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Enabling Performance Measurement in a Small Professional Service Firm

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Abstract

Purpose Showing why developing an enabling PMS can be useful to small PSFs and how small PSFs can develop such an enabling PMS.

Design/methodology/approach We used a process-consultation type of action research design. We developed an enabling PMS in close cooperation with the employees of a small PSF. The effects of this intervention were assessed by means of document analysis, participant observation, and individual/group interviews.

Findings The enabling PMS development process helped the firm deal with three challenges common to small PSFs: (1) it increased employees' understanding about how to apply the firm's strategy, (2) it led to greater knowledge exchange among employees, and (3) it enabled them to create new knowledge.

Research implications/limitations This study's results suggest the type of intervention used for developing an enabling PMS—that has already been shown to be effective in large firms—may also be useful for small PSFs. Similarities and differences with the intervention in large firms are discussed.

Practical implications Small PSFs may benefit from the approach described herein: to develop a PMS in a participatory manner. It is especially useful if interested in better alignment of Operations with Strategy and/or to better explicate tacit and create new firm-relevant knowledge.

Originality/value This is the first study about developing an enabling PMS in a small PSF.

Keywords Performance measurement; Participation; Small firms; Service industries; Action Research

Paper type Research paper

1. Introduction

Performance measurement has been of great use for many firms (e.g. Jusoh *et al*., 2008, Olsen *et al*., 2007). Traditionally it was found mainly in manufacturing firms, but service firms increasingly engage in performance measurement systems (PMS) as well (Radnor and Barnes, 2007). Research on performance measurement has typically taken place in large firms and the few published studies about small firms were situated in the manufacturing sector (Garengo *et al*., 2005). We argue performance measurement can also be beneficial to small professional service firms (PSFs), potentially helping them overcome a number of routine challenges they face—especially when they are designed to facilitate employees rather than to control them. This paper reports on a concrete action study where we successfully implemented performance measures in a small law firm.

We define a small firm as an independent firm with 11-50 employees and a turnover or balance sheet total below 10 million Euros per year (European Commission, 2003). Small firms typically have a centralized structure, a largely informal strategy, and limited information systems (Julien, 1998). They often have a short-term, day-by-day mentality that undermines employee understanding of how to achieve future firm-wide goals (Garengo *et al*., 2005; Hudson *et al*., 2001).

PSFs are defined as firms "whose primary assets are a highly educated workforce and whose outputs are intangible services encoded with complex knowledge" (Greenwood *et al*., 2005, pp. 661). Unlike most manufacturing firms, PSFs tend to have relatively flat organizational structures and they deal with simultaneous production and consumption, and customer involvement (Brignall and Ballantine, 1996; Grönroos, 2007). Thus, services are often customized (Bettencourt *et al.*, 2002). The cases that are handled by PSFs are often complex and based on a unique relation between the service provider and the client (Dawson, 2000). To provide good services, these providers rely heavily on their own valuable and often

tacit knowledge, acquired through both training and experience (Morris and Empson, 1998).

Combining and summarizing the main characteristics of small firms and PSFs leads to the following small PSF characteristics: they often rely heavily on tacit knowledge of the employees and have a largely informal strategy. These characteristics entail several challenges:

- The reliance on tacit knowledge makes it hard for the management of a PSF to control the quality of the services delivered and to divide tasks, which may lead to work overload and increases the risk of knowledge loss when experienced employees leave the firm (Greenwood *et al.*, 2005; Lowendahl, 2005). Therefore, it is crucial for PSFs to attract and maintain capable people who are able to establish a bond with the specific firm.

- A further challenge PSFs face is the need to create opportunities for new knowledge that should be incorporated into firm practices (Kärreman *et al.*, 2002; Lowendahl, 2005; Morris and Empson, 1998). In other words, PSFs should strive to become "skilled at creating, acquiring and transferring knowledge, and at modifying its behavior to reflect new knowledge and insights" (Garvin, 1993, p 80).

- To achieve this goal, firms need a clear mission, vision and strategy, and to align their operations with it (Hudson *et al.*, 2001). Yet most small PSFs tend to have poor strategic planning and fail to fully understand the factors critical to their success (Greatbanks and Boaden as cited by Garengo *et al.*, 2005). To increase the flow of the paper, we from now on mention this challenge first.

Performance measurement systems (PMS) may help small PSFs to partly overcome these three challenges. A PMS consists of several performance measures that quantitatively express the effectiveness and/or efficiency of a process against given targets (Lohman *et al.*, 2004). A PMS can aid in the carrying out of a strategy (Aranda and Arellano, 2010) by setting goals that are aligned with the strategy, and by monitoring the extent to which these goals are

met (Ittner *et al.*, 2003). A PMS shows the current performance of a firm or team, and indicates where there is room for improvement (Goh, 1998). It can increase the clarity of the employees' role (Hall, 2008), and helps them to make better decisions, becoming oriented towards continuous improvement (Garengo *et al.*, 2005; Olsen *et al.*, 2007).

PMSs can support employees in their daily tasks so that key processes and their results become more transparent. Yet such a form of hierarchical control may not be compatible with small PSFs since small PSFs often have flat, dynamic structures with little hierarchy, and employees work in an environment in which they have a lot of autonomy. The use of a PMS within a PSF often causes unproductive side effects such as diminished autonomy, flexibility and employee professionalism (Bernard, 2008; Kärreman *et al,* 2002). We build on the ideas of enabling formalization (Adler & Borys, 1996; Ahrens & Chapman, 2004) and argue a PMS purposively developed for a small PSF should be enabling, facilitating employees rather than just their managers (Groen *et al.*, 2012; Robson, 2005; Wouters and Wilderom, 2008). Such an enabling PMS gives employees guidance in making decisions in line with the strategy of the organization and preserves their autonomy at the same time, which is important for professional service employees (Von Nordenflycht, 2010). A dedicated enabling PMS can be built by involving employees in the development and implementation process (Bernard, 2008; Groen *et al.*, 2012; Wouters and Wilderom, 2008). In the same vein, Blili and Raymond (1998) recommend involving users when implementing information systems in small firms.

In our research project we built such an enabling PMS together with the employees of a small Vietnamese PSF. The research question is: "How does developing an enabling performance measurement system, together with employees, help a small professional service firm to deal with the challenges such firms often face?" Answering this research question is important, because it gives insight in which elements of the enabling PMS development process are relevant to small PSFs. The approach that we use has successfully been deployed

in large manufacturing and service firms (Evers *et al*., 2009; Groen *et al*., 2011, 2012; Wouters & Wilderom, 2008). As recommended by Garengo *et al*. (2005) we report here how—with a few adjustments—this approach also works well in a small PSF. Hence this paper has two contributions: (1) showing why developing an enabling PMS can be useful to small PSFs and (2) showing how small PSFs can develop such an enabling PMS.

In the next section the relevant theory is reviewed. Section 3 gives an overview of the methods used, including an explicit and detailed step-by-step guide about our intervention, which should make it replicable for other researchers and practitioners (see Checkland and Holwell, 1998). Section 4 describes the results of our intervention by comparing the situation before and after the intervention. Section 5 concludes with our reflections on this project.

2. Theory

As we discussed in Section 1, small PSFs are often challenged by the following three issues, needing (1) to align their strategy, (2) to diminish the threat of tacit knowledge and (3) to be active in creating new knowledge. It is useful to review the literature on how the development of an enabling PMS can help small PSFs with these challenges. A PMS is considered enabling when it is perceived by employees as facilitating them in their work, rather than as primarily a control device for use by senior management (Wouters and Wilderom, 2008). When a PMS is enabling it creates greater understanding among employees about how their tasks fit into the greater picture and about the logic of the system's internal function. Moreover, it allows employees to modify the system themselves and to repair it whenever that is needed (Ahrens and Chapman, 2004).

Strategy alignment— Kaplan and Norton's (1992) balanced scorecard is a widely used type of PMS, intended to align a firm's strategy with its operations. The measures of a fully developed balanced scorecard have three characteristics: they are derived from strategy, cover all performance aspects, and are causally linked (Soderberg *et al.*, 2011). To visually

document causality between the performance measures of the balanced scorecard, a strategy map is made first (Lawrie and Cobbold, 2004). A strategy map is a diagram that illustrates cause-and-effect relationships of the activities that are needed to achieve the firm's goals. It includes four connected perspectives: financial, customer, internal, and innovation and learning. The activities in the innovation and learning perspective are supposed to contribute to achieving the goals in the internal perspective, which then again contributes to achieving the goals in the customer perspective, and which eventually contributes to achieving the financial goals. The balanced scorecard consists of four quadrants that correspond to the four perspectives of the strategy map. The performance measures of the balanced scorecard are a translation of the activities that are represented in the strategy map. To be able to align strategic guidelines with every day actions, end users need to be involved during the entire development and implementation process (Agostino and Arnaboldi, 2011).

A balanced scorecard can be, but is not necessarily an enabling PMS. Although it creates an understanding for employees about how their tasks fit into the larger picture, the rest of the criteria for calling a PMS "enabling" (Ahrens and Chapman, 2004) are typically not met. That is, it does not necessarily give employees an understanding of the logic of the system's internal function; neither does it allow employees to modify the system themselves and to repair the system whenever that is needed. Wouters (2009) identified five principles that are important for developing an enabling PMS. Performance measures should be based on the experience and job knowledge of employees (principles 1 and 3) that higher management often lacks or of which it is unaware (Hudson *et al*., 2001). This tacit knowledge can be captured by using an outside facilitator (principle 5). Employees will perceive the PMS as being fairer when the current local situation is taken into account, and will regard performance measurement as less objectionable (Noeverman, 2007). Besides, a PMS that has employees involved in its development gives them a better understanding of the system, and

therefore makes the PMS more transparent to them (Adler and Borys, 1996; Wouters, 2009), especially when employees experiment with the measures (principle 2). Consequently, it becomes possible for employees to manage the PMS themselves after its implementation, and thus "own" the PMS (principle 4).

   Tacit knowledge—Another challenge a small PSF often faces regards tacit knowledge. Tacit knowledge means that the people who have the knowledge are not aware of having it; the knowledge or insight remains often untapped and hidden. A firm's reliance on tacit knowledge makes it hard for its management to control the quality of the services delivered and to divide tasks, which may lead to work overload. Moreover, it increases the risk of knowledge loss when experienced employees leave the firm (Greenwood *et al*., 2005; Lowendahl, 2005). Explicating tacit knowledge is important, because it can then also be used by others, for example to take over work of overloaded coworkers or to replace people who have left the firm.

   A neutral facilitator by posing the right questions can usually explicate tacit knowledge. Specifically when wanting to explicate knowledge about how to achieve the firm's goals, developing an enabling PMS together with a neutral facilitator may be useful. This is especially true when employees get the opportunity to experiment with the PMS, which encourages the professionalism of the employees to be used and expressed by the PMS (Wouters, 2009). In this context, skilled experimentation involves repeatedly generating and testing alternative performance measures (Thomke, 1998). Usually, an enabling PMS is developed, tested and refined in several rounds. Its conceptualization, the required IT tools and best presentation formats become apparent only through working with multiple prototypes (Wouters, 2009). This process generally entails knowledge formulation and exchange between the employees involved (Carlile, 2002, 2004). Since the employees themselves can best judge whether their work efforts are validly represented in a particular

performance measure (Jensen and Meckling, 1992), an employee-driven process will make the resulting performance measures more valid, reliable and understandable (Abernethy and Bouwens, 2005; Wilderom *et al.*, 2007). As a consequence, this kind of an elicitation procedure is very likely to result in better indicators to measure the quality of delivered services. Moreover, because tacit knowledge is explicated and exchanged, it will be easier to hand over tasks to colleagues (Wasserman, 2008). And the process also improves the bond between employees, giving them common goals and the capacity to discuss how to reach these (Groen *et al.*, 2012). Perhaps more importantly, involving employees in information-processing, decision-making or problem-solving activities is generally associated with higher employee satisfaction (Wagner, 1994). And higher employee satisfaction is positively related to employee commitment and delivered service quality (Mukherjee and Malhotra, 2006). Both employee commitment and satisfaction may reduce the employee turnover rate, and help keep valuable knowledge in the firm (Tett and Meyer, 1993).

Knowledge creation—An enabling PMS may also help small PSFs with the third challenge: creating new knowledge. The employees' involvement in making a reliable and valid PMS will support their mutual learning (Groen *et al.*, 2011; Schiller, 2010). Developing performance measures together with employees increases their pro-activity (Groen *et al.*, 2012) which is of vital importance for developing and sustaining a learning organization (Frese & Fay, 2001). Moreover, PMSs stimulate learning because they give feedback and aid employees to give voice to and thereby bring out operational problems and opportunities. Both are invaluable ingredients of a learning culture (Garvin, 1993).

3. Methods

3.1 Research design

This study is based on action research within an international intellectual property law

firm in Vietnam. A Dutch process consultant joined the firm for three months to help their Trademark team create an enabling PMS. She was coached by a Dutch scholar who is an expert on this kind of research.

Action research offers insight into how a certain intervention works out in practice (Coughlan and Coghlan, 2002). Action researchers stay close to the empirical world, so the external validity is high because first-hand knowledge most accurately reflects the process under investigation (Atkinson and Shaffir, 1998). The present study provides insight into how developing an enabling PMS practically helps a small PSF to deal with the challenges common for small PSFs. The research includes collaboration between the researcher and all six employees of the trademark team (see also Anderson *et al*., 2001; Miller *et al*.,1997; Rynes *et al*., 2001), making the research relevant and useful in practice (Kasanen *et al*., 1993).

For assessing the validity of action research, other criteria should be used than those common in positivist science (Susman and Evered, 1978). Commonly used criteria for valid action research are "(1) The research should be set in a multivariate social situation. (2) The observations are recorded and analyzed in an interpretive frame. (3) There was researcher action that intervened in the research setting. (4) The method of data collection included participatory observation. (5) Changes in the social setting were studied. […] (6) The immediate problem in the social setting must have been resolved during the research. (7) The research should illuminate a theoretical framework that explains how the actions led to the favorable outcome." (Baskerville and Wood-Harper, 1998, p. 103-104; see for another application in PMS research Groen et al., 2012).

The specific type of action research "process consultation" (Schein, 1969) that was pursued involves a sequence of several distinct stages: "(1) initial contact with the client organization; (2) defining the relationship, formal contract, and psychological contract; (3) selecting a setting and a method of working; (4) data gathering and diagnosis; (5)

intervention; (6) reducing involvement [of the consultant]; and (7) termination" (Baskerville and Wood-Harper, 1998, p.103). After Stage 1-3, the action researcher gathered data she used to analyze the research setting (Stage 4). She analyzed the current situation within the firm as a preparation for the intervention, and as a kind of baseline to be able to clearly see differences after the intervention. Moreover, she determined current performance measurement practices to base the PMS on local experience. And finally, she determined whether the firm really faced the challenges that are common for small PSFs. If it did, it would justify generalization based on a single case study (Yin, 2003). After these analyses, she developed and executed the intervention that is explained in Section 3.3. Section 3.3 also reports how the action researcher reduced and eventually ended her involvement (Stage 6 and 7).

3.2 Research context

The law firm of our study was founded in 1992 by two patent and trademark attorneys. Since then it has grown to a team of around 20 lawyers, trademark and patent attorneys and legal professionals. One of the founders is still the head of the firm, which is managed by a group of partners who are the executive, financial and marketing directors. The mission of the firm is: "to maintain the highest professional standards whilst providing clients with practical advice that adds value to their business." The most important goal is delivering quality services that are perceived as professional by their clients. The firm aims to deliver an optimal service to its clients, often renowned firms such as Phillips, eBay and Toyota that expect outstanding work. By enacting this strategy the firm wants to achieve a long-term competitive advantage, especially by word-of-mouth, that will ultimately lead to its success and growth.

The firm consists of two sections, Trademark and Patent. Six people work within Trademark where our research took place. The executive directress is the head of this division. Trademark's everyday routine breaks down to the following basic work processes:

1) Trademark receives an instruction from the client;

2) A lawyer checks to see that the instruction contains all relevant information;

3) Within 24 hours after receiving the client instructions, one of the senior lawyers drafts a letter of acknowledgement addressing the following questions: When was the request received? Has the client provided enough information or is additional information needed? What steps the firm is going to take next? What is the estimated time to fulfill the request?

4) The head of Trademark assigns a member of staff to the project;

5) The assigned lawyer drafts a letter to the client;

6) The head of Trademark checks this letter and offers improvements;

7) The assigned lawyer improves the letter and sends it to the head of Trademark;

8) The head of Trademark sends the letter to the client.

The directress had two reasons to implement an enabling PMS in the Trademark team: (1) she wanted employees to become more conscious of the strategy, and (2) she wanted to create an environment in which employees more actively come up with and implement new ideas that are in line with the strategy. Because the work of Trademark is the most complex and the least standardized in the firm, more knowledge is tacit there than elsewhere. It is thus no surprise that the small PSF challenges were most evident in this part of the firm (see also Section 4.2).

3.3 Intervention

Table 1 lists the gathered and analyzed data, and at the same time shows the steps the action researcher took to develop the PMS together with the employees. The process used to develop the PMS was derived from prior action research studies that had introduced an enabling PMS (Evers *et al*., 2009; Groen *et al*., 2011, 2012; Wouters, 2009; Wouters & Wilderom, 2008). These approaches all incorporate Wouters's (2009) five principles that are

essential to develop an enabling PMS, as does the current study. Yet there is also a difference between the current small PSF approach and previous approaches in larger organizations, which will be discussed in Section 5. Let's first explore the approach taken in the current study.

Take in Table 1

After some one-on-one conversations with several managers and employees, the project started with a meeting with all of the firm employees. Those outside of the Trademark section attended because the directress thought it important that everyone would know about what was going on. In the 1.5 hour meeting the action researcher explained the goals of the project, telling employees that they would develop a "balanced scorecard" that would help to improve their work practices and therefore to optimize the firm's performance. She explained in some detail what the balanced scorecard is, how it works, and what it can do for them and the firm.

After the meeting the action researcher interviewed the managers to elicit their improvement ideas and aspirations. Improvement ideas of the other employees were collected by means of group discussions with all employees of the Trademark section.

With this stock of information in hand, the action researcher next interviewed the Trademark employees individually. She again explained the four perspectives of the balanced scorecard, and then asked each one to selectively make a top 3 list of the most important performance aspects in each quadrant, things that would over time—if implemented—help guarantee customer satisfaction. The focus on customer satisfaction was prompted by the savvy directress, because she considered it to be the most important driver of financial performance in the context of the looming competition the firm had to confront.

The action researcher used this gathered data to draft a first version of the strategy map which was then discussed in a group session with the entire team. In the group

discussion, employees could express more fully what was meant by certain elements, and they were asked to offer insights on how they were connected with each other.

Pairs of a senior and a less experienced employee were formed to start developing performance measures that would fit into the eventual balanced scorecard. Each pair of employees was allowed to work on issues they found interesting and pertained to their daily activities. Most performance measures were developed for the innovation and learning and the internal perspective, which are the two perspectives that most contribute to a firm's performance (Jusoh *et al*., 2008). Every pair of employees developed one or more performance measures and presented and explained them to the rest of the team. After a group discussion, they improved the measures before they were finally adopted.

Before the action researcher left the firm, she informed one keen member of the Trademark team about how to further develop the performance measures. This set of lessons increased the probability the process would keep going after the departure of our process facilitator. This PMS "champion" is fully involved in the daily primary-work activities, giving her access to the relevant performance information. She was entrusted to lead the further development or adjustment of the Trademark section's performance measures in the future.

4. Results

Recall the overall research question: "How does developing an enabling performance measurement system, together with employees, help a small professional service firm to deal with the challenges such firms often face?" We now need to concretely answer this question by examining the facts in this particular case: Was the developed PMS really enabling, and did it help in decreasing the small PSF challenges?

4.1 Enabling PMS

Performance measurement before the intervention—Before our intervention, the firm

did not yet have a structured PMS. Periodic evaluations of individual employees were based on information from the IT system that contains lists of all work cases in the firm. Each case is divided into tasks. The IT system contains information about the priority of the task, the assigned starting time, the deadline and time spent. Reports from the system were used to monitor whether employees have fulfilled their tasks according to schedule, including the amount of time spent on each project and how many deadlines are met. These files of information were considered one of the main sources for encapsulating and assessing what was achieved by the employees. The report was evaluated by the head of Trademark who decided whether the results were good, normal or bad. Other more long-term information was also taken into account in the evaluation process. This pertained, for example, to employee initiatives to improve the quality standard of the work or initiatives in other organizational fields (marketing, organizing).

Development of the PMS during the intervention—An enabling PMS can be developed by incorporating Wouters's (2009) five principles: (1) base the performance measures on local experience, (2) allow experimentation, (3) build on employees' professionalism, (4) create transparency and employee ownership, and (5) use outside facilitators. This section shows how all these principles were followed in the intervention that we used in this study.

First, past experience in measuring employee performance is supposed to be used in the development of a PMS. Therefore, the action researcher interviewed managers and employees, and examined documents and information systems to identify and evaluate current performance measurement practices. Based on experience with the established IT system, two performance measures were seen as relevant: "achieved deadlines" and "tasks defined and included in the work schedule." They were included in the new PMS (see Table 2).

Take in Table 2

Second, the process should allow experimentation. In this context, experimentation often means developing a prototype of a new performance measure. If employees discuss this prototype together, it typically stimulates knowledge integration (Wouters & Roijmans, 2011). In this study, pairs of employees developed the prototypes to discuss with all other Trademark employees. In these group discussions the performance measures were further improved. Measures that were considered to be "finished" by the employees were put to use immediately. It was felt the performance measures in the innovation and learning perspective needed more elaborate consideration, so they were developed in a series of multiple rounds. When the action researcher left the firm, not all possible measures in this perspective were finalized; they were still working on them: by continuously improving the prototypes, closely akin to what Wouters (2009) meant by "experimentation."

Wouters's (2009) third principle of developing an enabling PMS is: Build on employees' professionalism. The firm's employees can be considered as professionals because they possess a lot of tacit knowledge and are willing to use it to improve their work practices and environment (Wouters, 2009). The development process is built on that professionalism, by discussing improvement ideas with employees and by developing the strategy map and the performance measures together with them. An example of the added value of using the professionalism of the employees is seen in the difference in outcomes of the meetings with the managers versus those with the employees in which improvement ideas were collected. The managers came up with ideas regarding the knowledge and skills of the employees, involving the workforce in the firm's overall goals, and retention issues. Yet the improvement ideas of the non-managerial employees were much more concrete:

a) tasks important for the firm's performance are not always reflected in the IT system;

b) urgent matters that suddenly come up make prioritizing difficult;

c) some tasks are repetitive, and we would like new challenging tasks;

d) concepts such as "creativity" and "pro-activity" are vague;

e) there is a lack of time to concentrate on issues other than the daily operations;

f) too many ideas are rejected by management under the motto "already tried;"

g) improvement of the employees' English skills is needed;

h) current performance measures are not used properly due to a faulty IT system.

Fourth, transparency and employee ownership were created by involving employees throughout the whole process. Transparency means that employees understand the logic of both the internal functioning of the system and the underlying rationale of the PMS (Adler and Borys, 1996). Ownership means that employees developed the PMS themselves locally, rather than it being rooted in or derived from anyone else (Wouters, 2009). Transparency and ownership were increased by clearly and continually explaining to employees what a PMS is and how they would be involved in developing their own PMS. Moreover, starting the process with improvement ideas, followed by making a strategy map, and ending with developing the PMS, helped employees to understand the rationale and importance of the PMS.

Fifth, just as Wouters (2009) suggests, a mature graduate student who was coached by an experienced professor was the outside facilitator. She organized the PMS development process, based on the previously mentioned principles. She used various small group processes to help employees translate their experiences and improvement ideas into their own custom-made PMS.

The developed PMS after the intervention—Ahrens and Chapman formulated several criteria to assess whether a PMS is enabling: when it is enabling, (1) it give employees an understanding as to how their tasks fit into the greater picture and (2) as to the logic of the system's internal function; (3) it allows employees to modify the system themselves and (4) to repair the system whenever that is needed (Ahrens and Chapman, 2004).

Because of the development process, the PMS is a manifestation of how the tasks of

the employees fit into the greater picture. It is based on a strategy map that clearly indicated how all tasks are related to each other and to the overall goals of the firm. The developed strategy map is shown in Figure 1. Table 2 shows the performance measures that were developed while the action researcher was still at the firm. The measures that were developed were automatically placed in the quadrant of the balanced scorecard that corresponds to the perspective of the strategy map.[1]

Take in Figure 1

The great influence of the employees in how performance is being measured gives them detailed understanding of the measures. Employees were told that the system would need to be reevaluated every once in a while, since changes in the environment and in work processes may ask for modified performance measures. The process facilitator taught the employees how they themselves could develop and adjust the new performance measures.

4.2 Challenges

The law firm of our study has a flat and informal structure, a largely implicit strategy, and a head who uses a personalized management style. These characteristics are not uncommon for small PSFs (see Section 2), and like most small PSFs this small Vietnamese law firm struggled with several common challenges: they wanted (1) to align their strategy, (2) to diminish the threat of tacit knowledge and (3) to be active in creating new knowledge. In this section we discuss why these were challenges before the intervention and how the enabling PMS intervention helped the firm dealing with them.

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[1] Up until the action researcher left the company, no measures concerning the financial perspective were yet developed. Moreover, the innovation and learning perspective was well on its way but remained incomplete, because some measures required more thought about the exact goals to be achieved and how to achieve them. Hence, members of the firm were still in the process of further developing some concrete measures, and had set themselves the goal to develop performance measures for the financial perspective as well.

Strategy alignment before the intervention— When the action researcher entered the firm, employees generally lacked clarity about the overall goals and strategy of the firm. Employees were informed about the overall goals of the firm by means of expressions such as: "*The quality we ultimately deliver to the clients is more important than achieving certain deadlines*" and "*Other comparable firms focus more on keeping the costs down for the customer; we try to focus specifically on delivering quality to our clients.*" These statements are rather abstract, but nevertheless offer employees some ideas about how to contribute to the general goals of the firm, for example by being accurate in their advice. However, employees experienced a lack of focus in their own work, and did not know how their tasks were related to the tasks of others in the organization. This made implementing a PMS relevant, especially since the firm's strategy was not based on delivering services for low prices, but on delivering services of high quality (Amir *et al.*, 2010).

Another reason for why implementing a PMS was pertinent, was the treat that the firm's directress felt by the increased competition for their services (cf. Amir *et al.*, 2010). The firm's environment had become dramatically more complex and competitive after Vietnam joined the WTO in 2007. Moreover, there had been a lot of movement within the intellectual property field since more foreign investors became interested in these services, which made competition fiercer than ever before. To deal with this new state of affairs she felt the firm needed to rethink and improve its strategic planning.

Strategy alignment after the intervention—In Section 4.1 we already noted that the PMS development process within this key department helped to align the firm's strategy. The developed strategy map for this department clarifies how all tasks are interrelated to each other and sequentially leads to customer satisfaction. The PMS's performance measures have been developed for all tasks that are part of the strategy map, so the unfolding PMS is always closely related to the firm's strategy.

The group discussions during the PMS development process stimulated the staff to think through their work effort and outcomes in a broader perspective. Various issues and troubles that really mattered in this respect became clearer to all employees. Employees said that as a consequence they had become more conscious about what they should focus on. They now better understood how their work was related to the work of others, which earlier had just been implicit. The PMS development process stimulated them to consciously focus on and think about what is important in their daily work. An employee expressed this cogently: "*It helps to get an overview of the firm and at the same time it is already a means of being able to think about issues such as the prioritizing of activities.*" The discussions helped the employees to get a better grasp on the vital link between the Trademark section's priorities and the firm's expectations.

Tacit knowledge before the intervention—A large amount of the knowledge that the employees of the firm use in their work is tacit. When employees leave the firm, they automatically take this knowledge with them. Unfortunately, the average tenure is low—many employees leave after only a few years. Therefore, the firm needed a means for capturing and retrieving the tacit knowledge of employees. Such a system would be of great value in guiding the development of its (new) employees, in honing their skills and getting up to speed as soon as possible. Parallel to such needed transfer mechanisms, the sharing of tacit knowledge could impact the tenure issue by making professionals more engaged in the firm and thus more likely to stay longer with the firm.

Tacit knowledge after the intervention—The developed PMS was based on the employees' knowledge which was crystallized using the strategy map incorporated in the PMS. Current and future employees can use this PMS to see what is important for the firm.

The following example shows that the PMS development process opened opportunities to deal with tacit knowledge other than just developing and using the PMS. The

employees decided to develop a database documenting the firm's former cases, containing everything from notes from group case discussions to letters that were sent to their customers. This wealth of information was organized and thus searchable by topic, providing an invaluable resource which would help current and future employees to deal with similar situations. It enables them to perform tasks individually and efficiently, while delivering the demanded quality. Moreover, it keeps key knowledge within the firm even after those involved have moved on to other jobs or retired.

Another example of how the development of the PMS led to capturing tacit knowledge is evident in the "being accurate" aspect of the strategy map. Inasmuch as accuracy is an integral aspect of their job, there are multiple related performance measures in the internal perspective such as "accuracy of given information" and "corrections in English by supervisors/clients." During the development process, some perceptive employees realized they were not always meeting the requirements for the quality of their letters to clients. To work towards correcting this, an employee informed about the vital importance of appearing competent and who was interested in this topic developed a checklist. The checklist could operate like a recipe does in a restaurant kitchen: ensuring a more consistent way of working among all the employees, thereby contributing to the accuracy level of their output.

The smoothness of the PMS development process has convinced management that they can confer greater responsibility on senior employees. In the new situation, it is not the directress but rather the senior employees who check the letters written by less experienced employees. And these senior employees are now also responsible for the assignment of tasks to employees within the Trademark section. Only time can tell if the employees will stay at the firm longer than before, but the odds are good due to the increase in employee development practices and employee autonomy. Both have been found to be associated with more organizational commitment and a decreased turnover intention (Benson, 2006; Mathieu

and Zajac, 1990; Pajo *et al.*, 2010).

Knowledge creation before the intervention—Given that the focus of the firm is to deliver excellent quality and professionalism towards their clients, the development of employees is one of its main areas of focus. A frequently asked question by managers was: "*How can we improve our educational system and the knowledge of our employees?*"[2] Employees tended to emphasize their keenness for knowledge development, stating: "*Our main challenge is knowledge. The professional field of intellectual property is moving forward now in Vietnam and there are so many developments to keep track of.*" and "*Our work needs to be accurate and flexible. Knowledge is necessary in order to give good advice.*"

This small PSF has an informal structure which enables employees to immediately discuss issues that arise with colleagues. This is beneficial for sharing knowledge between employees, but the informal setting deters a systematic development of improving daily work processes. An employee pointed this out: "*Every day we need to think about ways to improve, to adapt to changes in the environment, especially in the field of law. If we had a structured approach we would know what we need to develop and what not.*"

Knowledge creation after the intervention—The increase in responsibility of senior employees not only prevents knowledge loss; it also increases knowledge creation throughout the everyday workflow. Senior employees now work more closely with the people whose work they control, and this new pairing ensures further sharing of knowledge and stimulates the creation and sharing of new ideas. Moreover, the senior employees now can more quickly start to think about emerging problem areas and thus are enabled to more insightfully address

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[2] New employees come straight from the university, so they are not highly experienced within the professional practice of intellectual property. This means that employees still need a lot of within-firm guidance when they start.

them. The world is dynamic and fast moving, and now the firm has an essential tool to accommodate it.

Note that the PMS development process in itself causes more knowledge creation. In the beginning of the process, for example, employees were explicitly asked to express ideas for work improvement in a group discussion. Moreover, everyone was stimulated to come with more ideas throughout the rest of the PMS development process, especially during the group discussions. Now that they have experienced the positive virtue of voicing improvement ideas, they are able to continue this kind of communication in the future.

Examples of performance measures that were developed to stimulate knowledge creation were "time to study," "articles written by employees" and "case discussions." With regard to the latter for example, employees set themselves a goal to discuss an interesting or complicated case each week. The employee who is responsible for that case presents the case to the other team employees. The first time this meeting took place it only consisted of a presentation, but everyone soon realized it would be more interesting to discuss the case in the group as well. From then on after each presentation a group discussion was started during which ideas about the most important aspects of the case, how to solve the matter, and on what (legal) grounds a decision can be based were shared and debated. Only after this discussion the employee responsible for the case reveals what solution (s)he had chosen to solve the case. This solution was then compared to the outcome of the previous discussion. This process stimulated the sharing of knowledge and made thought processes more transparent. Another plus apparent to all was that by presenting their case and leading the discussion under the spotlight, employees were honing their communication skills. At the beginning of the study there were absolutely no opportunities within this firm for practices like this. Hence the PMS development process did open a truly beneficial new opportunity. The directress now had a motivated team with a routinized learning environment, ready to

meet the challenges sure to come each and every day to a small legal firm in Vietnam.

5. Discussion

In this study we developed an enabling performance measurement system (PMS) together with the employees of a small professional service firm (PSF) to see how that helped the firm deal with three challenges which small PSFs often face. We answer our research question and discuss the implications in Section 5.1. Section 5.2 discusses the limitations of the study and Section 5.3 will give suggestions for future research.

5.1 Implications

By means of action research, this study gave an answer to the following research question: "How does developing an enabling PMS, together with employees, help a small PSF to deal with the challenges such firms often face?" The three challenges for which this question was answered were: (1) PSFs need to align their strategy, (2) much knowledge in the firm is tacit and underutilized (3) more new knowledge should be created. In Section 4.1 we showed that the PMS we developed together with the employees was indeed an enabling PMS. Section 4.2 showed how the development of this enabling PMS helped the firm to deal with the three challenges. To recapitulate these results and thereby answer the research question: *Strategy alignment*—The most important part for the alignment of the strategy was the development of the strategy map, including the group discussions from which the strategy map was built. This made employees realize how their efforts are related to the overall goals of the firm, and the strategy map itself formalized the strategy. *Tacit knowledge*—The reliance on tacit knowledge decreased after the development of the enabling PMS, because tacit knowledge was explicated in the developed strategy map and in the final PMS. Moreover, due to the discussions during the development process the employees realized that they would benefit from formalizing other tacit knowledge as well, to enable them to learn

from each other. Employees immediately implemented these self-invented ideas. ***Knowledge creation***—Cooperatively thinking up improvement ideas in the development of the PMS taught employees to create knowledge. Moreover, several new performance measures stimulate employees to create knowledge because only when new knowledge is created, the set target can be reached.

Knowing how developing an enabling PMS helps PSFs with their challenges is important; it gives insight into the most important elements of the process of developing an enabling PMS. From the above discussion, we can extract the following important elements of developing an enabling PMS to overcome the three frequently occurring challenges. First of all, the discussions and cooperation between employees were important for all challenges. Second, developing a strategy map was important for being able to align the strategy and for explicating tacit knowledge. Third, letting employees think up improvement ideas was important to let them start explicating knowledge in other ways as well and to learn how to create new knowledge. Finally, the resulting PMS was important to explicate tacit knowledge and specific performance measures can be included in the PMS to stimulate employees to create new knowledge.

The elements of developing an enabling PMS to help small PSFs overcome the challenges are quite similar to those of developing an enabling PMS in larger organizations (cf. Evers *et al*., 2009; Groen *et al*., 2011, 2012; Wouters & Wilderom, 2008). As shown in Section 4.1, both incorporate Wouters's (2009) principles for developing an enabling PMS, and other similarities are the intensive group discussions and the fact that improvement ideas should be thought up by the employees before useful performance measures can be developed. But we also saw differences between what is important when developing an enabling PMS in a small PSF versus larger organizations. For example, the specific performance measures that result from the process differed. But there is also a difference in

the process itself: in larger companies it is usually not necessary to develop a strategy map for developing an enabling PMS.

To understand why this strategy map was important for developing an enabling PMS in a small PSF, whereas it was not in larger organizations, please picture a large organization with all its hierarchical levels. In such large organizations, the strategy is usually determined in the higher organizational levels and later on communicated top-down. Employees in lower organizational levels are not expected to unravel and contribute to the strategy since this has already been done for them. They have to carry out the work that has been delegated to them by their managers. This is where the enabling PMS comes in: such a PMS can support them in reaching the goals that have been set by higher organizational levels. For small organizations like the law firm of our study, things are different. Just as many small organizations (Julien, 1998, Garengo *et al*., 2005), this study's law firm had not formalized its strategy. So no explicit directions were given to the employees. This study showed that developing a strategy map as part of the PMS development process can explicate the organization's strategy and can be a good basis for an enabling PMS. Hence, the steps reported in Section 3.3 are especially relevant for small organizations that do not yet have a formalized strategy.

In this study, we focused on the outcomes of the initial process of developing an enabling PMS. Our study only focuses on how the first version of an enabling PMS was developed, rather than how it is used. If one wants to sustain the positive effects of developing a PMS together with employees, the initial PMS should be revised by the employees on a regular basis (Kennerley and Neely, 2003). Thus, the "project" is never really finished. The PMS should reflect what is important for a firm at a certain period of time. So when priorities in the firm change, the PMS should change as well (Kennerley and Neely, 2003). We think that our PMS development approach toward and with the Trademark team of this Vietnamese law firm offered a good basis for such continuous improvement of the PMS, because all

employees felt involved in it and they now know through experience how it can be done. The degree to which the outside project facilitator is necessary for this engagement process to be sustainable remains to be seen.

5.2 Limitations

This research is subject to several limitations. The first is that the process of developing the PMS went very smoothly in this case. On the one hand this is good news: it allowed us to "solve the problem, i.e. implement an enabling PMS to deal with the challenges small PSFs often face," which is perhaps the most important validity criterion of action research (without solving the problem, one cannot investigate how the problem was solved). Yet it is also a limitation to our practical findings, since other organizations may have more difficulties implementing such a system. In the law firm of our study all the known factors that can facilitate such a process (Wouters, 2009, p. 75) were present. To begin with, the directress had a clear vision and communicated her objective for developing a PMS (see Section 3.2). She continuously showed real support for the PMS and was not afraid to use relatively unknown outside facilitators. She was willing to experiment with this approach, even with a foreign team. The directress generously gave the employees enough resources—especially time—to develop the PMS, and the autonomy to actually develop performance measures that would support them. Moreover, the top ten problems with PMS implementation and use identified by Waal and Counet (2009) were absent. For example, both the managers and the employees were highly committed and gave priority to implementing the PMS and changing their previous ways of working. Organizations which want to use a similar PMS development process must realize that it may be less easy than it sounds, especially if these facilitating factors are not present.

Moreover, this research suffers from the limitations inherent to action research. For example, action research is a qualitative approach which relies on interpretations of the

researcher in place. Furthermore, action research can hardly be replicated, because you will probably never find the exact same social setting again. This all makes it hard to generalize the results derived from action research. However, carefully describing the used approach as we did in Section 3 diminishes the replication limitation because it makes the research "recoverable" (Checkland and Holwell, 1998). And fortunately, when action research is carried out well (following the criteria of Baskerville and Wood-Harper, 1998, p. 103-104), it gives valuable insight into how something (in this case dealing with the three challenges by co-developing an enabling PMS) actually works in practice (Coughlan and Coghlan, 2002, Kasanen, *et al*., 1993), with high construct validity (Atkinson and Shaffir, 1998).

5.3 Suggestions for future research

The current study took place in a Vietnamese firm. Despite the cultural differences between Western countries and Vietnam, empirical research has shown that the familiar "menu" of related work practices such as training, performance appraisal systems and incentive compensations also effectively lead to positive performance results in Vietnamese SMEs (King-Kauanui *et al*., 2006). Moreover, previous research on culture and employee participation has shown that participation works in most cultures—both Eastern and Western (Harrison, 1992). This is relevant since our employee-centered PMS development process is a form of employee participation. Research has shown that Hofstede's cultural dimensions "individualism" and "power distance" negatively affect attitudes towards participation (Julien, 1998). The Vietnamese culture is collectivistic (Hofstede, 2009), which no doubt increased the chance of success of our PMS development approach. This collectivism was evident from the very beginning of our involvement in the firm: employees show considerable loyalty to and interest in each other; ideas are easily shared between employees; and openness towards each other is regarded as part of the firm's success. Then again, it is also the case that power distance is typically high in Vietnam (Hofstede, 2009), which may reduce the impact of our

PMS development approach. Contrary to that tendency, however, is that like in most small PSFs, the level of power distance within our studied firm is low. The small size of the firm and the rather flat structure enables employees to state their opinions about top-level decisions. Employees are consulted on a regular basis before a decision is made and information is openly shared. This may be another explanation for why we experienced nearly no difficulties in developing the PMS. Yet the influence of organizational or national culture on developing an enabling PMS has not yet been researched. It may be interesting to find out in future research if culture is indeed—as expected from the above—important for whether or not the project will succeed.

In this study we showed that developing an enabling PMS can help small PSFs deal with several challenges. Moreover this study showed that the steps of the development process were similar to those for developing an enabling PMS in larger organizations (both manufacturing and service firms), and one extra step was included: developing a strategy map. A semi-experimental design in future research may give more information about how necessary all these steps really are for developing an enabling PMS in small PSFs. Perhaps certain steps can be omitted to make the development more efficient.

In future research it would be interesting to not only look at the development of the enabling PMS, but also at the use after it is developed (as Kennerley and Neely, 2003 did for coercive PMSs). To get insight into whether an enabling PMS is really useful for small PSFs, the following question is relevant: does the enabling PMS continue to assist small PSFs in their everyday practices (and in dealing with the challenges) after the development phase? Moreover, it would be interesting to investigate how an effective enabling PMS evolves over time (vs. a non-effective one), because this may help other firms to make the best use of it.6.

6. Conclusions

The main theoretical contribution of this research was showing that developing an

enabling PMS in a small PSF can be done with a similar approach as has already been done in larger organizations; however, with a slight adjustment: it is vital to include developing a strategy map into the process. This study contributes to managerial practice in two ways: it shows the relevance of developing an enabling PMS for PSFs and it shows how such a PMS can be developed within PSFs. Co-developing an enabling PMS with employees in the small law firm of our study helped the firm to deal with the three major challenges that small PSFs often face: (1) aligning operations with the strategy, (2) dealing with tacit knowledge, and (3) creating new knowledge. Involving the employees *in situ* in developing an enabling PMS gave them a collective understanding of the firm's strategy and the means and priorities for accomplishing the firm's goals. Now formerly tacit knowledge was exploited by implementing ideas that came up during the process, such as developing a database with information about former cases. The process initiated a culture change towards a more open environment in which more knowledge and insights could be easily exchanged. It was very significant that these new circumstances convinced top management that senior employees are perfectly capable of being delegated greater responsibilities. This allocation of trust would most probably convince them to stay on the payroll longer, advantageous because longer tenure would help the firm in the creation of new exploitable knowledge. And finally, performance measures were created that stimulate knowledge creation as well. Small PSFs who face similar challenges as the firm of our study may use the approach described in Section 3.3 to deal with them.

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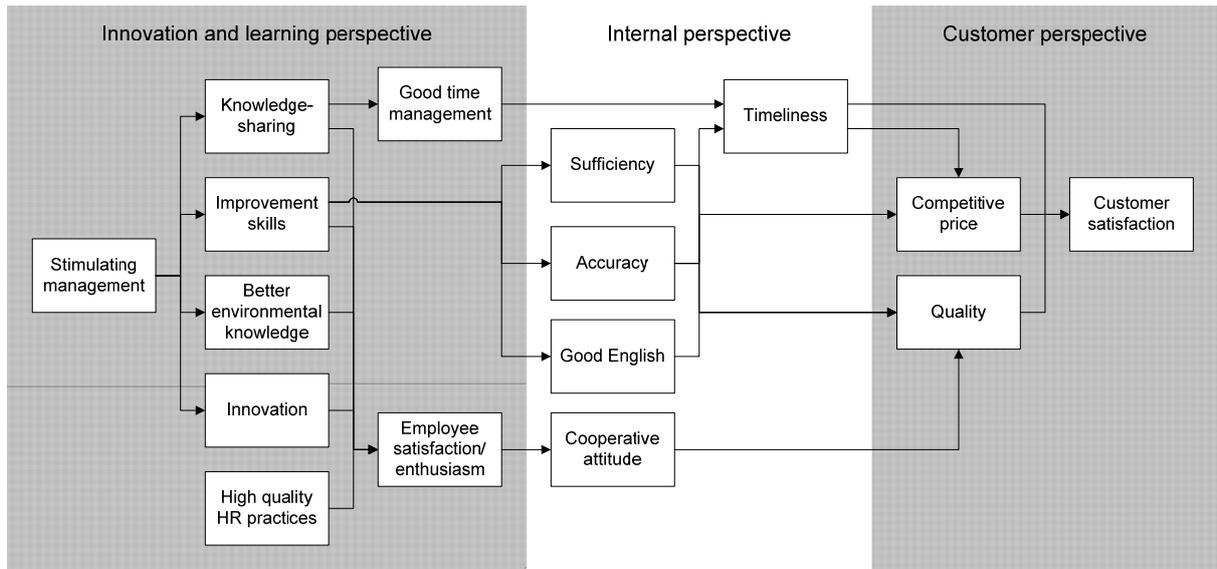Yin, R.K. (2003), *Case Study Research: Design and Methods*, Sage: Thousand Oaks, CA.

Figure 1 The developed strategy map

Table 1 *Overview of the steps taken and methods used in the study*

Phase	Goal	Method					
		A	B	C	D	E	F
Analysis	Find out about the firm's strategy and focus	✓	✓	✓			
	Find out about the current work processes	✓	✓	✓			
	Find out about the current control mechanisms	✓	✓	✓			
	Find the presence of typical small PSF characteristics	✓	✓	✓			
	Find out which typical Vietnamese cultural aspects are present			✓	✓		
Development	Find out which aspects need improvement	✓				✓	
	Find out the employees' priorities regarding the firm's operations		✓			✓	
	Make aspects of the strategy map more concrete						✓
	Develop measures						✓
	Share each others ideas and think about the follow up					✓	
	Experiment with newly developed practices created by the groups					✓	

A=Interviews with managers
B=Interviews with employees
C=Examination of documents and information systems
D=Observation of daily practices
E=Group discussions with employees
F=Pairs of one senior and one less experienced employee

Table 2 *Developed performance measures and related goals*

Innovation and learning perspective

Performance measure	Minimum goal
Employee satisfaction	Grade 8 on a scale from 1 to 10
Average tenure	5 years
Sick-leave	Decrease each year
Structural leverage ratio	Decrease each year
Evaluation interview	Twice a year with every employee
Exit interviews	With every employee that leaves the firm
Candidates for open positions	2 for every open position
Newsletters for law students	1 each year
Workshops for law students	1 each year
Tasks defined and included in work schedule	All
Time to think	1 hour per employee per week
Time to study	1 day per employee every 2 weeks
Articles written by employees	1 per employee per year
Case discussions	1 each week

Internal perspective

Performance measure	Minimum goal
Achieved project initiatives	1 per employee: each 6 months
Positive feedback	Each employee must give 1 improvement suggestion to every colleague: each 6 months
Accuracy of given information	100%
Achieved deadlines	90%
Foreign intern	1 each year
TOEIC scores	Increase of 5 points each year
Corrections of English	Decrease of 20% each 6 months
Check database (and update if necessary)	Once each year
Cases stored under the wrong code	Decrease of 20% each year
Translation mistakes	Decrease of 20% each year
E-mail requesting clarification	Maximum 1 per client

Customer perspective

Performance measure	Minimum goal
Price	Not higher than competitors in the same class
Word of mouth customers	5 this year, increase of 1 in the following years
Customer retention rate	20%
Ranking in the top 3 of IP firms	1 each year

Note. This table is an illustration of the performance measures that were developed by the Trademark division of this firm. They are specific for the firm under study, and can therefore not be easily transferred to other organizations. If wishing to develop performance measures that are perceived relevant for their firm, other firms need to follow a similar process as shown in this paper.