supervisor for all the advice given and support offered during the writing process of this Master thesis.

Table of Contents

Abstract	2
Acknowledgements	3
1. Introduction	5
1.1. Performance measurement systems	5
1.2. Problem discussion	5
1.3. Previous studies	6
1.4. Purpose and research focus	7
2. Methodology and Research Design	8
2.1. Quantitative Research versus Qualitative Research	8
Figure 1. Comparison of Qualitative and Quantitative research (Source: Shaya'a Othman)	10
2.2. Sample Selection Criteria	10
2.3. Design of research questions and limitations	11
2.4. Qualitative Research Types	12
2.5. Research Design	13
3. Theoretical Framework	14
3.1. Performance measurement systems in universities	14
3.2. Rewarding system in universities	19
4. Empirical Framework	20
4.1. Interview results	21
5. Analysis and Recommendations	26
6. Conclusion	31
Reference List	32
Appendix 1	36

1. Introduction

1.1. Performance measurement systems

According to Ferreira and Otley (2009), performance measurement systems are hard to establish and adopted by organizations. In any case, PMS include a mixture of formal and informal mechanisms and processes used according to the type of organizations. It is sometimes difficult and costly for small organizations to use structured and formal PMS as a management control tool. While in organizations such as large profit seeking companies or even educational institutions, to some extent it is more efficient if more formalized and structured PMS was used. An important objective for organizations may include the achievement of balancing between financial and non-financial issues. Neglecting non-financial issues such as quality and customer satisfaction proved to have negative effects on the performance and on the financials as well. BSC is well known and trusted PMS because it includes both financial and non-financial measures within its perspectives. However, it is worth mentioning that three of those perspectives are non-financial. According to Lueg and Radloch (2016), even though the four perspectives of the BSC seem independent, they have a huge effect on ones another as they all work towards achieving the mission and the vision of the organization. Educational institutions include a lot of non-financial matters such as the research quality and the student's satisfaction, which means when using structured PMS, a non-financial oriented is preferable.

1.2. Problem discussion

When applying for studies in Universities students are looking for the best fit and biggest benefit they can get within their abilities. Students invest their time, effort and in a lot of cases money to get the proper education that will further help in their future academic and professional life and they expect pay-off (ROI) from their investment. At the same time, universities try to be uniquely special by providing a beneficial service in order to attract best students and to surpass other universities locally and globally. Unfortunately, distinctions between universities are

slowly disappearing (Lawrence, 2002). It is common to think that the differentiation will gradually continue to decrease as the world is becoming more and more globalized than ever, information and researches are easier to access, education models are more standardized and new universities are imitating the traditional ones.

For universities to achieve the goal of being well-known with good reputation and high in the rankings and to satisfy the students, they must continuously improve their performance, benchmark with other universities and fix the errors and mistakes identified. One option of doing that is through a high-level performance measurement system. Although good performance measurement systems and tools have benefits on the institution's performance, better and more explicit systems and tools will give more valuable feedback and will lead to richer modifications on the current performance. In educational institutions like universities there is always an area to develop and a problem to solve. This can be applied on both developing and developed countries as there are no limitation to how good an academic institution can perform.

There are not many studies or literature reviews on what kind of performance measurement systems and tools universities use along with the difficulties they face and how can they overcome them and improve their performance. Because of that, the thesis is going to focus on this issue by using a comparison between Lund University in Sweden and Liepaja University in Latvia.

1.3. Previous studies

There are some previous studies that focused on the implementation of the BSC in universities and higher education institutes such as the study of Farid (2008) and the study of del Sordo (2012). However not many studies tried to assess the current performance measurement systems in universities and compared systems of two different universities in different countries. The previous focus was on the application of PMS rather than assessment and improvement of the current one.

1.4. Purpose and research focus

The aim of this thesis is to investigate and identify the present performance measurement tools/indicators used, processes for evaluating performance and rewarding systems in both Lund University and Liepaja University. Research focus is on pointing out to the advantages, disadvantages and challenges in both systems as well as gain deeper knowledge of performance systems in Universities to help both, Universities adapt their processes and students to understand how Universities work to be able to choose them better. This can be done by analyzing and comparing both universities, after the research is done, authors will try to provide recommendations of a performance measurement system that both universities may improve.

Through in-depth semi structured interviews, the answers to the main research questions were found:

What performance measurement systems the universities use?

What processes does the university follow for evaluating of employees and organizational performance?

How is the university different than other universities in their academic performance?

What advantages do they have?

The rest of the paper is structured as follows: first, a section on the methodological approach – research approach, interviews, company sample selection, secondly, a review of relevant literature, consisting of general research. Next, research findings and analysis of collected data, followed by a discussion of results; and conclusions and suggestions for further research finalizes the paper. References and appendices follow.

2. Methodology and Research Design

Research is described as an organized, systematic, data-based, objective inquiry (Yin, 1994), and there are several methods to conduct a research towards the required findings. Research is about making and discovering new learning, whatever the subjects – history, physics, social work. The crude material of examination is confirmation, which then must be made sense of (Yin, 2003). In this case, research can also be described as an investigation into comparison of the performance measurement tools and indicators used in both Lund University and Liepaja University undertaken with the purpose of finding a solution to the problem, and ultimately, pointing out to the advantages, disadvantages and challenges in both systems. In its unique structure, positivist philosophers indicate that, by being observable and undeniable, phenomena could be the topic of science, excluding subjective phenomena or ‘unverifiable’ hypothesis in that matter (Litchfield, Frawley and Nettleton, 2010). The naturalistic style of case study approach makes it particularly reasonable to research human phenomena, and what it expects to be a human in this present reality, as it happens. In the basic understanding, there are two crucial ways of how confirmation/evidence is applied, one of them being to imply the discoveries of ‘scientific’ research. Usually completed in the form of experiments of other accurately controlled examinations, which are dared to yield ‘proven’ results of potentially crucial significance. Secondly, as Berg (2014) points out, evidence is applied as a part of courts of law and legal request as a component of the procedure of judging, whether charges or concerns are liable to be genuine or not. A significant part of the procedure of criminal and civil law is concerned with characterizing and testing evidence.

2.1. Quantitative Research versus Qualitative Research

In this Master thesis, there are available multiple approaches of choosing the right method for the research. On one hand, the deductive quantitative approach may be used. According to Ipsos (2011), quantitative research is a study that aims to evaluate behaviors, measure variables on which they pivot, look at, and point out connections. As the aim of the research is to compare the performance measurement tools Lund University and Liepaja University uses.

However, this method is usually coordinated by means of a survey on sampling. Moreover, sampling, in general, should be illustrative so that the outcomes can be extrapolated to the whole population studied. In this master thesis, the survey would put limitation on research in a way that would ensure that the survey answers correspond the questions, downsizing the possibility of failure. It requires the development of institutionalized and modifiable measurement instruments (structured questionnaires). Moreover, Bryman and Bell (2012) explain that quantitative approach is usually used to answer questions ‘how many’ and/or ‘how often’. For example, in a research where the author intends to profile a target audience by determining what extent of the crowd has certain practices, behavioral intentions, attitudes and knowledge related to the relevant concern, and whether particular determinants anticipate behaviors at a measurably critical level. There are several major differences between quantitative and qualitative research, as shown in table below:

COMPARING QUALITATIVE & QUANTITATIVE RESEARCH

Qualitative Research	RESEARCH ASPECT	Quantitative Research
Discover Ideas, with General Research Objects	COMMON PURPOSE	Test Hypotheses or Specific Research Questions
Observe and Interpret	APPROACH	Measure and Test
Unstructured. Free Form	DATA COLLECTION APPROACH	Structured Response Categories Provided
Research is intimately involved. Results are subjective	RESEARCHER INDEPENDENCE	Researcher uninvolved Observer. Results are Objective
Small samples –Often in Natural setting	SAMPLES	Large samples to Produce Generalizable Results [Results that Apply to Other Situations]

SHAYA'A OTHMAN

Figure 1. Comparison of Qualitative and Quantitative research (Source: Shaya'a Othman)

On the other hand, qualitative research is described to be subjective and theory developing approach, while quantitative approach is objective and theory testing. According to Yin (1994) qualitative approach is inductive, in contrast of the deductive nature of quantitative approach, which in this case makes it more appropriate to use the qualitative approach for conducting the research. However, there are two academics with different approaches of the use of case study design. Both of them base their approach on ‘constructivist paradigm’ which originates from qualitative philosophy (Baxter and Jack, 2008). Crabtree & Miller (1999) acknowledge that constructivists believe that truth is not absolute, but rather relative. The truth depends on the perspective, and there is no ‘objective truth’. In addition to the observations previously mentioned, the authors argue that tight collaboration between the researcher and the participants enable to go in-depth and tell all the stories precisely. On a further note, Laverly (2003) defines phenomenology as emphasis on the world as lived by a person and on their experience and interpretation of it. Halldorsdottir (2000) and Moran (2000) agrees that phenomenology usually refers to understanding the social phenomena, and as there is no unified approach to this matter, the researcher needs to be open to themes that emerge, to find out what the individual themes have in common, and what is unique to them. However, in this research it is inevitable that boundaries are not clear between the phenomenon and the context. Based on the above-mentioned concerns, the qualitative case study research is agreed to be applicable best for this particular research, see figure 1 for comparison of both methods.

2.2. Sample Selection Criteria

To ensure the quality of the process and findings of the research, the reasoning on the sample selection criteria is of high importance, just as the non-probability quota sampling of qualitative in-depth semi-structured interviews design. Continuing with the description of qualitative research design, Yin (2003) argues that qualitative research with case study design is advisable to be considered if the paper is going to focus on the following subjects: a) the focus of the paper is to answer “why” and “how” questions; b) the nature of the study is not persuasive, and one is not able to manipulate of those involved in the study; c) contextual conditions will be covered because they are believed to be relevant to the studied phenomenon. But even at this

point, with case-study design there are several methods to choose from, for a beneficiary use in the research.

2.3. Design of research questions and limitations

The research questions are linked to the umbrella topic of measurement and effectiveness, since the primary aim of this study is to compare the performance measurement tools/indicators and systems. The work will be assessed utilizing research obtained from Lund University and Liepaja University employees. The outcomes of the analysis could increase the understanding of what's important to Universities, what's important for students and what are the biggest differences between two Universities in two countries. It is clear that the value of any research findings depends strongly on the accuracy of the data collected. In this research, data quality can be compromised by several different routes, for example, lack of prior research studies on the topic, as well as biased interviewees, or unrepresentative samples.

To maintain the highest standard of the preciseness of the findings of the research, purposive and representative sampling will be essential. Furthermore, interviews conducted for every research are limited. People, who have volunteered to participate, may not fully represent the corresponding cluster. To address this possible weakness and ensure that the data are accurate, the researchers will use quota sampling, and ensure that the leading interview questions will monitor if the person who has participated is relevant to the study, furthermore, at the stage of data collection, it will be possible to determine the significant data. Also, the ability to interview top-management employees may be good and bad at the same time, as it might put is in situation where authors may miss the views from lecturers on the matter of performance measurement systems in University. To address this weakness, the interviews were semi-structured and questions were linked to the umbrella topic to allow authors flexibility in asking the right questions avoiding biases.

2.4. Qualitative Research Types

The most popular types of qualitative research are descriptive, exploratory, and explanatory. For this particular study, two of them have been evaluated as relevant – the exploratory and the explanatory research types. In his book, Yin (1994) has explained the characteristics of these types. Exploratory strategy is mostly used with “what” questions. Although, other types of questions are also acceptable in exploratory study, one could use all the possible strategies – a survey, an experiment or a case study. The most advantageous use of this type of research is when the goal is to describe a situation, where the interview has predictable outcomes to be proven. On the other hand, questions as “how” and “why” are more explanatory, and explain the presumed causalities/links in real-life situations. However, those links require an in-depth understanding, not just a simple survey. Therefore, to trace relevant and reliable information, the suggested strategies to use are case studies, histories or experiments. Continuing with the design of the research, the multiple case study design is going to be used. The design has been used more frequently in the past years, and is used when there is more than just one single case (Yin, 1994). To understand the multiple case study even better, Yin (1994) says that the process is similar to replication, and in the analysis a cross-experiment rationale is necessary. To perform the analysis, each case has to be carefully selected, so that the outcomes would be similar; or they would be totally contrasting, however, for predictable reasons. Therefore, if during the cross-case analysis similar patterns would be present, one could argue that the initial theory and propositions hold. On the other hand, if there are differences among the cases, the initial theory and propositions should be revised. The multiple case study method is based on analyzing each case separately to draw conclusions across the cases, and only then one is able to write cross-case report and to conclude if the theory holds or needs modifications.

As the different features of qualitative design have been discussed and carefully analyzed, it is believed to be the best fitting one to the research. Moreover, the system how Universities work in different countries may be hard to compare. Measuring performance effectiveness is complex in its focus on human behavior and people. Therefore, there is not a correct “formula” of what to use, and it is hard to make conclusions and generalizations simply from numbers (Hwang, 2012).

Therefore, the only reasonable way is to use case-study method for the research on the performance measurement tools and indicators used in both Lund University and Liepaja University and point out to the advantages, disadvantages and challenges in both systems with qualitative in-depth study to determine to what extent it has been successful or unsuccessful.

2.5. Research Design

In this research, a thorough analysis of the two above mentioned Universities will be performed. From the research questions and the aim of the research, the sample includes several major topics which describe University work towards performance evaluation.

To correspond to the research build-up and design, semi-structured interviews was used to collect the relevant data. Three semi-structured interviews were conducted, recorded, and carried out by the researchers to the people from the management of the chosen organizations. Semi-structured interview is often justified to be used in cases where interviewee's time is considered to be of high importance, meaning having high opportunity costs, and therefore in this case structured interviews cannot be adapted. In addition, structured interviews in this research would not allow a degree of flexibility to vary between the answers to the questions, and change their sequence as appropriate for new themes to emerge. On the other hand, the chosen semi-structured in-depth interviews will allow such flexibility (Denscombe 2007, Bryman 2012).

The interviews were conducted according to the questions prepared beforehand, regarding topics related to the structure of propositions. The questions can be found in the appendices. The interviews were recorded and transcripts were made, therefore the quality and objectivity of the study is highly reliable. Interviews were analysed, at first by comparing three interviews one to each other. Finding the common and different parts in them, furthermore data was connected to theoretical framework to fully understand and relate University processes to theoretical knowledge.

2.5.1 Selection of Case Organizations

Selection of case companies started with an interest in performance measurement systems in overall. Because of this interest, it was decided to focus on performance measurement systems and moreover in public sector. Public sector was chosen because of the interesting lectures during the semester with Ulf Ramberg in BUSN77 Accounting and Management Control in Different Contexts, where interest in public sector organization was raised. Also, our diverse nationalities was pulling us to choose something international. Because of that, it was chosen to focus on public Universities in two countries. Lund University was chosen because of our studies in Lund, however Liepaja University was chosen because of the similarities and access, as Liepaja city and Lund is roughly the same size, both with public Universities in them.

3. Theoretical Framework

3.1. Performance measurement systems in universities

In order for organizations to manage something and be able to measure it and express it in numbers, they should know a thing or two about it. This process of quantifying actions can be described as performance measurement (Neely, 1995). Companies all over the world create strategic performance measurement tools such as The Balanced Scorecard and the Economic Value Added to help them set their targets and evaluate the performance. Some performance measurement tools tend to put more focus on the financials, while other tools consider nonfinancial indicators as important and in other cases more crucial to achieve success. This depends on the nature of companies adopting the tools and the way they operate. The performance measurement system contains a set of individual measurements with a strong relationship that links them together. It is clear in Figure 1 below that within the performance measurement system many individual performance measures are linked together as they are interdependent and the success of one measure will depend and lead to the success of others.

Many categorizations can be used to describe the performance measurement system (Neely, 1995).

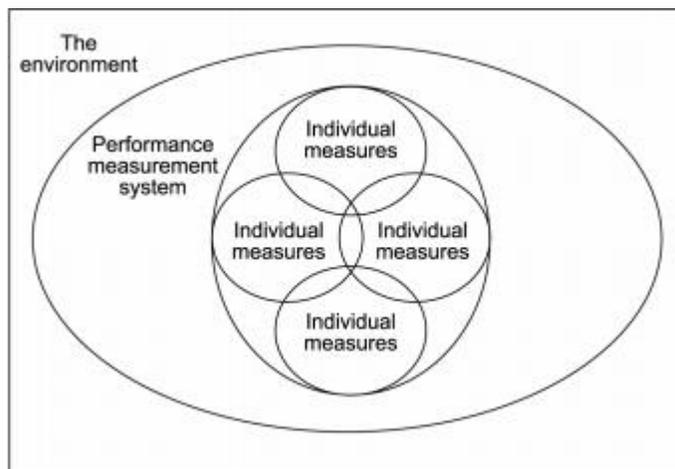


Fig.2. A framework for performance measurement system design (Source: Neely, 1995)

Three performance measurement approaches are going to be described in this section of the theory. 1) Total Quality Management 2) Economic Value Added 3) The Balanced Scorecard.

Environmental and Social Governance (ESG) is an extra-financial criterion employed by corporations to investigate different investment decisions (Bassen et al., 2008). Due to climate and social responsibility concerns, there has been an increase in demand by both customers and investors for a company to meet ESG guidelines. Meeting ESG guidelines can sometimes conflict with a company's profit negatively affecting shareholder value (Eccles & Serafeim, 2013). To ensure that the corporation meets its ESG requirements without conflicting with its profit maximization scheme, several mechanisms are used. An important mechanism employed and can be described as a performance measurement system is Total Quality Management (TQM).

Total Quality Management is a mechanism in which customers and staff members in the company effectively determine managerial decisions. In a meta-analysis, Kaynak (2003) finds a positive relationship between Total Quality Management and a firm's performance. The study finds that a key success in a company's performance depends on satisfying their employees. In

other words, companies that make employees' input essential in managerial decisions seem to perform better than their counterparts.

The study utilizes several benchmark studies on the topic. Most of these studies do indeed find that TQM improves the quality of the firm. Some studies found otherwise, but the latter is not supported by most studies. In general, studies find a positive connection between employee satisfaction and customer satisfaction. This suggests increased firm performance since customer satisfaction is often positively related to a company's profit. TQM implementation also seems to increase employee's efficiency decreasing total costs. A successful TQM requires a top managerial commitment and an empowerment of employees. If both factors are met, TQM performance and consequently firms' performance will increase (Kaynak, 2003).

By utilizing Total Quality Management, corporations are better able to meet social and environmental responsibility obligations (Velasco et al., 2014). Under Total Quality Management, executives can better identify employee and customer needs. Therefore, a better identification of such needs can allow the corporation to determine which social and environmental responsibility goals are more relevant to both employees and customers. By doing so, companies can focus on goals improving customer and employee satisfaction and therefore performance. Meanwhile, companies can avoid focusing on goals that may be less relevant to their customers.

According to Mouritsen (1998), growth and value creation should be supported with a technology that helps managers predict their paths and analyse the current and the future problems. Economic Value Added is a technology that focuses on the effective use of financial capital. EVA is the residual income left from operating profits after the cost of capital is subtracted. Mouritsen (1998) states that EVA has three main tasks:

- 1) Increasing the the return derived from the assets within the business
- 2) Investing additional capital
- 3) Finding ways to release capital from activities that earn substandard returns

According to Del Sordo et al. (2012), Universities used to adopt the traditional economic-financial measurements. However, those measurements have many limitations as they lack on describing the organization's overall performance. The biggest limitations is the lack of addressing intangible assets and intellectual information like professional skills, effectiveness of operational processes, employee engagement and customer loyalty as those attributes could not be evaluated. Another limitation is that the system focused more on past management rather than future long-term strategic direction. EVA being a new performance measurement tool is debatable but what is certain is that it supports the continues efforts of the traditional economic-financial measurements.

Recently, The Balanced Scorecard, designed by Kaplan and Norton in 1992, has been one of the most well-known performance measurement systems. It is used in Private, nonprofit and even the governmental sector. The goal of Norton and Kaplan is simply to provide top management with less set of clear indicators to avoid the risk of an excessive amount of information (Kaplan & Norton, 1992). One of the crucial features of the BSC is that it considers financial and also non-financial measures. According to Kraus and Lind (2010), financial measurements are more important than non-financial ones for private company's Balanced Scorecards. However, in non-private institutions such as public universities, profit making is not the main objective. Public universities must consider non-financial measures such as the ones that indicate the degree of service quality and student satisfaction in order to improve the performance and gain the competitive advantage over other universities. The BSC in universities and in service firms in general helped with capturing the intellectual and intangible aspects. Financial measurement by itself doesn't fully reflect the governmental organization's mission (Farid et al., 2008). Instead of putting all the focus on traditional economic financial measurements, the financial perspective in the BSC is only one of four main perspectives. Alongside with the financial part, BSC include customer, internal business and learning and growth perspectives. After mentioning the four perspectives, It is now clear that there is more focus on the non financial aspect when using the BSC. The Balanced Scorecard is especially essential in public universities. Del Sordo et al. (2012) states that in those types of universities, financial results are less significant in terms of

achieving the business goals and to determine the effectiveness of the performance. Private businesses and nonprofits have different missions when using the BSC (Farid et al., 2008). For profit seeking private organizations, the financial performance is the most relevant. However, financial performance is not the main goal for most governmental and nonprofit organizations. In a public university, both financial and the customer perspectives enhance and serve the perspective of internal processes and learning and growth. This shows a huge advantage about BSC which is that it can be adjusted to the different organization's goals and purposes. This is the same when some public-sector organizations add the social responsibility, sustainability or cultural perspective to the BSC structure. Figure 2 shows the structure of the BSC in public organizations and how different perspectives serves the mission. As mentioned before BSC can be flexible and perspectives can be changed according to different purposes. In figure 2, customer perspective is replaced by stakeholders perspective which in Farid's paper represents students (the customer), employer, faculty and university.



Fig.3. BSC for non-profit organizations (Source: Kaplan and Norton, 2001)

The author also mentions in his paper that BSC in educational institution is a tool not only for monitoring performance, but also for managing and planning. That makes it an inclusive tool that helps providing all the steps necessary for running businesses or managing different types of organizations.

3.2. Rewarding system in universities

It is essential in any organization whether it is private or public to have an efficient rewarding and compensation system. These types of systems are created with the goal to enhance the performance and the motivation of employees as individuals and groups within the organization. This can be achieved by creating congruence between the employee's and the organization's goals. The presence of reward systems will reasonably lead to more effort in comparison to the absence of rewards and compensations (Bonner and Sprinkle, 2002). Financial and non-financial rewards are vital extrinsic motivation tools. According to Ryan and Deci (2000), Actions accompanied by extrinsic motivation will help reaching target outcomes more quickly and efficiently. Ryan and Deci (2000) also points out that most people are extrinsically rather than intrinsically motivated when it comes to working duties. The argument behind their assumption was because people are mostly acquired and obligated to achieve specified goals whether they are willing to put the effort or not. Unless there is a sufficient separable outcome in exchange of the effort done by the employee, they would not take it seriously. They followed their argument by people being extrinsically motivated with the design of many work activities might be not intrinsically interesting. A final reason could also be some external pressure that employees face from their superiors to achieve certain targets in time. Whatever the cause is, extrinsic rewards such as financial bonuses proved their worthiness and effectiveness in the working environment. In general, it makes sense to think that employees in most cases will be more reliable if they know that their actions will yield to gaining extra money or getting rewarded extrinsically.

Another issue about the rewarding system is the question about the specific actions that should be rewarded. Kerr (1995) in his article (On the folly of rewarding A, while hoping for B) talks about the how reward systems are fouled up in which the types of behavior that are rewarded are

those the rewarder is trying to discourage. On the other hand, the behavior desired is not being rewarded at all. An example Kerr (1995) mentioned about how the society rewards professors for their publications and their contribution to research. But what the society really wants is the professors not to neglect their teaching duties in universities. Same goes for students in another example the author mentioned in his paper. Society rewards students for their results as high results would qualify them to better job opportunities and higher chances of recognition from better educational institutions. While grades must be only means towards the main goal of the students which is to get the proper knowledge from teachers, they became much more important than that. One main reason why professors and students are being asked for certain duties and rewarded to others is that some actions are easier to assess. Whether the assessment is done by managers, academics or the rest of the society, tangible results are easier to measure and evaluate. It is always a faster shortcut to define if the student is good enough by looking at a paper with graders on it rather than spending too much time and effort figuring out the student's qualities. Same goes for the publications and teaching as society wants professors to be committed to teaching and transferring knowledge to students. But it is easier to evaluate their contribution to the society when reading a published paper. These spoiled rewarding systems affect the motivation of students and professors. This also applies to managers and other community members in every working environment as fouled up rewarding systems also affect their motivation a well. Those systems reduce the focus on the important roles and results such as teaching and getting proper education. They also drive the community to become extrinsically rather than intrinsically motivated.

4. Empirical Framework

The main aim of this Master thesis is to compare performance measurement tools and indicators used in both Lund University and Liepaja University and point out to the advantages, disadvantages and challenges in both systems. This is done by analyzing and comparing both universities and the data authors have gathered. However, at first, it must be emphasized that this thesis collected data from a specific sample or 2 universities, from Liepaja University – Liepajas University Rector - Dr.habil.philol. Dace Markus and Quality Management systems specialist

Daiga Ercuma. From Lund University - Dean of School of Economics Fredrik Andersson. Both Universities are actively working with good results both, in Latvia and Sweden, as well as both universities are working towards expanding their offer to prospective students.

Moreover, the results from interviews shed light on different perspectives how Universities work towards performance measurement in two different countries. Empirical framework and Analysis part includes in-depth description of both Universities used for interviews as well as performance management systems used and analysis considering theoretical frameworks related to the case study. Furthermore, recommendations will be made.

4.1. Interview results

The descriptions reveal descriptions of both Universities. Authors decided to do it this way to keep objective mindset for readers when reading the paper. Also, to avoid biases which may be created from previously known knowledge. All interviews were carried face-to-face with top management employees.

Liepaja University interviews were conducted with the top management employees. This organization is a government owned public University with rich history that in recent years is working very efficiently and changing its strategies to always adapt to the needs. Liepaja University lecturer to student ratio is 1:16. By now, it is a strong University within its country as well as very-well known abroad. Foreign students count is growing fast each year and new programmes are added to meet the always changing needs of prospective students. During the recent years, University has made considerable investments into its marketing and is actively following Universities success in this sector.

Lund University is also public University with long-lasting history within its country, by now has established itself as a strong player within education sector both, nationally and internationally. Currently, University is working continually to improve and develop further its performance. This University may often be considered as one of the best university in its home country. Lund University lecturer to student ratio is 1:9

Findings from interviews of the performance measurement systems used

There are different performance measurement systems within both Universities, on the one hand, Liepaja University is using Total Quality Management which was introduced just during the recent years. Total Quality Management is part of ESG – The standards and guidelines for quality assurance in the European Higher Education Area. Also, this system is used for accrediting universities and programs in Latvia. Before the new system, there was more traditional ones, like ISO, however, Markus stated they did not work for public universities, as “education is not a product, and student is not a consumer, rather than – student is a part of educational system and part of universities human resource, both must work together to achieve the best results” (Markus). On the other hand, Lund University points out that they have performance measures which are used to evaluate performance, however, they could not be called structured performance measurement system. Continuing with education side, there are elements of performance measurement system, for example, course evaluation, which are increasingly being run in a standardised way, throughout the school. Also, Fredrik pointed out that Lund University School of Economics does not use structured performance measurement system, for example, balanced scorecard, however there are rather soft-advised in terms of research teaching and general surveys in development talks. But there are no formalised system.

Findings from interviews of the performance measurement processes used

Continuing with processes of which universities follow to evaluate performance. As Ercuma pointed out, every faculty prepares study guideline assessment with focus points, for example, student feedback, alumni feedback, employee feedback, all are part of social analysis of performance. Moreover, there are analysis of how University and faculty are performing, all results conducted are discussed within several board/council meetings with students board, senate and management. Furthermore, Markus strongly pointed out, that students are involved in all boards and meetings to both, inform students about performance and what may be changed, and for students to inform Universities management about what in their opinion should be

changed or improved. Also, Markus expressed that it is of significance importance that there are informal meetings with students, and as an example mentioned that last informal meeting between Head of University (Rector) and student board within faculty lasted for about four hours and, several months after the meeting, students expressed their gratitude of how much the University adapted its work according to student recommendations. Looking at Lund University, it has been standardised in what basic information is needed, and School of Economics does not have strict keys or performance evaluations processes. Process is a part of general discussion in University, and performance evaluation does not end in process of feeding into or taking away money, or measures taken. Also, Fredrik Andersson expressed that it is a mix of informal and formal information received. School of Economics tries to combine both, and have standards to allocate resources, depending on PHD students, department size and other, which then are complemented with the information how the department works. Following with the importance of student feedback, Fredrik Andersson agreed that it's the part where School of Economics has a formalised feedback process, in a sense that course evaluations has to be confirmed by the teacher or director of studies according to template - which says - this is the feedback we want, this is my view as a lecturer, and this is my view as of director of studies. These feedback does affect next year's studies. Also, Fredrik Andersson mentioned that suggestions and demands are always recorded.

Findings from interviews of the rewarding systems used

Moving towards rewarding systems within University. Liepaja University expressed the point of lack of financial help from government to introduce monetary bonus system. However, Liepaja University last year worked very efficiently and was able to provide one-time bonus to all its employees, small, but it has its effect anyway. Also, it is important for Liepaja University to participate in both, national and international scientific researches/projects, where employees are able to share and improve their knowledge. Furthermore, Markus pointed out that university has several non-monetary bonuses available for lecturers and other employees, such as, ability to participate in national and international conferences. Also, acknowledgment of best and long-lasting employees is used often in University. Markus also expressed that, for lecturers it is

important to receive positive feedback from students and it also strongly motivates lecturers. Moreover, Ercuma agrees that overall rewarding system in Liepaja University is working great, as well as new parts of a systems are introduced, as for example, from September 2016 overall employee assessment system has returned to Liepaja University, where employees themselves write a self-assessment and gets their feedback from dean in 1-on-1 meeting. These meetings give Liepaja University insight into what lecturers may recommend changing or improve within processes as well as, information about what may be the next goals for lecturers to improve their knowledge and performance, for example, participation in a new project or courses.

Moreover, there can be seen similarities between both researched Universities, as Fredrik Andersson also implied that in terms of financial motivation, Lund University has it confined in wage, moreover there is an individual wage setting used. Also there is an annual motivation on wage which is based on performance. However, there is a relatively small variation possible in Sweden regarding wage increase, so it is more question of giving a single in terms of what is good performance or not, rather than having strong financial implications for employee. Moreover, high-level of motivation for School of Economics employees is being able and taking pride of being published, as well as good course evaluations, helping colleagues out. Fredrik Andersson thinks that there is quite strong informal motivational system which is based more on norms rather than evaluations. Moreover, heads of departments particularly, has direct one-to-one meetings with employees, receiving feedback on recent performance. The fact that there is a strong norm, of course there was some financial motivations needed.

Findings from interviews on the differences and advantages comparing to other Universities

On the one hand, difference and advantages according to interviewees in Liepaja University may be, regionality, as well as ability to consolidate studies. Regionality gives Liepaja University to analyze and understand the needs of local students, especially, during last years, Liepaja University management team has put a lot of work into changing strategy, to contemporary strategic thinking. According to Markus and Ercuma Liepaja's University's strategic thinking

may be the biggest competitive advantage on national level. Moreover, Liepaja University is continually introducing new courses and participating in more and more international projects to build strong University's reputation and name. Ercuma also explicitly mentions that universities traditional richness and ability to change are strong factors putting university ahead of its competitors. However, universities management acknowledges weakness, that being inability to attract Master students effectively. On the other hand, Fredrik Andersson pointed out that Lund University basic contexts follows traditional Swedish standard, rather similar to other traditional Swedish universities. However, Lund University may have an advantage in having a good mid-way performance measurement system, that are not too forgiving and not too strict. A combination of rather trusting relationship with high degree of commitment is working efficiently in School of Economics. Also, Dean expressed that there are high degree of job security within University for its employees to feel safe and work to the best of their ability.

Findings from interviews about the benchmarking networks

Benchmarking networks – both interviewees in Liepaja University agree on using benchmarking network both nationally and internationally. Nationally – in Latvia there is a Head of University (Rector) board meeting once a month where success and problem stories are shared. However, Markus identifies weakness in them, as some of the rectors from different universities may be quiet persons, in a way, not sharing their problems fully, while other may be different, and share only their success stories. Moreover, there is a Latvian University Association where meetings are arranged and those meeting are more in-depth about current and future challenges universities in Latvia may face. Also, Latvian University Association has enough power to possibly contact, discuss and influence governmental changes within Educational system in Latvia. Moreover, Head of Liepaja University, Markus points out that she is actively following and participating in international educational conferences. For example, last being, International Science Academy conference in Helsinki, Finland, where five country (Latvia, Lithuania, Estonia, Finland and Sweden) representatives from different universities were participating. While in Lund University dean expressed that challenges for School of Economics may be basic and that the change of performance measures has been quite gradual. For instance, the focus on

publication activities and quality of them has rather different challenges, but they are being reinforced over time. However, the challenge Fredrik Andersson identified is that from this change of focus on things, some employees may benefit, while others suffer. There are clearly some challenges regarding performance measurements, although, the gradual process and notions of performance has been accepted well in School of Economics. Furthermore, Fredrik Andersson points out that benchmarking networks within School of Economics are used in several ways. In national context, strongest way in Lund University is own work with Accreditation committee, which is a way of subjecting Lund University to regular peer-review. In this way putting themselves in a situation where good and stable performance from School of Economics is required to not affect Lund University performance and reputation, in a way motivating selves to work efficiently all the time.

5. Analysis and Recommendations

First and foremost, it must be accentuated that this research has gathered results from a particular quota sample of two public Universities, one in Latvia and one in Lund which gives this research a high level of credibility as it covers two of the strongest Universities in both countries. The outcomes are concerned essentially with the organization's objective reality of competences and the potential attraction possibilities. Moreover, the outcomes shed light on some aspects which may influence development of certain areas.

Both analyzed Universities are in continuous expansion stage for expanding target markets. In this manner, the results may not be indicative of only domestic, which was a plausibility of some concern at the start of the research. Admittedly, all the interviewees recognize contemporary issues within the public University sector.

The performance measurement systems used

Liepaja University and Lund University both take different approaches when it comes to adopting a formalized and structured PMS. In the case of Liepaja University, Total Quality Management system is used within the faculty which is structured. While in Lund University, managers have been doing the same job in measuring and assessing the performance using basic elements of performance measurement systems. However, they are not adopting a formalized and structured PMS. In theory, according to Neely (1995), Each PMS contains a set of individual measurements sharing a relationship that links them together. The authors think that using those individual measures by their own without a structured PMS can do the work and in fact, save time and effort. However, more outcomes can lead when formatting a formalized PMS such as the BSC. Neely (1995) states that those individual measures depend on each other to achieve success. A formalized performance measurement system linking the measures together can always open new ways for managers to approach. The authors think that when having a system that includes everything from research to teaching to student's satisfaction all linked together, potential evaluation and improvement of one measure can improve the whole performance.

The Balanced Scorecard is recommended by the authors for several reasons. First, it focuses more on the nonfinancial aspects of performance. Since both Lund University and Liepaja University are public universities with profit making goal out of the picture, a non-financial oriented PMS is preferable. Secondly, the application of the BSC proved to be effective in universities according to Farid (2008) and del Sordo (2012). Thirdly, the traditional financial measures of performance avoid long-term thinking and do not reflect today's business environment. They also neglect intangibles assets which create a large percentage of the value generated in universities. The Balanced Scorecard on the other hand encourages strategic thinking and links short-term initiatives with long-term objectives with a large consideration to intangibles assets and intellectual property. Finally, The Balanced Scorecard does not only help overcome performance measurement challenges, but also helps implementing the strategy of the organization.

Findings from interviews of the performance measurement processes used

Analyzing processes used in both Universities, authors can see that, on the one hand – Liepaja University has structured system of what/how/when should be done. Although, Farid et al. (2008) mentions in his paper that balanced scorecard in educational institution is a tool not only for monitoring performance, but also for managing and planning, because of the balanced scorecard ability to adapt to different organizations. However, neither University is using balanced scorecard as a tool for performance measurement, but different aspects from balanced scorecard can be identified in both cases. Also, it can be seen that student involvement in processes are of significance importance to Liepaja University and, both formal and informal meetings are set-up by management with students. On the other hand, Lund University process is somewhat structured, and the same as Liepaja University, mix of both, formal and informal information is received and processed. Moreover, student feedback process is one of the rare occasions in Lund University where it has formalized feedback process. Also, theory is explaining why both Universities has adapted performance measurement system process to non-profit, public organizations. As Del Sordo et al. (2012) pointed out that Universities used to adopt the traditional economic-financial measurements. However, those measurements have many limitations as they lack on describing the organization's overall performance, also Markus (2017) expressed the same views on traditional measurements. It is hard to identify which one is the correct way of processes used, however, by the University results in national and international stage, authors point out that both Universities has been working successfully. Because of the adapted performance measurement tools, the processes both Universities use may be different, as there is no correct formula. As long as both processes are working in favor of Universities, it is hard to define which way is the correct one.

The rewarding systems used

Along with their policy of not relying on financial rewards for their employees, Liepaja University gets limited financial support from the government. Their financial rewards are given rarely and not on a systematic basis. Same goes for Lund University which according to Fredrik

Anderson (2017), employees depend on their fixed wages with a small possibility of wage increase depending on the individual performance. Fredrik also mentioned that employees with high-level performance are being appreciated and motivated informally. In the theory part, Ryan and Deci (2000) mentioned that most people are extrinsically rather than intrinsically motivated when doing their jobs. The authors would go with Ryan and Deci (2000) assumption and assume the worst which is that none of both universities' employees are intrinsically passionate about their current positions and duties. Therefore, a separable outcome is needed in order for employees to be motivated in continuing to improve their performance. Since financial rewards are off the limits for both universities, continuing with the non-financial extrinsic motivation is a recommended by the authors.

A big question pops up which is about the actions that should be rewarded. In theory, Kerr (1995) talked about the fouled-up rewarding systems of how professors are rewarded for their publications rather than their quality of teaching. The reason is that it is easier to assess the published papers and measure how good it is. On the other hand, teaching is measured subjectively and it is hard to determine how well the teacher performed only from the student's feedback or their grades. The authors think that teaching duties are more important than the publications. Students are the real investment for the university as they are potential future professors that may contribute in the research. Thinking long-term is making sure that students are getting the best education in the best possible way. The authors suggest that universities should invest in finding effective ways to assess the quality of teaching. Authors also suggest that rewarding professors should be done according to their teaching ability first, then according to the publications.

Findings from interviews on the differences and advantages comparing to other Universities

While Liepaja University expressed that their regionality and ability to consolidate studies may be the strongest advantages it has over competitors. Lund University pointed out that their long-lasting performance measurement system has been developed in a good mid-way. Allowing both, being not too strict and not too forgiving, working exceptionally well for School of Economics in

a combination of trusting relationships with high degree of commitment to work. Authors finds Lund's Universities advantage more convincing as according to literature, in non-private institutions such as public universities, profit making is not the main objective. Allowing the trusting relationship to be the bases of intrinsic motivator. Moreover, both Universities must put non-financial measures as the most important, to be able to improve the performance and gain the competitive advantage over other universities, such as the ones that indicate the degree of service quality and student satisfaction. While Liepaja University is working towards expansion and with structured systems, authors would like to suggest to Liepaja University the Lund's Universities approach of being more trusting in its employees. Possibly by doing that, attract and retain the best specialist in the sectors as lectures, as the view from employee side may grow of such relationship between management and employees. This would lead to even greater competitive advantage for Liepaja University on both, national and international levels.

Findings from interviews about the benchmarking networks

Both Universities are actively involved in benchmarking networks, both, nationally and internationally. As Markus (2017) expressed that different board meetings and associations are used to share information on national level, while international conferences are used on international level. While Lund University pointed out that strongest benchmark used is with Accreditation committee, forcing Lund University continuously evaluate, improve and develop its performance. However, as Del Sordo et al. (2012) argued one of the limitations is the lack of addressing intangible assets and intellectual information like professional skills, effectiveness of operational processes, employee engagement and customer loyalty as those attributes could not be evaluated. It can also be seen that Lund University is focusing more on overall performance, while Liepaja University in benchmarking networks gets a lot of information sharing events. Authors would like to point out that Lund's Universities approach of forcing itself to regular peer-reviews is not a traditional way of making sure of continuous performances improvement. It may be good for Liepaja University to take an example, and possibly get involved with Latvian accrediting organizations and somewhat copy Lund's Universities approach of using benchmark network and improving overall performance due to regular peer-reviews.

6. Conclusion

The collected data was based on unrepresentative and limited sample and it is valid and reliable for this research. Since there were three interviews altogether, this research cannot be generalized for other institutions in different countries.

Master's thesis was based on comparative case of the performance measurement tools and indicators used in both Lund University and Liepaja University and point out to the advantages, disadvantages and challenges in both systems. The research questions were linked to the umbrella topic of performance measurement and effectiveness since the primary aim of this study was to compare performance measurement in the context of Liepaja University and Lund University. The outcomes of the analysis give increased understanding of performance measurement systems and process techniques amongst two Universities, by improving their understanding of systems used, preferences and needs. Main objectives were to assess both Universities, methods used for measuring successfulness and evaluate and classify these methods.

It was identified prior undertaking of this master thesis that small amount of previous study of the performance measurement systems used in universities been conducted. Looking at the aim and research questions, authors points out that this master thesis has drawn the right answers. Through process of interviewing, analyzing interview data and then connecting to literature researched, expected findings were uncovered, however it can be noted that both universities are working differently, with some aspects similar. Also, both universities expressed that relatively widespread perception is that it is hard to measure human performance (Markus, 2017), and well-performing model may differ from university to university.

Authors understand that the value of any research findings depends strongly on the accuracy of the data collected. In this Master thesis data quality can be trustworthy as the work was assessed utilizing research obtained from 3 top management employees within both Universities. However, interviews conducted for this master thesis was limited, moreover, to address this possible weakness and ensure that the data are accurate, the authors used quota sampling.

Reference List

Andersson, F., (2017). Interview with the dean of School of Economics, Lund University.

Bassen, A., & Kovacs, A. M. M. (2008). Environmental, social and governance key performance indicators from a capital market perspective.

Baxter, P. and Jack, S., (2008). Qualitative Case Study Methodology: Study Design and Implementation for Novice Researchers. *The Qualitative Report* [online]. vol. 13(4), pp. 554-559. [viewed 18 February 2016]. Available from: <http://www.nova.edu/ssss/QR/QR13-4/baxter.pdf>

Benavides Velasco, C. A., Quintana García, C., & Marchante Lara, M. (2014). Corporate social responsibility and total quality management: As an antecedent of hotel performance.

Berg, B. L., (2014). *Qualitative Research Methods for the Social Sciences*. 8th ed. Pearson.

Bonner, S.E., Sprinkle, G.B., (2002). The effects of monetary incentives on effort and task performance: theories, evidence, and a framework for research.

Bryman, A and Bell, E., (2012). *Social Research Methods*, 4th edition. Oxford: Oxford University Press.

Crabtree, B.F. and Miller, W.L., (1999). *Doing Qualitative Research*. Thousand Oaks, CA: Sage Publications.

Del Sordo, C., Orelli, R. L., Padovani, E., & Gardini, S. (2012). *Assessing Global Performance*

in Universities: An Application of Balanced Scorecard. *Procedia-Social and Behavioral Sciences*, 46, 4793-4797.

Denscombe, M. (2007). *The Good Research Guide for Small-Scale Social Research Projects*. 3rd ed. New York: Open University Press.

Eccles, R. G., & Serafeim, G. (2013). The performance frontier. *Harvard business review*, 91(5), 50-60.

Ercuma, D., (2017). Interview with Quality Management systems specialist, Liepaja University.

Farid, D., Nejati, M. and Mirfakhredini, H. (2008) ‘Balanced scorecard application in universities and higher education institutes: implementation guide in an Iranian context’, *Annals of University of Bucharest, Economic and Administrative Series*, Vol. 2, pp.31–45.

Ferreira, A., Otley, D. (2009). The design and use of performance management systems: an extended framework for analysis. *Management Accounting Research* 20 (pp. 263 – 282), Elsevier LTD.

Gillham, B., (2000). *Case study research methods*. Bloomsbury Publishing.

Halldorsdottir, S., (2000). The Vancouver school of doing phenomenology. *Qualitative research methods in the service of health*, pp.47-81.

Ipsos, (2011). *IPSOS Annual Report 2010*. Paris: IPSOS

Kaplan, R. S., Norton, D. P. (1992), “The Balanced Scorecard – Measures that Drive Performance”, *Harvard Business Review*, January-February, pp. 71-79.

Kaplan, R. S., Norton, D. P. (2001), “The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment”, Harvard Business School Press, Boston, MA.

Kaynak, H. (2003). The relationship between total quality management practices and their effects on firm performance. *Journal of operations management*, 21(4), 405-435.

Kerr, S. (1995). On the folly of rewarding A, while hoping for B.

Kraus, K. and Lind, J. (2010). The impact of the corporate balanced scorecard on corporate control-A research. *Management Accounting Research*, 21(2010),pp. 265-277.

Laverty, S.M., 2003. Hermeneutic phenomenology and phenomenology: A comparison of historical and methodological considerations. *International journal of qualitative methods*, 2(3), pp.21-35.

Litchfield, A., Frawley, J., and Nettleton, S., (2010). Contextualizing and Integrating Into the Curriculum the Learning and Teaching of Work-Ready Professional Attributes. *Higher Education Research and Development*. vol. 29, pp. 519-534.

Lueg, R.; Radlach, R. (2016). Managing sustainable development with management control systems: A literature review, *European Management Journal*, vol. 34, no. 2, pp. 158 – 171.

Markus, D., (2017) Interview with Liepaja University Rector.

Moran, D., 2002. *The phenomenology reader*. Psychology Press.

Mouritsen, J. (1998). Driving growth: economic value added versus intellectual capital. *Management accounting research*, 9(4), 461-482.

Neely, A.D., Gregory, M. and Platts, K. (1995), "Performance measurement system design: a literature review and research agenda", *International Journal of Operations & Production Management*, Vol. 15 No. 4, pp. 80-116.

Newman, I. and Benz, C.R., 1998. *Qualitative-quantitative research methodology: Exploring the interactive continuum*. SIU Press.

Ryan, R.M., Deci, E.L., (2000). Intrinsic and Extrinsic Motivations: Classic Definitions and New Directions.

Wagner, S.M., Lukassen, P. and Mahlendorf, M., 2010. Misused and missed use—Grounded Theory and Objective Hermeneutics as methods for research in industrial marketing. *Industrial Marketing Management*, 39(1), pp.5-15.

Yin, R.K., (1994). *Case Study Research: Design and Methods*. 2nd ed. Thousand Oaks, CA: Sage Publications.

Yin, R.K., (2003). *Case Study Research: Design and Methods*. 3rd ed. Thousand Oaks, CA: Sage Publications.

Appendix 1

Interview questions

- 1) What performance measurement systems the universities use? Do they have structured PMS?
- 2) How do managers make performance evaluation? What processes does the university follow for evaluating of employees and organizational performance?
- 3) How important are formal and informal information and controls in these processes?
- 4) What kind of system do managers use to reward or punish employees by achieving performance targets or other assessed aspects of performance? What kind of financial or non-financial motivations do employees have?
- 5) What challenges have the dean and other employees had during creation and implementation of performance measurement system for the School of Economics?
- 6) Does the university take the students feedback into consideration when it comes to modifications and amendments to the (Material changing or teaching methods) of different courses in the School of Economics?
- 7) How is the university different than other universities in their academic performance? What advantages do they have?
- 8) Does the university use benchmark networking? How long are they using it? and what outcomes do they get when using it?