Performance measurement, motivation, and incentives

A case study of the Danish Business Authority

Master's thesis
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Abstract

This master’s thesis is a case study research of the Danish Business Authority with a normative objective of achieving a higher efficiency in the department, Business Support, where a performance measurement system has been installed prior to the investigation.

The study is deductively based on a hypothesis that the board of directors are temporarily reallocating employees from Business Support to other parts of the organization for ill-considered cultural reasons, while, simultaneously, demanding a higher efficiency by increasingly monitoring the employee performances. The organizational culture is analyzed in a functionalist perspective with emphasis on the board of directors’ values and basic assumptions in regard to motivation and performance. The purpose and design of the performance measurement system is analyzed from an organizational economics perspective. Both analyses are primarily based on interviews of the managerial group and documents obtained from the organization. A theoretical discussion of the findings in the analyses concludes with a few separate proposals for achieving a higher efficiency.

It has been confirmed that caseworkers are being reallocated for inexpedient reasons. The explanation for this costly prioritization is found in cultural values, which albeit have become gradually counterbalanced by acceding, contrasting values, however, not at all completely replaced due to resistant, associated basic assumptions concerning motivation of employees. These inadequate basic assumptions are reflected in a narrow understanding of motivation as being homogenous and unidirectional, rather than configurable towards specific tasks, which has resulted in an overinvestment in intrinsic motivation yielding very limited benefits to the organization. These particular basic assumptions, in addition to a not fully thought through design of the performance measurement system, and the very limited utilization of the system as an incentive system inhibit a potential higher efficiency for the Business Support. The purpose of the performance measurement system is found to be both divergent in itself, with the proposals in the thesis, and with the identified basic assumptions, by exhibiting a disregard for the importance of motivation and a lacking understanding of contract theory. This inhibits the utilization of the system’s potential and contributes negatively to skepticism towards the system amongst the employees. It is found that Business Support can benefit greatly from optimizing the performance measurement system by configuring the system’s design, and additionally, extend the scope of the monitoring to include more dimensions on the casework. It is recommended to shift the focus away from intrinsic motivation of caseworkers to more extrinsic, monetary rewards, for which greater incentive effects and lower costs are expected. This will require changes in, how the salary budget is managed. Furthermore, it will possibly trigger a minor conflict with the respective union, HK, and most likely change the organizational culture substantially for the caseworkers with a significant element of competition. Alternatively, it is suggested that parts of the phone service are outsourced, if the board of directors, for some reason, find these proposals too radical.
## Contents

1. The Problem.................................................................................................................. 7
   1.1 Problem identification............................................................................................... 7
   1.2 Problem statement..................................................................................................... 8

2. Methodology .................................................................................................................... 9
   2.1 Scientific paradigm..................................................................................................... 9
   2.2 Case study research................................................................................................... 9
   2.3 Deductive research................................................................................................... 11
   2.4 Research approach..................................................................................................... 11
      2.4.1 The Case............................................................................................................. 11
      2.4.2 Analysis 1 - The Culture.................................................................................... 11
      2.4.3 Analysis 2 - The Performance Measurement System...................................... 12
      2.4.4 Discussion - Critical Issues and Inconsistencies............................................. 13
      2.4.5 Proposals for Efficiency Improvement............................................................ 13

2.5 Interviews .................................................................................................................... 13
2.6 Respondents.................................................................................................................. 13
2.7 Interview guides.......................................................................................................... 14
2.8 Observations, documents and employment with the organization.......................... 14
2.9 Trustworthiness .......................................................................................................... 15
   2.9.1 Internal validity...................................................................................................... 15
   2.9.2 External validity.................................................................................................... 15
   2.9.3 Reliability............................................................................................................. 15
   2.9.4 Objectivity............................................................................................................ 16
10 Conclusion ................................................................................................................................. 76
11 Other perspectives .................................................................................................................... 77
  11.1 Recruiting ............................................................................................................................ 77
  11.2 Change management ............................................................................................................ 78
  11.3 Incentives for the board of directors .................................................................................... 79
12 References ................................................................................................................................ 81

NOTE: Table of Contents for appendices is found after.
1 The Problem

1.1 Problem identification

In my years of working with IT-projects in the Danish Business Authority, I have noticed that the Business Support-service has been subjected to critique within the organization. The service is criticized for being too unavailable for citizens and private firms. Colleagues have blamed the caseworkers for being reluctant to participate in working with this service and perform casework. I have noticed some indications that the Business Support-service is not meeting its potential level of efficiency. For one, caseworkers are frequently reallocated to IT-projects, for which they do not seem to possess educational or professional experience matching the additional project team members. This is seen reflected in their lack of understanding of the related technology and terminology. The reallocation of a caseworker releases the caseworker from the usual job duties for a fixed number of days each week for a period of several months. Based on my experience with this particular organization’s organizational culture, and based on informal conversations with colleagues and speeches given by the director-general, I suspect that a certain part of the organizational culture is encouraging this reallocation of caseworkers, causing a poorer service in the Business Support. Secondly, the board of directors have requested a performance measurement system for monitoring the caseworkers. This suggests that the board of directors have identified a latent efficiency improvement amongst the caseworkers and are looking to realize this improvement. It is, however, unclear how this monitoring will motivate employees or in other ways improve the efficiency.
1.2 Problem statement

In this thesis the managerial influence on the organizational culture within the Danish Business Authority will be analyzed to determine its influence, on how the job duties of the caseworkers are being prioritized and organized, and if, and how, the caseworkers are being motivated to perform the casework efficiently. Based on the analysis a theoretical discussion on the casework in the Business Support will take place. The discussion will include an organizational theoretical perspective with focus on theories of motivation and organizational culture and an economic theoretical perspective with focus on organizational architecture. The discussion will lead to suggestions on how to improve the performance of the caseworkers in Business Support. Following this structure, the thesis will seek to answer the following research questions:

Main question

How can Business Support in the Danish Business Authority achieve a higher efficiency?

Subquestions

- What culture underlies the Danish Business Authority’s reallocation of caseworkers?
- How is the efficiency in Business Support affected by this reallocation?
- How does the culture affect the performance measurement system in Business Support?
- What actions can from economic and organizational theoretical perspectives improve the performance of the caseworkers in Business Support?
2 Methodology

The methodology of the thesis will be explained and reasoned thoroughly in the following sections. Firstly, the fundamental philosophy of science behind the research will be argued. This will lead to a discussion of case study research and its scientific contribution in the thesis. Secondly, the deductive research approach, including the structure of the analysis, the choice of theory and choice of methods for data collection will be explained. Thirdly, instruments and methods of data collection will be examined, and finally, the scientific trustworthiness and potential pitfalls are briefly discussed.

2.1 Scientific paradigm

The methodology of the thesis is founded on a positivistic perspective; meaning that the world philosophically is limited to only one true reality: ontologically referred to as realism. The epistemological assumption is fundamentally identical to objectivism, (Holm, 2011) though it should be emphasized that this study recognizes the importance of the organizational agents’ individual, diverse feelings and world views. These elements are, however, not the primary subjects of the study. It is assumed that the different world views, to some extent, can be determined by studying the agents’ knowledge and explicit opinions of relevant matters. One example is asking a decision maker for his or her reason for a certain decision, or more generally, on his or her theoretical knowledge on a relevant subject. In this context, the world view of the decision maker can be considered relevant for the case. This is an essential recognition considering that this is a real-life ongoing case, and not an experiment in a controlled environment. Some may call this neo-positivism. (Holm, 2011) Yet, no widely acknowledged paradigm would in detail exhaustively explain the philosophical assumptions behind a specific case study, as paradigms can be considered philosophical simplifications. Especially seen in light of the varying, to some extent conflicting theoretical basis, a very strict positivistic frame would be unsuitable. Elaborations on the epistemological assumptions could go on, but as a basis for understanding the foundation of the thesis’ methodology, it would be unnecessary.

It is worth mentioning that a social constructivist approach to this study could be opportune. Yet, the theoretical frame of the study, including the economic oriented part, suggests a higher degree of realism and objectivism, which is why a constructivist approach was not chosen.

2.2 Case study research

The thesis can be considered a case study research; a method, a methodology, or simply a study of decisions in a case (Yin, 2014, p. 15):
“The essence of a case study, the central tendency among all types of case studies, is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result.”

In terms of defining the area of interest of the thesis and the objective of the study, this definition of a case study research is very accurate, however with regard to the problem statement, the definition can only account for the first half of the thesis; the descriptive part. The second half, and main research question, concerning the achievement of higher efficiency is a normative part of the thesis, and can not be found in the most commonly accepted definitions of case study research. In this perspective, the normative part of the thesis can not be considered a case study research. It is merely a theoretical addition to the thesis, which does not only depend on the descriptive case study research but adds value to it. The logic behind the subsequent normative, theoretical assessment is that a problem can be solved easily, once it is understood thoroughly. In this way, the case study research enables the tangibility of the main research question. This assumption is very much in line with the previous review of the scientific paradigm.

A case study research, as defined by Robert K. Yin (2014, p. 16), is uniquely useful when three conditions are met (Yin, 2014, p. 9):

1. **Research Questions are types of “how” and “why”**.
   “What”-questions can be fine and justifiable, if the particular questions are explanatory. For example, the first research (sub)question. These types of questions are not exclusively bound to case study researches, and it should be stressed, that even when considered a method, case study research and other methods are not mutually exclusive.

2. **The study requires no control of behavioral events**.
   This parameter is what distinguishes experiments from case study researches. In theory, it might be possible to set up an experiment to analyze the organizational culture, yet this controlled environment would be unnecessary and perhaps even deceptive in its unnatural elimination of various elements that may or may not influence the culture.

3. **The study focuses on contemporary events**.
   The focus on contemporary events distinguishes a case from history. Contemporary events can make a study more valid, because sources of information tend to be more accessible and up to date, and thus more reliable. It is worth mentioning that this case study research is being complemented by some focus on the near historic development within the organization. This is analyzed in order to determine which direction the organization is headed from an (organizational theoretical) functionalist perspective.
2.3 Deductive research

The approach and structure of the thesis is reflected in the problem statement that is based on a set of, practically speaking, hypothetical assumptions on the organizational culture’s influence on several elements in the organization. The hypotheses stem from the indications outlined in the problem identification. The approach of the research is therefore naturally deductive. This means that the explorative elements are very limited and, in some parts of the study, completely absent. This is reflected in the targeting of the problem statement and research questions. First research subquestion concerns the relationship between the job duties of the caseworkers and the organizational culture. If the main research question, concerning efficiency improvements, were to be addressed inductively, the first research subquestion would be explorative and probably concern the process, in which the efficiency improvements were to be achieved. The deductive approach is also clearly reflected in the research instruments. Interview guides are exploratively very limited, and questions in initial rounds of interviews are quite specific. Many questions contribute to confirm or reject the hypotheses that shape the problem statement.

2.4 Research approach

2.4.1 The Case

The organization and its context are described, and the process, for which the improvements of efficiency are to be found, is identified. The definition of efficiency is necessary in order to ensure consistency in answering the research questions, and for the same reason the definition should be as concrete as possible. It is important to understand, that the organization may not have common definition everyone agrees with, or they may not have one at all. ‘Efficiency’ will therefore be clearly defined in this chapter.

2.4.2 Analysis 1 - The Culture

The first analysis is based on first research subquestion concerning the relationship between the organizational culture and the job duties of the caseworkers. For this, the culture has to be analyzed. The analysis will be divided into two parts; a fundamental and historically emphasized part, and a managerial oriented part with focus on the motivation of employees.

The historical part on the analysis is conducted in order to understand the cultural aspects difficult to identify and to understand the direction, the organization have chosen to follow, including the organization’s priorities and usual way of handling problems. This will fundamentally contribute to the understanding of the problem, and, to some extent, confirm or deny some of the indications mentioned in the problem identification-section. For this analysis, the perspective of functionalism
will be suitable. Interviews with employees, who have experienced the organization’s culture and behavior in relation to this particular problem, will be the primary source of empirical data. Quantitative methods would not likely contribute to a deeper understanding of the culture. Interviews are an obvious qualitative method supplying depth to the analysis. Documentation and other facts concerning the organization will complement the empirical data obtained through the interviews.

The second part of the analysis will focus particularly on the basic assumptions, within the culture and amongst the board of directors, concerning motivation of employees, as well as, how this reflected in the job duties of the caseworkers. The classical theories of motivation will naturally follow the functionalist analysis. This theoretical basis is easily comparable to the board of directors’ own perception of culture and motivation in the organization. For this reason, it seems appropriate to continue applying the classical organizational theory. The application of an economic theoretical perspective, organizational economics (also referred to as organizational architecture) will take place later. This can methodically be viewed as a theory triangulation. Empirical data will be collected from interviews with the director-general, the hierarchically final decision maker and self-proclaimed creator of the case relevant cultural aspects.1 This makes the director-general the most relevant source of empirical data for this part of the analysis. The interview and interview guide will be examined later on.

2.4.3 Analysis 2 - The Performance Measurement System

The second analysis concerns the performance measurement system. The design and design plans for the system will be reviewed. Empirical data will consist of prints from the system and project-, prospects and strategy-documents concerning the system. The intended usage and purpose will be analyzed to form a basis for discussing the system’s consistency with the organization’s culture and the relationship between the design, the intended usage, purpose of the system and the defined earlier defined efficiency. For this analysis the primary theory will be organizational economics that excels in designing of incentive systems, and therefore is an obvious choice of theory. At the same time, this theoretical approach will serve as a counterbalance providing an alternative to the classical theories of motivation, hereby contributing to a following discussion in the succeeding chapter. In addition to the mentioned prints and documents, an interview will be conducted with the manager in charge of the performance measurement system. This is necessary, as the documents do not sufficiently describe the purpose of the system or any managerial reflections or awareness on the system design and its consequences for the organization and its employees.

1 Interview with the director-general: 8:23
2.4.4 Discussion - Critical Issues and Inconsistencies

At this point the findings of critical issues and inconsistencies from the analysis are identified, summarized and discussed. This rounds off the analysis and commences the theoretical discussion. The gathering of empirical data hereby finishes. The purpose of this section is to illuminate the potential areas of improvements that frame the subsequent proposals.

2.4.5 Proposals for Efficiency Improvement

In this final part of the thesis, the last research subquestion is addressed, consequently concluding the main research question. The part can be viewed as the normative part of the thesis. The sections will of course address the practical case, but it will be significantly focused on solving the problem theoretically without the opinions of managers and directors. The proposals will be separated, as they do not necessarily relate to one another, and in some cases may be mutually exclusive. The level of precision and detail in the proposals depends on the level of precision and detail in the analyzed empirical data. The proposals should be seen as general guidelines and options, the decision makers can select from and in detail configure themselves for the best suiting solution.

2.5 Interviews

The interviews are conducted semi-structured following interview guides. This makes it possible to follow another angle on the interviews if needed, while still keeping track on the data needed. Every interview is conducted to obtain initial evidence needed for a particular part of the analysis. Most of this will be confirming evidence to hypotheses through explanations or thoughts on essential matters on the problem. There are no explorative foci, meaning every interview or interview round will have the same narrowness and no relation to each other whatsoever. In fact the arranged order of the two analyses is inconsequential to the final result, hence so is the interviews. Due to the hypothetical approach, the number of interviews conducted per round may be kept very low, if the evidence are confirming and the interviews satisfy the following criteria: Reliable and relevant source, Clear and relevant answer, Reliable method.

2.6 Respondents

This case study will not include interviews of agents. The reasons for not interviewing agents are found in the first criteria mentioned in the last section, Reliable and relevant source. Agents are found to be less relevant as this study focuses on the reasoning behind the managerial decisions and the theoretical alternatives to the managerial decisions. The agents have not been subjected to these alternatives, and it would therefore be difficult to have them assess their response to those alternative incentive systems. It might be scientifically possible to test, but such a test would take up a significant amount of the limited space and resources of the study thesis and thus compromise the
value of the final results. Compensation profiles must of course not be ignored and will therefore be examined theoretically instead. Another area for which the agents’ input could seem relevant is gaming-issues, however, not only would the agents also in this case have to answer for hypothetical situations, their answer would not be reliable; if agents are believed to game a system for their own utility maximization, they would also have incentive not to reveal this truth. The scientific reliability would therefore be very low. Finally, as it will become clear throughout the case study, that the agents are not assigned any decision rights, nor do they hold any asymmetric information, making gaming a less relevant issue.

2.7 Interview guides

To ensure reliable answers every interviewee is informed that the data is for scientific use and not owned nor requested by any principal in the organization. Some interviewees are offered anonymity, yet no one found it necessary. First question is always a warm-up-question with the main purpose of letting the interviewee find comfort in speaking before the essential interview begins.

Questions are grouped in topics to structure the interview and avoid confusion. Questions within a topic are grouped by explicit, written purposes in the interview guide to help the interviewer keep the interview on track and ensure that all relevant empirical data are collected. Most questions are followed by a hint to help the interviewer rephrase the question if necessary, without derailing the interview, and thus failing to obtain the right information.

2.8 Observations, documents and employment with the organization

In addition to the interviews, empirical data have been recovered through the use of observations and access to the documents referred to in the thesis. The documents have proved essential to the analysis and have contributed to the scientific quality, as explained in the following section. The observations are useful for understanding the organization, especially the cultural artifacts and social conventions. To match the methodology, the observations have been conducted hidden, unstructured, and as far as possible, non-participating (Andersen, 2008, p. 155). The degree of participation, as a researcher, is debatable in light of the employment with the organization. This will be discussed in the following section.
2.9 Trustworthiness

The scientific trustworthiness can be broken down to four criteria that must be satisfied: *Internal validity, external validity, reliability and objectivity* (Lincoln & Guba, 1985).

2.9.1 Internal validity

The internal validity is especially important for explanatory cases (Yin, 2014, p. 47); usually recognized by ‘how’ and ‘why’-research questions; exactly like in this case. The internal validity lies in showing how different elements in the case are connected. In this case, this is done by confirming the hypotheses with empirical evidence. The thesis could have been written with the problem identification as an undisputed set of assumptions, but the trustworthiness of the conclusion would then be low due to lack of internal validity. In addition to testing the causality and relation between elements in the case, the internal validity is also affected by, how the investigation influences the problem area. When the problem area is not directly observable, internal validity must be established through individuals, who may be impressionable and easily manipulated or influenced by the researcher or other individuals. This is avoided with a strict, safe, non-pressuring approach.

2.9.2 External validity

External validity is often understood as the trustworthiness in generalization of the case findings. The case study research method is as generalizable as other scientific methods, although some may prefer to call it “transferable” (Yin, 2014, p. 15). The scientific results of this thesis is as much a contribution to science as any other thesis, but the case study research must be seen an analytic generalization and not a statistic sample. This realization can remove the root to much misunderstanding. Analytic generalization should be understood as a creation or addition to a theory. The justification of relevance in applying this scientific product, by comparing the context of the study with the contexts of other studies, lies with future researchers. (Lincoln & Guba, 1985)

To satisfy these requirements, this case study research will aim for a clear structure and methodology, and a comprehensive description of the case, the empirical data, and any interpretations and assumptions made in the analysis.

2.9.3 Reliability

As mentioned earlier, the case has a very strong theory triangulation. In addition to this, essential empirical data is collected from different sources; observations, documents, and from interviews with the most relevant and reliable members of the organization. All this will contribute to a strong reliability in the results of this thesis.
2.9.4 Objectivity
The objectivity as a researcher may unknowingly be influenced by an endless number of things; from the personal experience with the analyzed surroundings to the theoretical background or educational experience. The best way to avoid compromising your objectivity is to remind oneself of the possibility, that you as a researcher can be biased. As a researcher and at the same time an employee of the case organization, I am therefore very aware of the risks of being biased. The risk is limited further by minimizing assumptions in the case study and insisting on gathering confirming empirical evidence to every indication and hypothesis behind the problem statement. Another benefit of acting on your risk of being biased as a researcher is that it may cultivate alternative thinking to a problem. Alternative thinking is not affecting the trustworthiness of the results, but it may, however, be necessary in order to produce them.

2.10 Delimitation
In summary, the most essential delimiting aspects of the thesis, explained in this chapter, is that the case study is not explorative, and that caseworkers are not amongst the interviewed respondents. Furthermore, the perspectives of social constructivism will not characterize the thesis. The analysis of the organizational culture will solely stick to the perspective of Functionalism. The theory delimitation in relation to the specific theories of motivations and organizational economics will be explained in the following chapter.
3 Theory

The fundamental theory applied in the thesis is introduced in the following sections. Two different schools of thinking are represented as argued in the methodology: The classical organizational theory, including very well-known theories of motivation, and the organizational economic theory. It is already explained how and why the theories will be applied. The following sections serve as an introduction covering the fundamental, general thinking behind the theories used in the analysis. Many details and closely-related (sub)theories applied and discussed after the analysis, will not be introduced here, but instead saved for the theoretical discussions. The different theories applied in the analysis will be introduced here, more or less, in the same order, as they appear in the thesis.

3.1 Classical theory of organizational culture - Functionalism

Organizational culture is, in a functionalist perspective, the product of a group’s collective problem solving-process developed to survive (Schultz, 2008, p. 28). It is not a limited variable but rather woven into the way the organizational members tend to feel, think and perceive. Edgar Schein defined culture in three levels: Artifacts, values, and basic assumptions. These three levels are interrelated, mutually defining, but yet varying in characteristics; most noteworthy in visibility (interpretability). (Schultz, 2008, p. 29)

![Figure 1: Culture levels](image)

Artifacts are visible manifestations of the organizational culture, yet they can be very difficult to decipher.

Values are the organization’s members’ perception of how things ought to be in contrast to how it actually is. Values can be explicit and implicit, thus visible and invisible.

Basic assumptions are invisible, implicit and fundamentally defining for the two other cultural levels. As opposed to the other two levels, the basic assumptions are rarely associated with a conscious awareness; they are, unlike values, not subjects of debate. This makes them very important, yet difficult to address.
Schein has formulated a set of topics to help the analyzer characterize the basic assumptions in an organizational culture (Schultz, 2008, p. 34). This particular set of topics will not be used in this case study. When analyzing the basic assumptions in this case study, a more specific focus on motivation seems more fitting to the problem statement. There is no reason to limit the focus to a set of preset topics as long as the analysis follows the same definition of basic assumptions, as reviewed above.

From the perspective of Functionalism, social systems can be explained by or deduced from their function, and not from their origin. If a cultural element becomes dysfunctional, it will quickly adapt/change or cease to exist, or so will the organization. Basic assumptions, being the deepest level and thus the most fundamentally defining part of the culture, will also be the most resistant. See model “The Funnel” below (Schultz, 2008, p. 31). As a consequence hereof, the culture should, from a functionalist perspective, always be viewed as in equilibrium. The equilibrium, is, however, constantly changing due to the organization’s external environment. This means that the cultural elements, in an ongoing organization, will always be in an ever changing equilibrium.

Figure 2: The Funnel

The most obvious competing perspective on organizational culture is Symbolism (Schultz, 2008, p. 69). In this perspective, organizational culture is not considered a part of the organization, but an independent factor, that can be pictured when observing rituals, utterances, and actions. No equilibrium is stated; hence dysfunctionality and inconsistencies can exist in an organization’s culture. Individuals are believed to act on a self- or collectively defined reality, rather than on objective facts. Symbolism is therefore multidimensional and subjective in its world view, which is not fitting to this thesis’ methodology. Symbolism does not offer the possibility to track the changes of the culture’s equilibrium, as intended for the first part of the analysis of the organizational
culture. Functionalism will therefore be the only defining perspective when analyzing the organizational culture in this case.

### 3.2 Classical theories of motivation

#### 3.2.1 Maslow's Hierarchy of Needs

In Abraham Maslow's Hierarchy of Needs, basic human needs are divided in a hierarchical structure. Maslow’s theory seems very comparable to the director-general’s hierarchical ranking of motivational elements and is therefore an obvious choice for the analysis. (Jacobsen & Thorsvik, 2008, p. 213)

**Physiological:** Covers the need for food, water, sleep and other vital necessities.

**Safety:** Safety needs represent feelings of safety of the physiological needs. This includes a feeling of personal and financial safety.

**Belongingness:** According to Maslow all people have a need for interaction with others, in a shape of friendship or other kinds of relations. This can also be understood as a need for social acceptance.

**Esteem:** The need for esteem is the second highest step of the Pyramid, and this step focuses on human beings’ pursuit of prestige and esteem. Maslow mentions both a higher and a lower type of esteem. The lower esteem is a person’s own perception of his reputation, while the higher esteem is a person’s self-esteem and self-respect.

**Self-actualization:** The need to reach one’s full potential. What self-actualization actually implies differs from person to person, but it always relates to some kind of personal progress.

![Figure 3: The pyramid](image-url)
Researchers have criticized Maslow’s theory for being impossible to verify. For one thing, it is extremely difficult to determine when and how people have achieved self-actualization. Secondly, little evidence has been found to support the particular ranking of needs.

### 3.2.2 Herzberg's Two-Factor Theory

Frederick Herzberg’s theory is an interesting theoretical twist to Maslow’s theory, which by some are considered a list of prerequisites for motivation, as opposed to Herzberg’s theory that, additionally, defines, how the different prerequisites affect motivation. At the same time the Two-factor Theory is very tangible for this analysis and the following theoretical discussion. As opposed to Maslow, Herzberg does not rank human needs, but instead, he categorizes them into two factors: The presence of elements in the first factor motivates, while the absence of elements in the other factor dissatisfy, resulting in demotivation. Most interestingly, the theory claims that motivation can not be caused by eliminating demotivation and vice versa. Factors of motivation are called motivators, and are generally related to the nature of the job assignment. This includes, amongst other things, the level of challenge, variation, and responsibility. Factors related to demotivation or ‘dissatisfaction’ are called hygiene factors. These are usually associated with the working environment and the conditions of employment; most noteworthy is that salary is listed as a hygiene factor. (Jacobsen & Thorsvik, 2008, p. 219)

![Figure 4: Motivators and hygiene factors](image)

Unlike Maslow's hierarchy of needs, The Two-Factor Theory is backed by a large amount of empirical evidence. On the other hand, the associated work has been criticized for its methodology. The distinction between the factors has also been criticized for ignoring the underlying connection between certain elements. For example: A pay rise (5. Hygiene factor) could also be perceived as an
acknowledgement of good performance (4. motivator) Both Maslow's and Herzberg's theories of motivation have been criticized for not disregarding differences in individuals' preferences.

3.2.3 Richard Hackman & Co.'s Psychological Model of Intrinsic Motivation

Richard Hackman Psychological Model of Intrinsic Motivation deals with job satisfaction and is a well-known alternative, or addition, to Maslow’s and Herzberg’s theories. Furthermore, this model could serve as a bridge between the organizational economics and the other theories of motivation.

In this model, job satisfaction is divided into three psychological states that can result in so-called intrinsic motivation. Intrinsic motivation is driven by a self-desire. The opposite, extrinsic motivation, is driven by a desire for an external outcome; this could be a bonus or a promotion. According to the theory, five core job characteristics are essential to reach certain psychological states, where intrinsic motivation is triggered, absenteeism and turnover are lowered, and quality is increased; all of which affect the work outcome. In the theory meaningfulness is actually, practically viewed, the opposite of boredom. This means, that an appropriate skill variety (skills required for the task), task identity (task’s Distinguishability), task significance (task’s holistic value), is more or less a countering of boredom - excitement causes intrinsic motivation. One important difference between intrinsic and extrinsic motivation is that intrinsic motivation is associated with learning and thinking outside the defined task, because it is not driven by excitement. Therefore, cultivating intrinsic motivation will be most beneficial to the organizational, when a task requires employees to think for themselves. (Lazear & Gibbs, 2008, p. 192)

![Figure 5: Psychological Model of Intrinsic Motivation](image)

Researchers have criticized the model for having proven low, yet positive, relationships between the stages. The scientific reliability on the empirical data has also been questioned. It has also been
argued that workers are more concerned with personal outcomes than work outcomes; insinuating that intrinsic motivation is not as beneficial to the organization as proclaimed.

3.2.4 Other theories of motivation
A third quite popular theory that, unlike Maslow and Herzberg, recognizes a difference in individuals’ preferences is McClelland’s Three Needs Theory (Jacobsen & Thorsvik, 2008, p. 214). This theory defines three unranked basic types of needs, whose weighting is unique for each individual. The theory is very generic, which makes it difficult to operationalize in relation to this particular problem statement, hence unfitting to the case study.

V. Vroom’s Expectancy Theory (Jacobsen & Thorsvik, 2008, p. 217) can simply be explained as:

\[ \text{Expectancy} \times \text{Instrumentality} \times \text{Valence} = \text{Motivation} \]

*Expectancy:* The perceived likelihood that the effort leads to performance.
*Instrumentality:* The perceived likelihood that performance will lead to the desired rewards.
*Valence:* The level of desire for the expected rewards.

This theory will not be mentioned in the analysis either. Victor Vroom’s Expectancy Theory is practically an implicit part of the organizational economics, and does, therefore, not contribute enough to be applied separately in the analysis, but will be referred to later on.

3.3 Organizational Economics
Organizational Economics should not be considered a single theory, but rather a school of organizational thoughts with roots in economic thinking, its own terminology, and its own set of basic assumptions on individuals’ behavior, and why they collaborate in an organization. Most fundamental is the assumption, that individuals have unlimited desires in a world with limited resources. The amount of theories based on organizational economics is inexhaustible; much like different schools of economic thoughts. Organizational economics can be recognized by its attention to cost and benefits as a driver for rational decisions. The earlier reviewed theories of motivation are concerned with the needs of the agent. The agent is perceived as a receiver of different inputs, which will result in some sort of better performance (output). The needs of an agent are, of course, crucial information, but the strength of organizational economics, as an analytical tool, lies within its ability to answer, what the organization can get in return for these inputs, and how that knowledge can be utilized to maximize performance with respect to cost. (Brickley, Smith, & Zimmerman, 2009, chap. 10)

An agent will most likely have many self-interests not beneficial to the organization. An agent may, for instance, benefit from taking longer breaks, while the firm suffers an opportunity cost as a result.
of his absence. To deal with such unintended behavior, incentive systems can be designed to make the agent prioritize more favorable to the organization. There are costs related to designing, implementing and running such systems. Sometimes the costs even outweigh the benefit of a better performing employee. These benefits and costs for the agent and his principal are the main concern of organizational economics. The collaboration between agent and principal can be viewed as a contract to trade the agent’s time and energy for some kind of compensation provided by the principal. Contracts are not necessarily legal or even explicit agreements, they just represent what service the agent is supposed to exchange for a given compensation. As a consequence, organizational economics treats an organization as a focal point for a set of contracts. Bear in mind that, depending on the incentive systems, contracts are not necessarily fulfilled by the agent. And, in addition to this, many costs can be associated with contracting; ex post and ex ante. (Brickley, Smith, & Zimmerman, 2009, chap. 10)

A common way to understand, categorize, and operationalize organizational economics, is by dividing an organization into three areas that are interconnected and an mutually reliant on each other: Monitoring and measuring performance, Rewarding performance, and Allocating decision rights. One could say that the purpose of organizational architecture is to balance these three areas, as represented in the shape of a three legged stool. There are plenty of dilemmas and terminology linked to each leg that will be applied in the analysis. (Brickley, Smith, & Zimmerman, 2009, Preface)

![Figure 6: The three legged Stool](image)

3.3.1 Decision Rights
Assigning decision rights will be a rather short part of the thesis, as the analyzed performance measurement system targets a set of tasks that do not involve decision making. This only simplifies matters, as incentive problems usually escalate the further down the organizational hierarchy the decision rights are assigned (Brickley, Smith, & Zimmerman, 2009, p. 369). Even though the decision rights are fixed, they are not to be forgotten when balancing the system; they will just limit the possibilities of design alternatives and require the other aspects to match this fixed setting.
3.3.2 Criticism

Organizational Economics has been subject of much criticism. Generally speaking, two fundamental points have been argued: One is that incentive systems can not match the needs of the business. Agents will be overly focused on measured areas, while neglecting other areas that are not measured. The other point is that agents simply do not respond well to incentives. Like the reviewed theories of motivation, agents are expected to respond better to other immeasurable needs; social needs and needs for self-actualization, for instance. To summarize, critics will claim that organizational economics does not motivate or does not motivate the intended way. To claim both points, would of course be inconsistent.

From these points, more specific criticism is derived: Creativity is claimed to suffer as a result of too much focus on measurable areas. Of course, many kinds of agency problems are argued to be uncontrollable. It is also claimed that incentive systems change the communications on a fundamental level. Incentives are thought to obviate the reciprocal communication and hereby enforce a non-cooperative culture at the expense of the same performance, the organization sought to improve. (Molin, 2014)
4 The Case: Danish Business Authority

The Danish Business Authority is one of the largest authorities under the Danish Ministry of Business and Growth employing approximately 600 government officials and 100 external consultants, of which most are temporarily hired to assist on digitalization projects. The Danish Business Authority defines their mission and vision as follows:

"Mission and Vision"

The Danish Business Authority endeavors to create the best conditions for growth in Europe, and to make it easy and attractive to run a business in Denmark.

As a government organization and a part of the Ministry of Business and Growth, the Danish Business Authority is not profit seeking. It is not guided by sales as a regular private business, and, most importantly, its satisfaction of its customers, the citizens and companies, is not reflected in a market. As a consequence, the Danish Business Authority steer and benchmark themselves against budgets and performance contracts internally in the authority, and externally to the Minister Department. Budgets are comparable to any other private business, representing the cost-side. The revenue-side, however, is only indirectly reflected through the goals in the performance contracts, which can be more or less clearly stated:

“Smarter and more user-friendly digitalization for businesses.”

vs. “(...) durations of proceedings on Commercial Appeal Board reduced by 5%”

There are other, managerial aspects that differentiate the authority from a private business. The authority is subjected to a complicated, constantly changing, unstable, political environment. Not only does the authority answer to ministers and other politicians, who rarely, if ever, visit the organization and most likely do not have any working experience or educational profession relevant to the authority, but the politicians are also sometimes incentivized to make irrational symbolic decisions that affect the authority and its employees. This can be regulations or laws that require work processes to be reinvented or closure and mergers of organizations. The Danish Business Authority was as result of the change in parliament administration, 2011, merged with two other large authorities; each with different organizational cultures and practices. Due to the nature of politics, including secret political agreements, these changes, can not always be predicted.

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2 www.danishbusinessauthority.dk/about
3 www.erhvervsstyrelsen.dk/sites/default/files/media/resultatkontrakt_2015.pdf pp. 16-19
The Danish Business Authority’s tasks and responsibilities vary a great deal and include, among other things, company registrations, business regulations, money laundering control, and top-secret international trades, e.g. weapon deals. The authority also, currently, employs large numbers of IT-professionals tasked with developing solutions for digitalization of the services offered by the organization. For this case study, the focus will mainly be on the Department of Digitisation, Communication, and Business Support, where the Business Support-section is located.

**Figure 7: The organization chart**

### 4.1 Business Support

Business Support is one of the largest sections in the authority consisting primarily of a large group of caseworkers tasked with casework related to registrations of companies. This includes checking every legally required information is in order, and if necessary contacting the reporter. It is also their job to provide support by phone in the call center. The call center is manned in shifts and opens on weekdays between 9.30 am - 2.30 pm. The process of registrations will usually start on a web portal, where the reporter (a representative of a company or an aspiring entrepreneur) can fill out the requested forms. If the reporter needs support, they can call the caseworkers. If the reporter makes mistakes or is suspected of answering wrongfully, a caseworker will investigate and contact the reporter. If a caseworker finds any legal issues he or she is unaccustomed to, the case will be reassigned to the Department of Business Conditions and Regulations, where legal experts will take over. Caseworkers can request for a transfer to other parts of the organization, where they usually can spend one or two fixed weekdays for some months working on projects unrelated to the casework.

Caseworkers do, unlike the rest of the organization, not have fully flexible work hours. The phone shifts are, for example, predefined. The (internal) employee working conditions and pay are defined

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4 www.virk.dk
by a union agreement. The only exception is managers. There are two union agreements; One (AC) for employees with a Master’s degree, and one (HK) for everyone else. Caseworkers in Business Support are usually educated office clerks or workers without an educational background. They are trained on first day to perform the tasks required of them, and they are all working under the same union agreement with a monthly salary beginning on 18,568.00 - 22,303.00 DKK, depending on education, with the possibility of a 1,000 DKK raise over time.

4.2 Observations of the working environment

Observations were conducted and written in notes. These observations can be found in the appendices. The most important part is the observed configurations and coordination mechanisms. Configuration and coordination mechanism can be characterized as follows (Sørensen, 2000, chap. 3-4):

For casework:

<table>
<thead>
<tr>
<th>Configuration</th>
<th>Coordination mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machine bureaucracy</td>
<td>Standardization of tasks &amp; Direct supervision</td>
</tr>
</tbody>
</table>

For project work:

<table>
<thead>
<tr>
<th>Configuration</th>
<th>Coordination mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adhocracy</td>
<td>Mutual adjustment &amp; Standardization of knowledge</td>
</tr>
</tbody>
</table>

4.3 Defining ‘Efficiency’

Before moving on with the analysis, ‘efficiency’, as used in the research questions, must be defined. ‘Efficiency’ can be defined in several ways. Burton and Obel uses following definition of ‘efficiency’:

“An organization is efficient if it utilizes the least amount of resources necessary to obtain its products or services.” (Burton & Obel, 2004, p. 4)
In this definition, ‘efficiency’ is defined as a quantitative dimension with a fixed qualitative dimension. Another definition can be found in a dictionary, where the quality is the essential dimension: “The degree to which quality is exercised.”\(^5\)

For this study, it is relevant to consider both the quantitative as well as the qualitative dimension in a nonfixed context; this is necessary, as it varies, when a service should be considered ‘obtained’; hence both dimensions are included in the optimization problem. In order to operationalize the efficiency-term, it must be defined specifically with respect to the case organization.

The problem statement covers Business Support, efficiency must therefore be defined in terms of casework and phone support. The channel manager, responsible for the performance measurement system that monitors the caseworkers’ performance, has defined some performance goals:\(^6\)

**Channel manager’s performance goals**

- 80% calls must be handled within 180 seconds.
- Customer satisfaction must be at least 75% (measured with the phone system).
- No more than 25% calls may be redirected.
- No more than 12% callbacks.
- Sickness absence must not rise.\(^7\)

### 4.3.1 Channel manager's definition of efficiency

The channel manager defines ‘efficiency’\(^8\) as quantity of cases processed and a low sickness absence. Why sickness absence is defined as a parameter of the efficiency is explained in the interview:

\(5:30\) Channel manager: “The proportion of the hours spent on efficient production, and not on meetings, sickness and education, is an important parameter, as well.”

The quality of the caseworkers’ performances in terms of the phone support is defined as customer satisfaction; not callbacks and redirected calls, as these parameters are interpreted as a measurement for how well trained the caseworker is. The quality in terms of actual casework (processing registrations, flagging errors, contacting reporters, and so on) is defined by an error rate. Quality is not defined as efficiency because the error rate on casework is not measured, as the channel manager finds it too costly to measure. This means that, the channel manager defines high efficiency as high quantity and low sickness absence, while high quality is defined as good customer satisfaction and low error rates.

\(^5\) www.thefreedictionary.com/efficiency

\(^6\) Interview with the channel manager: 5:02

\(^7\) The goal is mentioned by the channel manager, but it is originally demanded by the ministry. (www.erhvervstyrelsen.dk/sites/default/files/media/resultatkontrakt_2015.pdf , p. 19)

\(^8\) ‘Effectiveness’ depending on translation.
4.3.2 This thesis’ definition of efficiency

The channel manager’s goals and wishes for performance are relevant when defining efficiency, however, not every argument of the channel manager is shared. Defining sickness absence as a part of the efficiency seems misguided. Sickness absence can surely be related to the performance, however, it should be considered an indirect variable, and not a part of the definition, as sickness absence, theoretically speaking, can be a tradeoff for better overall performance-results. The definition should be based on desired results, and not indirect variables. It should also be reconsidered whether callbacks and redirections only indicate the level of competence obtained by training, but if the customer satisfaction is the desired result, these two factors should be left out of the fundamental definition. Quantity defined by customer satisfaction is a matter of choice by the Danish Business Authority. This is a results-oriented acceptable definition, and to respect that, this should be included in the definition. Quality defined by low error rates seems obvious, and it should therefore be included in the definition regardless of the fact that the authority finds too costly to measure at the moment. The definition of efficiency in this thesis does not match the channel manager’s definition, as this definition includes both quantity and quality. Efficiency is thus defined:

\[
\text{Efficiency}_{\text{Casework}} = [\text{Number of cases processed}] \times c [1 - \text{Error rate}]
\]

\[
\text{Efficiency}_{\text{Phone support}} = [\text{Number of calls handled}] \times p [\text{Customer satisfaction}]
\]

\[
0 \leq \text{Error rate} \leq 1
\]
\[
0 \leq \text{Customer satisfaction} \leq 1
\]
\[
c, p > 0
\]

The definition is split in two to make it easier to work with; combining them would only make sense, if they could be weighed against each other. How many calls a processed case is worth will not be assessed in this thesis as it is slightly out of scope with the problem statement. The discussion could, however, be relevant to the authority.

The relationship between the quality- and quantity-variables (constants c and p) is difficult to determine. One way to start could be to calculate how many resources a case with an error would take to correct compared to an error free case, but that would still not address every cost. How will the extra time affect the customer? How would it affect other departments? For this reason, the authority should assess this relationship (constants) themselves. Notice that indirect variables may still be a relevant, perhaps even necessary, way of measuring efficiency, as an indirect measurement is sometimes the most practical option.
5  First Analysis: Culture and Motivation

5.1 Changing values

It has been indicated that the organizational culture is responsible for the reallocation of caseworkers to unrelated projects. To verify and explain these indications, and to understand and assess the strength of the related cultural aspects, Figure 2: The Funnel, will be applied in the analysis of the empirical data gathered from the interviews of the specialists, who have experienced the cultural change in the organization.

Peter, Cand.IT, database administrator, explains how the authority, three years ago, tasked every employee, with the phone support job currently held by the caseworkers:

Peter, Cand.IT, database administrator: (3:15) “The center, as a single entity, was responsible for supporting and handling customer phone calls, and that task was spread out and assigned to every employee. Almost everyone.”

Interviewer: “Almost? So including you?

Peter: “Yes.”

Interviewer: “Who asumed your job duties, while you were on call shift, then?”

Peter: “No one did. It was just a job you had to do.”

(...)

(4:35) Interviewer: “So, it wasn’t because you didn’t have anything else to do?”

Peter: “No, not at all!”

The fact that a specialist, paid over two times as much as a caseworker, is tasked with handling customer support at the expense of his own unshared responsibilities, suggests an irrational prioritization by the management. A caseworker has a lower hourly wage and a job function shared by many colleagues, who can cover for the absent caseworker meanwhile, if necessary. One might suggest that a specialist were better suited for handling customer requests and that would explain the prioritization. As Klaus, datamatician, application manager, explains, most requests were not technically complicated:

(4:22) Interviewer: “(...) So Aunt Gerda called and asked for help to..? ”

Klaus: “To register a voluntary association. Firstly, it’s a problem if you, as a senior citizen, don’t have a computer. That’s always difficult to help out with. Or, to find out what a digital signature is, what Java is, what a browser is and such.”
Interviewer: “So you were instructing in these things?
Klaus: “Yes, for example. Or I would just say: ‘Do you have family members with knowledge of computers that can help you?’ or ‘Go to the library’.”

These cases involve pretty basic computer knowledge that caseworkers answer today. In fact, in some cases, the IT-specialists may even provide a poorer service due to lack of motivation:

(5:29) Klaus: “We are technicians, who genuinely aren’t hired to answer telephones. Those, who are sitting there now, are not hired for anything else. I think. They changed it from 2-3 hours a week to 3-4 hours a day, and none of us sign up for that, and that’s not that good for the motivation. Whereas, if you hire people specifically to this, and they know, what they are signing up for, then you’ll get people, who are up for it, and perhaps provides a better support than us.”

So as the phone-duty became more demanding, the motivation fell. Klaus believes it fell even deeper for IT-specialists. If the board of directors wanted to raise motivation, this might, even when discounting the neglected specialist work, be a bad trade-off. Remember how the authority defined customer satisfaction as a quality in performance. The foregoing example, where IT-specialists refer callers to the library could be assumed to entail very poor customer satisfaction. There is a reason for such managerial prioritizations, and Peter believes that the reason is found in a particular cultural value:

(3:45) Interviewer: “Why do you think you were assigned to this task (*customer phone calls*) rather than your other responsibilities?”
Peter: “It’s my impression that it was mostly a matter of solidarity. The phone shift was not a desirable duty.”

The director-general states that this particular value of solidarity, is still an existing and highlighted value:

(8:58) Director-general: “(...) We try to ‘live’ on the executive board that we have ‘we-culture’.”

Solidarity is a word that can be expressed in many ways, ‘we-culture’ is one verbalization. Although the value is still going strong, it has been loosened enough for managers to reorganize the organization by reassigning customer phone support services solely to the caseworkers. Following the theory of Functionalism, this relative relaxation of a value like solidarity, is a result of the organizational culture responding to a new equilibrium. As so, the board of directors have found a way to adapt with external surroundings by internally integrating new values challenging the solidarity-value. Figure 2: The Funnel. The director-general emphasizes ‘result-oriented’ as a new value throughout the interview.9 In Functionalism, this could represent a necessary cultural counterbalance. The director-general, however, would sum it up to ‘result-oriented in collaborative way’, when explaining the ‘we-culture’.10 That does not contradict ‘result-oriented’ as a

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9 Interview with the director-general: 3:29
10 Interview with the director-general: 3:42
counterbalance. When discussing the ‘we-culture’/solidarity-value, the director-general refers to an executive document, ‘The Langelinie-doctrine’ (appendix), kept within the board of directors and not actively shared with the employees:

![Diagram](image)

**Figure 8: The Langelinie-doctrine**

(9:35) Director-general: “(...) We look each other in the eyes, on the executive board, once in a while, and ask: ‘Are we living up to this?’”

Other than ‘collaboration & mutual commitment’, which is highlighted, ‘Empathy’ and ‘Presence’ would also be associated with the ‘solidarity’-value that Peter, the database administrator, identified. Notice that the new value ‘Result-oriented’ and its associated values are separated from the left-sided solidarity-associated-values. Figuratively seen, this is a very fitting expression of the counterbalance that allowed for the reassignment of the phone job duties to the caseworkers to take place.

So far, the analysis shows that the Danish Business Authority is moving in a direction less determined by the value ‘solidarity’. This can be supported by the fact that they suddenly chose to implement a performance measurement system in spite of much resistance and criticism. This part will quickly be examined, later on, in the second part of the analysis.

### 5.2 Basic assumptions about motivation

Even though the solidarity-value is counterbalanced, it is still emphasized by the director-general and represented strongly in the ‘Langelinie-doctrine’. To understand why this value still dominates the culture, one must understand the related basic assumptions. The functionalist model, Figure 2:
The Funnel, claims that the values’ existence can be explained on the deepest level by the basic assumptions. The director-general reveals a lot of particular case-relevant basic assumptions concerning motivation in the interview that fits the classical theories of motivation nicely, and so does the Langelinie-doctrine; both will be analyzed now to understand the basic assumptions.

5.2.1 Solidarity

The Langelinie-doctrine groups ‘motivation’ with the words: ‘Humor’, ‘Excitement’, ‘Empathy’, and ‘Presence’. ‘Humor’ and ‘excitement’ are not words explicitly mentioned in any of the theories, however, as derived from the Hackman’s theory, intrinsic motivation is basically a result of countering boredom, and from that perspective, these words are fundamentally a means of reaching intrinsic motivation. ‘Humor’, like ‘empathy’ and ‘presence’, could also be viewed as Maslow’s ‘Belongingness’ or Herzberg’s hygiene factor ‘Interpersonal relationship. These would suggest a lower intrinsic motivation as a result, if, however, intrinsic motivation can be translated to Maslow’s top part of the pyramid and Herzberg’s motivational factors. That discussion will be saved for after the analysis. The argument for focusing on these particular values is stated here:

(2:45) Director-general: “I believe organizations, who have a.. That’s what I told The Modernisation Program, too.. a ‘them-and-us’-culture; that’s just dangerous. You have to have a ‘we-culture’.

Interviewer: “Okay. Why?”

Director-general: “Because, at least from my point of view, if you have a ‘them-and-us’-culture, then it will be like the focus will be on, you know, who is ultimately to blame. In a ‘we-culture’, you are super result-oriented, striving for common goals together. And I think that is a core value in our organization; that is, we are result-oriented and we make a difference.”

This also links the whole Langelinie-doctrine together. Once again, confirming that the reallocation of caseworkers is taking place for motivational reasons, it is summed up:

(4:39) Interviewer: “So it’s a question of motivating employees, when one group feels like being part of another group, who actually are doing completely different jobs?”

Director-general: “Yes.”

There are other strong basic assumptions concerning motivation to be identified and analyzed from the interview with the director-general. This analysis will proceed chronologically to the interview.

5.2.2 Intrinsic motivation

The director-general are very focused on aspects related to intrinsic motivation in Hackman’s model:

(4:15) Director-general: “In terms of motivation, it’s much more cool to go to work and say: ‘I’m a part of the facilitation of growth.’ We need growth in Denmark. It’s much more cool than saying:
‘I’m responsible for this little corner.’ I think, being an employee, you should, preferably, be able to see yourself in a greater narrative.”

The greater narrative can be identified as ‘Task identity’, one (of three) job characteristics to create the psychological state of meaningfulness. The second one can be found here:

(10:00) Interviewer: “(...) What do you think motivates your employees? So, I’m not talking about the managers”

Director-general: ‘No no, we are talking about the employees. I think it’s important that employees can see, where we’re going. So, there is greater purpose with what you are doing. I think that makes a big difference to many people. What is my actual contribution? I believe that is really motivating employees. (...)”

At this point, the director-general addresses ‘Task significance’. Notice, that these two job characteristics are not explaining, why caseworkers would be excused from their usual job duties. The last job characteristic, ‘skill variety’ is less clearly addressed, however, it would be an obvious interpretation of the following statement, and that would provide a second basic assumption for the reallocation of caseworkers.

(10:55) Director-general: “I also think it’s good to have a workplace, where you are challenged sometimes. I’m not saying all the time; there are also a lot of operations in an organization.”

‘Skill variety’ is one interpretation. Herzberg’s theory would categorize it as the first motivation factor, ‘challenge, varying, interesting’, and in Maslow’s theory the highest need, ‘Self-actualization’. Indeed, this statement is focused on the highest level of motivation, no matter which theory is applied.

5.2.3 Extrinsic motivation

So far in the interview, the director-general has only been concerned with this kind of motivation. To gain an understanding of how the hygiene factors (Herzberg), the lower ranked pyramid needs (Maslow) and the extrinsic motivation (Hackman) influence the general-director’s basic assumptions on motivation, questions are now being asked explicitly on salary, benefits, and the priorities of investing in motivation across every employee group.

(12:37) Director-general: “So, you can look at those.. I know all those studies, that have been made. If you look at what actually motivates people, then I think things like salary comes down to a 6th-7th place. And that’s interesting, because we spent a lot of time discussing salaries, but I think.. Of course, that’s how it is. Well, it’s not a 0-1-variable. There comes a point, where the salary can be so poor that it means a lot, and there comes a point, where it can be so high, it’s the only thing, we strive for, but I don’t think salary, in itself, is something that excites people, and provides job satisfaction. And, motivating people is about job satisfaction. (...)”

Ranking salary is a logic shared by Maslow, however, salary would probably be found on the step of physiological needs, safety needs, or some may argue it could be seen as an esteem, if the salary
is associated with recognition or prestige. In fact, the pyramid does not even have seven steps. It is clear that the director-general does not recognize salary as a motivational factor; much in line with Herzberg’s theory. The thought that salary can not excite people is a very bold statement fitting with Herzberg, but it is inconsistent with the thought that a very high salary is something that affects people. The only explanation will be that excitement is meant as a sort of intrinsic motivation, which is also fitting the conclusion in the director-general’s final sentence about job satisfaction. It seems clear that the director-general regards extrinsic motivational factors as less effective, or unintendedly effective; both can not be true as they contradicts each other, but either would suggest a basic assumption, with negative regards to what the director-general refers to as an old wage earner culture:

(14:50) Director-general: “So are IT-employees, for instance, more motivated by salary than other groups? No. I don’t think so. (...) A culture like in the 60s, you know, is a very typical wage earner-culture; that has changed a lot. Your workplace is a completely different thing compared to 30 years ago. So it has also something to do with generations. I don’t think different employee groups matter.

Interviewer: “So no employee group should work under these motivational conditions?”

Director-general: “No, I don’t believe in that.”

Interviewer: “So you treat everyone the same in terms of motivation?”

Director-general: “Well, there might be some individual differences, but not fundamentally.”

The basic assumptions identified so far, are thus not limited to specific employee groups. This is an important point. The view of motivation as something universally good with a one-size fit all (in this current generation) suggests that motivation is actually perceived as a homogeneous, unidirectional element; some fixed aspects define a degree of motivation, and the degree of motivation results in a degree of work effort, rather than a way of working; hence, motivation is considered something to gear and not configure or direct.

(16:37) Director-general: “You arrive to work with the desire for moving something. That’s my expectation. Some may not be able to do that; then they possibly don’t belong in this organization. Then, perhaps, they should find another organization. That’s a culture.

Interviewer: “It’s a quality that all employees should have; to problem solve and think alternatively?”

Director-general: “Yes. I think so, yes.”

Other than confirming the previous quotation, this reveals that the director-general is deliberately insisting on her own way of dealing with motivation. Functionalism believes basic assumptions to be the most resistant of the three elements defining an organizational culture. Some values may have been added to counterbalance the culture enough to survive, but the old values are still there influencing the managerial decisions based on the same basic assumptions concerning motivation.
This analysis suggests that there is a basic assumption that ‘solidarity’ and other values related to the classical theories of motivation create motivation. However, extrinsic motivation seems to be disregarded as a way of creating motivation. Obviously, this also explains why the value ‘result-oriented’ is not viewed as a contrast to solidarity, which is also exemplified in the previous section with the words ‘result-oriented in a collaborative way’. It also confirms the main hypothesis; that caseworkers are excused from their basic job duties for cultural reasons; with the underlying basic assumption that it will result in motivation, and thus better performance. Whether or not these basic assumptions on motivation are suitable for optimizing performance efficiency and the managerial investments in motivation are appropriate will be discussed after the second analysis.
6 Second Analysis: Performance Measurement System

This chapter will cover a short description of the system functionality, an analysis of the Danish Business Authority’s motive for implementing the system, and their intentions for its usage going forward. Finally, the analysis will cover the organizational architectural design of the system and its applications. The chapter will finish off with a list of the critical findings from both analyses.

6.1 The system design and functionality

The performance measurement system was requested by the board of directors in 2014 as a way of setting and measuring Key Performance Indicators. How and what the system should measure, have later been decided by the channel manager as reviewed in this thesis’ section ‘Efficiency’. So far, the system has successfully monitored individual caseworkers’ performance in the call center. The performance measurement of actual casework is still an incomplete function. For actual casework it is still only possible to monitor the caseworkers’ team performance, and only for about 80% of the cases.

6.1.1 Technical specifications

Technically speaking, the system monitors two separate job functions; the casework and the phone customer service. These are monitored with two unrelated technologies, and the performance measurement system is, therefore, in reality, two separate systems. For the sake of simplicity it is referred to as one system.

The performance measurement system is monitoring the phones with a dedicated phone system sold to organizations as a standardized product for this purpose. The system can keep track of calls to individual phones. It creates statistics on:

- The length of the phone calls.
- The length of wait time.
- The number of callbacks from the same customer.
- The number of calls being answered.
- The number of calls being missed.
- The number of calls being redirected.

Lastly, the customer will have the option of rating their satisfaction with the phone service, which is also included in the statistics.
The casework statistics are not a product of a standardized system. It is an extract from databases connected to the IT-system that stores and processes registrations. By collecting and sorting timestamps from the database, it can be calculated, how fast different types of cases and issues are being handled. In the near future, all caseworker accounts will be linked to these calculations enabling individual monitoring of the caseworkers’ performances.

6.1.2 Casework error-rate

As stated earlier, the error-rate, the quality, of the casework is not measured and therefore not included in the performance evaluations.

(3:45) Channel manager: “I have a background in the private sector, and there were some requirements of 0-2 % errors on our tasks. That meant I had four full time positions, who didn’t do anything but random samplings, and I had an error rate on 1 %, and is that worth the resources?”

The channel manager guesses ‘no’. This is not a valid argument, nor is it even a qualified guess. Deciding that casework-quality is too costly to monitor might be a correct decision, but nevertheless, it should be decided on a more enlightened basis.

6.1.3 The product

The product of the system is ultimately a lot of statistical data. These are manually converted into charts. The overall performance (the aggregate individual performances) is presented to the board of directors every month,\(^{11}\) while the overall performance on the phone service as well as the individual performances are shared with the caseworkers. The individual caseworker is only presented with his/her own performance compared to the whole team; individual performances of colleagues are not shared.

\(^{11}\) Example: ‘Direktionsrapport’ - Appendix
This example shows, how a random caseworker performed on the phone service April 29th, 2015 (top), and how the performance has been for the last 90 days (bottom). So far (around 1:30 PM) the caseworker has answered 12 calls and internally transferred one of these calls (8.3 %). This also means that the caseworker has answered 91.7% on first level, (First Call Resolution). The average handling time is 04:50 minutes so far. The shift may have started after lunch. ‘Registrering’ is the name of this particular caseworker’s unit. The caseworker is able to compare these four statistics with the collective performance of the unit and with the performance goals set by the channel manager - examined earlier in the thesis. For the last 90 days this particular caseworker has transferred 28.1% calls internally. This is a poorer performance compared to the whole unit, and it oversteps the channel manager’s goal of maximum 25%. In terms of customer satisfaction the caseworker performs much better than the unit’s average and actually just reaches the channel manager’s goal of 75 %. This specific screenshot does not show it, but this particular caseworker is actually one of the top performers in terms of customer satisfaction and will most likely receive an email from the manager with some kind, encouraging words as a token of gratitude and acknowledgement. The goal is to bring 80% of the calls down to an average handling time of 3 minutes. This particular screenshot only shows that 100% is 3 minutes and 35 seconds, which is better than the unit’s average. The parameter, ‘Employee satisfaction’ on 72.7% is a part of the customer satisfaction, specifically concerning the customer’s satisfaction with the employee. The channel manager expects ‘Customer satisfaction’ and ‘Employee satisfaction’ to be merged into a single measurement later this year.\textsuperscript{12} Going forward, customer satisfaction will therefore be treated as a single measurement.

\textsuperscript{12} E-mail, Thea, ‘Screenshot’ - Appendix
There are of course many other details and measures the system can provide. The channel manager is responsible for the performance measurement system and for sharing the statistics with the caseworkers and the board of directors. More examples are found in the appendices. To get a feel of the system, it is recommended to take a few minutes to inspect these.

6.2 The purpose of the performance measurement system

The performance measurement system is also being referred to as BI (Business Intelligence), and LIS (‘Ledelses Informations System’, Management Information System) in the Danish Business Authority. This is because the initial, sole purpose of the system was to provide the managers with an overview of the organization’s performance. This information was, and still is, used to document, that the authority meets the Key Performance Indicators, to assess the impact of other externalities; for instance, IT-issues, new laws and regulations etc., and, most importantly, to provide customers with realistic expectations of processing time.

Thea, Channel Manager, responsible for the performance measurement system, states:

*Channel Manager: “(...) And, in relation to performance, then if we go out and communicate to our customers, saying that you can expect a case process time on eight days, then I have to provide the managers with a tool, so they can say: ‘Do I live up to this’?”*

In no way can this be considered an incentive system. The system is intended for monitoring only, or theoretically speaking, to transfer general knowledge to the principal. The channel manager also wishes to use the system to motivate employees. Her thought is that sharing the information with employees will automatically cause mutual learning amongst employees, as some discover, they are not as productive as others:

*(2:04) Channel manager: “(...) so we are able to benchmark and say: ‘Hey, there’s someone over there, who can make 100 cases a day, and then I’ve got some over here who only makes 20 cases a day.’”*

*Interviewer: “And that should be motivating? - More transparency?*

*Channel manager: “That too, yes (...)”*

The idea here is, that the information in itself should result in better performance. In organizational economics, performance evaluations must result in compensation to the agent, if they are to incentivize anything. Notice that, compensation, in this context, can also be negative to disincentivize unfavorable behavior, and it is not necessarily limited to monetary rewards. Despite the fact, that the channel manager expects the performance measurement system to motivate employees, this system is not regarded as a regular incentive system. In fact, in this case, the only reward for good performance is acknowledgment from the principal. Given that no rewards are offered, an expectation of improving performance opens up for a discussion, which will take place
after the analysis. The biggest consequence to performance seems to be when employees perform very poorly:

(9:30) Interviewer: “What about those, who really underperform?”

Channel manager: “They only get feedback on their ‘1:1 talks’” (1:1 talks are weekly scheduled, informal meetings with an employee.)

Interviewer: “Okay. And then they are told..?”

Channel manager: “To tighten up. Then plans, objectives are set. Training is assigned if necessary. So we justifiably can tell them, that we have done, what we could, to help you, right?”

A business strategy document ordered from Rambøll, concerning a thorough restructuring of the working practices and the services offered in the Business Support-unit, states in its business case:

“Gross gains are estimated to approx. 15.3 mill DKK over 4 years divided with 12.3 mill DKK on personnel savings and 3 mill DKK on other gains. When costs are deducted, the net gain over a 4-years period will come to approx. 0.5 mill DKK.

If the gains are to be fully realized, a lasting personnel reduction on 6.75 years work must be saved across the Danish Business Authority. The lasting personnel reduction is equivalent to a yearly saving of approx. 3 mill DKK.”

This strategy plan is a part of a bigger strategy, which has already been approved and is being carried out, amongst a few others, by the newly appointed channel manager. It seems reasonable to suspect that some of the heavy ‘personnel reductions’ could be intended for the poorly performing caseworkers, and the performance measurement system would be used to identify those. Presented with the document, the channel manager denies this understanding of the strategy and explains:

(13:45) Channel manager: “If we increase efficiency to the intended degree, then we”ll be able to obtain some improvements (...) The plan is to not say goodbye to anyone. It’s a question of using our resources more wisely, more service oriented.” (...)

(15:30) Interviewer: “It’s just.. when I look at this ‘personnel reduction’ it must be..”

Channel manager: “It’s not. It’s not.”

Interviewer: “It must be reduction as in employment terminations?”

Channel manager: “Well, it's certainly not something, I have been asked to execute. But of course, if we don’t have any other tasks, then we’ll probably have to take a look in that direction.”

It is impossible to save 12.3 mill DDK on personnel without lowering expenses. Remember wages are fixed. As explained earlier, they are defined by the agreements with the union, HK. The only way to explain an increase in efficiency as a personnel reduction would be if the efficiency obviated the need for additional hiring. Yet, if the efficiency was increased, and no one was let go, why would the Business Support then need even more personnel? It seems evident that employees will

13 ‘Business case’ - Appendix
be laid off in the future, if the efficiency is increased, however, it is not clear how many. If the increase in efficiency is to match the personnel reduction as suggested by the strategy document, then the authority should anticipate a much lower cost reduction. Calculations of the 12.3 mill DDK seem highly inaccurate. The hours saved are calculated based on an unexplained estimated 20% reduction in on the phone service; equal to a 25% increase in efficiency. Hours are converted to DDK using a standard calculation tool from the Ministry of Finance intended for calculating cost of maternity leave. Overhead is not included nor explained. Hourly wage used for the calculation is 364.23 DKK (overhead not included). Even though sickness absence is included, this is way above the HK-wages reviewed earlier; meaning that even if a permanent 25% increase in efficiency is achieved, the savings may be significantly lower than 12.3 mill DKK.

The channel manager has noticed a lot of negative reactions from employees in relation to the performance measurement system. Some may find the rumors about the personnel reduction conspicuous, but the channel manager thinks the employees are just not used to being monitored and evaluated:

(6:58) Channel manager: “(...) The employees are not used to see: ‘How am I doing in my own production?’ So that has actually been a relatively long journey, and I think you must respect that. (...) It still hurts a little. Because that competitive factor... Some are really turned on by it, others think it’s repugnant; so it’s Big Brother, who’s moved in, and it’s terrible and it’s repugnant. And, therefore you have to tread lightly, when we’re talking performance culture.”

Without rewards associated with the higher performance demands, the performance measurement system would also logically only be considered a cost to the employees. Employees would thus have incentives to talk the system down.

6.3 The design of the performance measurement system

6.3.1 Performance evaluations

The authority chooses in this case to rely on several objective variables but does not seem to evaluate individual agents subjectively. Objective performance evaluations are often so precise that they can incentivize agents to disregard non-monitored job duties (Hansen, 2010, p. 226). The performance measurement system seems very objective, yet still covering most aspects of the task. How the different measurements are weighted against each other, does however, seem unclear even to the principal.

Another aspect to keep in mind is that unexpected and unquantifiable performances can be appreciated when evaluating subjectively. The authority’s objective measures will not adjust the

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14 ‘Bilag – Business case for Serviceprogrammet’ - Appendix
15 www.modst.dk/Systemer/Statens-Loensystem-SLS/Spoergsmaal-og-svar
performance evaluation for situations, where an agent is affected by personal matters. This could be family situations, health problems, or other private matters that would make it more difficult for a person to satisfy customers. Such matters can be considered individual externalities. Individual externalities should be treated as a local, to some extent uncontrollable (exogenous) risk (Lazear & Gibbs, 2008, p. 300)(Hansen, 2010, p. 216), the risk of the externality occurring may be uncontrollable, while the agent’s ability to handle the risk may not be fully uncontrollable. For this reason some degree of objective measuring may still have its advantages.

The authority’s performance evaluation does deal with general externalities:

(10:25) Channel manager: “(...) Recently, we launched ER3 then everyone’s call duration time went up. If we just specifically looked at your call duration time and said: “God, your call duration time has gone up, we have to talk about that”, but didn’t look at “Oh, the same goes for everyone.” (...) Before we take action, we see if there are any general trends, we have to take into account.”

*ER3 is the last implementation phase of an IT system for registering companies online.

The IT-system is an exogenous risk to Business Support, even though it is launched from the same organization. The risk is affecting every caseworker; hence it is easily detectable. If the performance is highly influenced by general (uncontrollable) risks, then a relative performance evaluation practice will absorb the risks. Distinguishing between endogenous and exogenous risks can be difficult to do. It may cause some moral hazard or adverse selection, depending on how the principal defines and treats the risks. Risks may also be addressed by letting larger groups share the costs of the risks, however, this can of course lead to moral hazard, and at the same time limit the incentives for the agents as explained earlier. If the caseworkers were risk-neutral, they would not care about risks, as long as they were rewarded a fitting risk-premium. Agents are, however, theoretically assumed to be risk-averse; hence, the risk-premium would have to be larger to be equally appreciated by the agents. Principals are assumed to be less risk-averse, or even risk-neutral, making the Danish Business Authority the economically rational bearer of risks.

If the risk is general then the risk does not matter as long as the performance evaluation is relative. Despite the fact, that the employees are measured against a set of performance goals, they are also measured relatively to each other. Relative evaluations can be less costly to conduct, however, it may also incentivize agents to compete and not help out each other, or make them internally agree on a very low level of effort. Both can be considered a moral hazard. The tasks are not characterized by teamwork, but a relative performance evaluation will obviate the precision and realism of the performance goals. Objective standards/performance goals can be difficult to set for several reasons. For one, the principal may actually not know, how much skill and effort a given task normally requires, but secondly, if the principal wishes for an agent to reach full potential, knowledge of how much effort the individual agents have to put into a task may be required. Setting the standard will therefore often require knowledge from the agent. This means that agents can withhold information, or even lie, to set a lower standard. This is adverse selection, and is an ex
(pre)contractual costly behavior to the principal. The same result can come from manipulation of the principal. Agents may try to influence the principal’s decisions, which, additionally, is a waste of resources on both parts. Agents can be incentivized to withhold relevant information to distort the monitoring for their own benefit. If standards are based on previous performances, which might be the case here, where the goals are just to improve on past performances, all agents may be incentivized not to perform too well to avoid setting a higher standard for the future. This is called the ratchet effect. (Brickley, Smith, & Zimmerman, 2009, p. 489)

When the system is clearly understood, the agents will have incentive to game the system by trying to find convenient ways of maximizing their performance evaluation. For instance, if a group of telephone supporters are evaluated solely on how many calls that are being answered, they will be incentivized to keep the conversations short in order to answer more calls, or even try to make callers call them again. This is a moral hazard and to be considered an ex post cost to contracting that the channel manager is aware of:

(8:29) Channel manager: “Some may have thought: ‘Well, if I’m measured on how many calls I answer, then I can just quickly transfer the call.’, forgetting the parameter, that we also look at how frequently you transfer calls. So there is a balance. So we have worked a lot on making those things we measure provide a 360 degrees view of performance, so we don’t blind ourselves to, that you can indeed answer many calls, but what is the quality, if you transfer 80 %?”

There are many aspects to balance when designing a good incentive system. It is not only the number of variables to measure, but also how to weigh them against each other. The earlier reviewed agent with a good customer satisfaction-performance performed poorly in terms of transferring calls, overstepping the maximum with 3.1% points. If this maximum is set too low, the agent may be incentivized to answer problems when in doubt causing quality problems. This would be a negative unintended effect resulting from an imbalanced performance evaluation design. Remember that the agent must also understand, how the system is balanced, if they are to effectively follow it. This means that balancing systems must not result in incomprehensible complexity from the agents’ point of view. So far, the variables measured are pretty clear in this case, but how they are weighted against each other, is not.

### 6.3.2 Rewards

The channel manager’s intentions of using the performance measurement system as a motivational tool call for an analysis of the associated reward system. Like mentioned earlier, no compensations are offered well performing caseworkers at this point, but it is still a subject of debate in the authority amongst the channel manager and the board of directors.

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16 ‘Bilag – Business case for Serviceprogrammet’ - Appendix
Interviewer: “When someone performs really well, then they’re given a positive feedback, and that is of course nice. Are there other things included?"

Channel manager: “No. Welcome to public sector. There are not.”

Interviewer: “Do you have plans for it?”

Channel manager: “We have actually talked about it a lot. Now, I know some new rules of conduct have just come, which we have to follow. But if you want a performance culture, then you probably have to look at the tools needed to give credit for efforts. We will never be able to invite employees to MASH and Ferrari rides, but within the possibilities of the public sector, we would very much like to come up with something.”

Interviewer: “Do you have any examples of what you’ve talked about?”

Channel manager: “We have talked about the possibilities of giving movie tickets. There is something about provision of meals, so could we offer ice cream in Paradise, stuff like that. If the service level objectives have been maintained for a month, and it’s summer, could we then order an ice cream bar or a slush ice machine? Or popcorn?”

Monetary compensation is already opted out because of the union and the director. There is of course nothing illegal about it, it is just not practiced in the public sector, nevertheless, bonuses may be offered to academic workers once a year, if the manager chooses to prioritize it. This will of course be discussed in another chapter. When talking about future compensation options for caseworker performance, the authority sticks to discussing minor non-monetary rewards. The crucial point here is of course the boundaries of law, which, unlike the rejection of monetary rewards, are completely fixed. This thesis will not go into details in legal or political discussions of which kinds of non-monetary rewards to allow in the Danish Business Authority, but there are some general points to be aware of. Government officials must generally refuse to accept gifts that can be related to bribery; naturally this is not as much a problem internally in a governmental organization: “Outside this description fall gifts and other benefits that are provided internally in the ministry to employees, for example, subsidies for sports day or Christmas party.”

It is more or less legally possible to reward government officials like any private firm, however, politics and governmental traditions may discourage this practice. Non-monetary rewards and like fringe benefits, may have some favorable tax advantages (Brickley, Smith, & Zimmerman, 2009, p. 443), but these benefits seem too insignificant to be subject of a discussion later on.

Another aspect to consider when evaluating performance and apportioning compensation, is whether to monitor and reward collectively or individually. Besides the resources saved by only keeping track on a group performance instead of multiple individual performances, every agent will have incentive to encourage their colleagues to perform better. One might even say that agents will

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17 ‘NOTAT – Lønpolitik’ - Appendix  
18 www.ft.dk/samling/20101/almdel/sau/bilag/111/947909.pdf - The link refers to the Ministry of Taxation, but the exact same words are found in the Ministry of Business and Growth.  
19 There are some constraints in regards to nepotism.
monitor each other with no additional cost to the principal (Brickley, Smith, & Zimmerman, 2009, chap. 12). The downside to evaluating agents on their team’s performance instead of their own, is that exceptional performance will be less rewarding for the individual agent, while slacking off will become more favorable. Such free riding is also considered a moral hazard. Free riding would obviously be a very important cost to consider in this case. The channel manager talked about training as an important factor, aside from that and caseworkers’ general competencies, minimizing slack should be the main aim for the principal in this situation, and free riding should be considered slack. The benefits of cooperation seem limited in these situations, but there is one:

(15:11) Channel manager: “(...) Today, if I can’t answer, I’ll either Google it, ask my colleague or redirect the case. (...)”

Getting useful answers from a rival colleague would in theory be harder. Another aspect to consider is of course, how the social working environment would be affected; especially for rate busters, which may be treated worse by colleagues, who are incentivized to push them out of the job. Note that this is only the case when performances are evaluated and rewarded relatively, but even when performances are evaluated and rewarded absolutely, agents are, in theory, still not as incentivized to help out colleagues, as if they were evaluated collectively.

(12:46) Channel manager: “(...) It might be easier for us to get support for rewarding collectively?”

Interviewer: “Yes? How come?”

Channel manager: “I just think it’s a question of, then you are able to relate it to the big KPIs, that they can recognize, and they’ll get credit for it. ‘They are just doing their job.’, as some deputy directors would say.”

It seems like a strange argument that collective rewards are related to KPIs and individual rewards are not. Negative unintended effects (like co-workers trying to obstruct each other’s performances) set aside, this can not be a reason for not evaluating agents to the KPIs individually. The fact that deputy directors believe caseworkers ‘are just doing their job’ suggests that the real reason, more likely, is, that incentive systems are regarded as valueless.

6.3.3 Decision rights
Like stated earlier, there are only few points to mention in regards to the allocation of decision rights in this particular case. An essential aspect to consider when assigning decision rights is the asymmetric information (Brickley, Smith, & Zimmerman, 2009, chap. 12). The reason for assigning decision rights is that central management often does not hold the relevant information for making the best decision. The bigger the organization, the more spread the information is. Specific information transfer can be very costly, and specific information should therefore not concern the general management, despite the fact that the asymmetric information is a main reason for all the
agency problems (Lazear & Gibbs, 2008, p. 120). In this case, agents are not holding much specific information; there are, presumably, some specific knowledge on, how much time some specific rare cases may require for resolution, but generally speaking, this machine bureaucracy with standardization of tasks and direct supervision, as reviewed in the description of the case organization, is low on relevant local knowledge. Any pool of specific knowledge can be utilized by agents to set a low standard/benchmark for the absolute performance evaluation. This is an ex post problem of adverse selection, which is indeed theoretically relevant, but as said, also presumably very limited in this actual case. General information is transferred through the performance measurement system in shape of the monthly report to the board of directors, and through the more detailed system to the channel manager. When deciding the degree of decentralization, the principal should maximize benefits from use of local knowledge minus the contracting cost associated with agency problems arising from decentralization and cost of coordination; by some researchers also suggested written (Brickley, Smith, & Zimmerman, 2009, p. 371):

$$Net\ Benefits = BD - AD - CD^2$$

In this case B would be 0, making the optimal level of $D = 0$. Decision rights are thus pointless to assign to the caseworkers. This topic will be touched upon in a later discussion.

### 6.4 Analysis conclusion: Critical findings

The first analysis has confirmed the hypotheses that served as the starting point for the research: Caseworkers *are* being excused from their usual job duties because of values supported by the board of directors, who believes them to affect motivation in a positive manner. The first analysis also gave insight into the Danish Business Authority’s changing culture and resistant basic assumptions concerning motivation. The second analysis covered the performance measurement system; its function, organizational architectural design, and its intended usage going forward. Both analyses revealed several critical issues, inconsistencies, ambiguities, and ill-considered design decisions. These critical findings will be listed below and discussed in the following chapters for the purpose of inferring measures for increasing efficiency in Business Support. Some elements need to be discussed further in the next chapter before reaching any proposals, others will be saved for the individual discussions related to the respective proposals.

#### 6.4.1 Critical findings

First analysis found some basic assumptions concerning motivation. They held a clear resemblance to the Herzberg’s motivational factors, the Maslow’s top part of the pyramid, and Hackman’s intrinsic motivation and a disregard towards extrinsic motivation. The general-director seems determined on investing in her own perception of motivation, where every employee is tuned in to think alternatively and problem solve. Furthermore, during the second analysis, the channel
manager implies that other deputy directors fail to see the idea behind incentive systems. There are many questions to be answered in regards to motivation. How are these three theories mutually related? Does it make sense to just focus on this type of motivation? Are the different types of motivation mutually exclusive or complementary? In the next chapter, it will be discussed how these basic assumptions on motivation affects the caseworker’s efficiency.

In the second analysis it was found, that the different measured parameters of performance were not clearly weighted against each other. Design aspects like objectivity/subjectivity, relative/absolute, and individual/collective were not clearly defined or fully thought through. Local risk was not addressed by the system. Rewards, monetary and non-monetary, were not included in the system. Nevertheless, the system was expected to incentivize agents, who, at the same time, gave the channel manager the clear impression that the system was unwanted. The findings point out some unconsidered designs and inconsistent reasoning that will be discussed before moving forward with any proposals.

The second analysis also pointed out that the performance measurement system does not include monitoring of individual performances in regards to casework, while monitoring of casework quality (error-rates) is completely absent on both team and individual level. It is conjectured that the associated costs outweigh the benefits. The reasoning behind this conjecture seems insufficient and will be discussed separately in the context of two proposals later on.
7 Clearing basic assumptions about motivation

7.1 Characteristics of the basic assumptions

As it was seen during the first analysis, the general-director claims to “know all those studies” concerning motivation, and during the analysis it did seem like, one half of all three theories of motivation could be identified in the general-director’s understanding of motivation. Specifically, the following criteria were identified:

**Hackman’s Model of Intrinsic Motivation:** ‘Skill variety’, ‘Task identity’, ‘Task significance’.

**Maslow’s Hierarchy of Needs:** ‘Esteem’, ‘Self-actualization’.

**Herzberg’s Two-Factor Theory:** ‘challenge, varying, interesting’.

All of these criteria are located, respectively, in Hackman’s intrinsic motivation, Maslow’s top part of the pyramid, and Herzberg’s ‘motivators’. This would suggest that the general-director only cares for one half of each of the theories of motivation, however, when examining the Langelinie Doctrine during the first analysis, the criteria ‘Belongingness’ (Maslow’s theory) and ‘Interpersonal relationships’ (Herzberg’s theory) was found. These are located in the mid part of Maslow’s pyramid and regarded as a hygiene factor by Herzberg. This contradicts the suggestion that the general-director only cares for one half of each of the theories. Remember, that these criteria were not an inconsequential part of the basic assumptions; in fact, as examined in the analysis, they were directly linked to the solidarity-value that accounted for half the Langelinie doctrine and was found to be one of the main explanations for the unsuccessful sharing of phone shifts with the IT-specialists. As such, in relation to Maslow and Herzberg, the director-general does seem to cover both parts of each theory to a certain degree. On the other hand, when looking at Hackman’s model, ‘belongingness’ is not even included in the model. This does not mean that it is grouped as an extrinsic factor. As explained before the analysis, extrinsic motivation comes from the desire of the results of working. ‘Belongingness’ can clearly not be considered a result of the casework. The director-general, and some deputy directors, according to the channel manager, does not include extrinsic motivation, when discussion motivation. In fact, the analysis in 5.2.3 Extrinsic motivation even shows, that the general-director does not see employees’ pay as a motivator, and at the same time insists that employees must ‘have a desire for moving something’. This is clearly a narrow focus on intrinsic motivation. From that point of view, even with criteria located across the models of Maslow and Herzberg, the basic assumptions does not at all cover every aspect of motivation, but merely the intrinsic side.

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20 Interview with the director-general: 12:37
21 6.3.2 Rewards
7.2 Motivation as an investment

According to Maslow and Herzberg the lower levels of the pyramid and the hygiene factors are prerequisites for the top-level motivation, but are extrinsic motivation essential to intrinsic motivation? Theories have been formulated claiming that extrinsic and intrinsic are in fact crowding out each other (Osterloh & Frey, 2000, p. 541). Especially extrinsic rewards have been claimed to crowd out intrinsic motivation, also referred to as the ‘hidden costs of reward’, yet this claim has also been criticized for not being empirically proven (Kunz & Pfaff, 2002, p. 279). One theory claims that extrinsic rewards can affect intrinsic motivation both positively and negatively depending on whether the rewarded agent perceives the reward as strengthening of the external constraints for which the agent’s behavior is limited (controlling aspect), or as a strengthening of the agents feeling of internal control (informing aspect) (Osterloh & Frey, 2000, p. 541). In theory the same reward could be perceived as an informing aspect by one agent and a controlling aspect by another; thus increasing the intrinsic motivation for one agent, while decreasing it for another. Monetary rewards have been found to crowd out more than symbolic rewards, and so expected rewards as opposed to unexpected rewards (Osterloh & Frey, 2000, p. 543). With this in mind, extrinsic rewards can include a hidden cost, however, only if the intrinsic motivation is an asset to begin with.

The director-general mentioned, as reviewed in 5.2.3 Extrinsic motivation, that employees must have the intrinsic motivation to problem solve and think alternatively, but with low specific knowledge, no decision rights, and when working in a machine bureaucracy, it is difficult to spot the great benefit in this. Of course no practice can be proven perfect, but tasks not requiring a formal education and confined to a set of fixed legal requirements would seem most unlikely to change even with very intrinsically motivated caseworkers; if it is even possible to trigger high intrinsic motivation for these specific tasks. If the director-general wishes to rethink and improve this working practice, a common way to do it for machine bureaucracies would be Taylorism, where ‘workers need have few skills, especially in decision making.’ (Lazear & Gibbs, 2008, p. 187) In Taylorism, people are hired specifically to figure out the best possible way of performing a given task. Taylorism is not a proposal for achieving higher efficiency, it is merely mentioned as an obvious better alternative to investments in motivation for the sole purpose of thinking alternatively to optimize processes. Crowding out intrinsic motivation with respect to alternative thinking would hereby not inflict any significant hidden cost.

Caseworkers are being excused from the usual job duties to work with IT-projects, for which they are not educated nor experienced with. As concluded in the first analysis, this is seen as an investment in intrinsic motivation. Even though the results of individual problem solving and alternative thinking might prove less beneficial than assessed by the director-general, it could be suggested that the intrinsic motivation also improved performance. A better performance would after all be the most obvious association with motivation. Nevertheless, it should be considered how
tasks with job characteristics equivalent to Hackman’s psychological model of intrinsic motivation (project work) would affect completely unrelated tasks without these job characteristics. It is not evident that a caseworker would find the phone calls more intrinsically motivating because of the caseworker’s involvement in a project the following day. Rather, intrinsic motivation must be ‘goal oriented’ (Osterloh & Frey, 2000, p. 540). Regardless of how the intrinsic motivation affects other tasks, the overall job satisfaction would increase according to Hackman, and arguably also Maslow and Herzberg. One sure benefit of investing in intrinsic motivation is therefore, that employees will be less incentivized to seek out other job opportunities, ceteris paribus. This saves cost of hiring and training new employees. Intrinsic motivation is by definition not the only way of satisfying people, the other possibility is, of course, extrinsic rewards, which might even be less costly and more beneficial to the casework efficiency. Rewarding extrinsically will be represented amongst the proposals later on.

7.3 Inconsistent managerial decisions

The director-general sees great value in intrinsic motivation as opposed to extrinsic motivation, and the channel manager finds some deputy directors to undermine extrinsic rewards: Caseworkers “are just doing their job.”, implying extrinsic rewards would be useless, and that their effort is already being paid for. The latter is somewhat true, but from an economic perspective that does not matter. Assuming the agents are utility maximizing and not motivated by the task; hence prefer some degree of slacking off, then slacking would occur if agents are given the opportunity, despite the fact that caseworkers are not being paid to relax. The exception is the ‘Good-Citizen Model’, where agents are assumed to be intrinsically interested in doing a good job; hence agents will be utility maximizing on behalf of their company, which is automatically in matching their own utility (Brickley, Smith, & Zimmerman, 2009, p. 36). In this case the principal need only to communicate goals and provide feedback. Notice, that this would supersede the heavy investments in reallocating caseworkers for the sake of motivation, meaning that the specific deputy directors either disagree with the rest of the board of directors or simply do not recognize the Good-Citizen Model; rejecting the idea of rewarding good performance, because agents already are being paid to do their best, seems inconsistent with a heavy investment on motivation. If the deputy directors assume, that the utility profile of the Danish Business Authority and the individual agents are not completely identical; meaning that slacking off or in other ways of not performing to the best of their abilities might be possible, insisting on not rewarding performance would mean that only one measure is left for the principal to utilize for incentivizing agents from not performing poorly; the threat of being laid off. This seem highly strange in light of the previous section, where it was found that the heavy investments in intrinsic motivation mainly contributed to keeping employees from leaving the organization. On the other hand, the business strategy reviewed in 6.2 The purpose of the

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22 6.3.2 Rewards
performance measurement system would suggest, the performance measurement system was meant for picking out poorly performing agents. This was denied by the channel manager, but as stated earlier, it is impossible to save 12.3 mill DDK on personnel without lowering salaries or letting anyone go. Summing up, the Danish Business Authority invests heavily in holding on to caseworkers, while planning to lay off quite a lot, and at the same time denying it, even though the threat of being fired is the only hard incentive measure not opted out. The managerial decisions are thus completely inconsistent, showing signs of ill-considered prioritizations, disagreements amongst the managerial group, or lack of understanding of how to utilize motivation and incentive systems. This study has so far shown strong signs of the latter.

7.4 Negative incentives

The channel manager is in favor of rewarding extrinsically but still claims that the performance measurement system in itself will motivate caseworkers to perform better; that ‘some are really turned on by it’. A theory, already reviewed, could back this up. In the Good-Citizen Model, the performance measurement system would help agents getting feedback and guidance. Because agents are trying to do their best, extrinsic rewards would be unnecessary. Yet, the channel manager is in favor of rewarding extrinsically and can therefore not fully commit to the Good-Citizen Model. If the agents are assumed not to put in maximum effort, then the Good-Citizen Model is false, as the Good-Citizen Model only requires the right guidance of agents, while maximum effort is assumed as long as it is in the interest of the principal (Brickley, Smith, & Zimmerman, 2009, p. 36). A ‘turn on’, as formulated by the channel manager, seems more directed towards the level of effort, and not the direction in which the effort is invested in, but that is merely an interpretation of words. However, it should also be noted, that when dealing with a very fixed working practice as in a typical machine bureaucracy (Sørensen, 2000, p. 127), the guidance of agents, in how to invest their effort would already be quite clear; hence to expect a significant potential increase in efficiency, would require one to assume agents are not making full effort; not that they are prioritizing incorrectly. In relation to the of level of effort made by the agents, a discussion of the gaming aspects and employee buy-in, and how these are affected by the absence of extrinsic rewards is highly relevant. This will soon be discussed.

Another point is that the threat of being fired could be motivating enough; or in other words, the reward of keeping the job would incentivize effort. If that is actually, what the managers rely on, then it is interesting that they deny the strategy. An obvious option would be to announce that they will be letting employees go. This could be communicated in an honest and empathetic way, and at the same time the Business Support could benefit strongly from the incentives. If a lot of caseworkers are fired in the future, the board of directors may come off as dishonest. If the future in reality does not hold any major personnel saving exercise, and the planned IT system’s automation

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23 6.2 The purpose of the performance measurement system
of case processing leaves enough work for everyone, then managers should find a more convincing explanation than provided by the channel manager and perhaps rewrite the words in the strategy document. The negative rumors mentioned in 6.2 The purpose of the performance measurement system could incentivize caseworkers to work harder, but it is difficult to see, how the authority would benefit from not being honest or convincing instead. Unclear and contradicting communication will be perceived as dishonest, which can eventually damage not only the culture but the instrumentality\textsuperscript{24} in any future reward-system, too.

The difference between rewarding negatively and positively, is, in this case, that the negative rewards have no opportunity cost associated with a poor performance; under the assumption that the management only fires caseworkers, who perform poorer than others; a relative performance evaluation. This can be confirmed with in a simple Game Theory-scenario. Another essential assumption is of course that agents are maximizing their own utility and prefer not making full effort. It should be mentioned, once again, that it is not completely certain, if and how the performance measurement system is supposed to pick out caseworkers. As of this moment, the channel manager is basing performance evaluations on both relative and absolute monitoring without any clear balancing of the measured variables; this is a problem that will be discussed soon.

To simplify the game, assume two equally talented agents with same interests, both of which disliking equally much (-5) to make full effort, ‘\textit{Work}'. At the same time both agents are equally not interested in losing their job (-100).\textsuperscript{25}

\begin{figure}[h]
\centering
\includegraphics[width=0.5\textwidth]{game_scenario.png}
\caption{Game Scenario 1, negative rewards}
\end{figure}

This will become a coordination-game. There are two NASH-equilibria, but both agents are better off coordinating to slack off. In fact, coordination may not even be necessary, as both the agents must be starting in the strategy, \textit{slack off}, and neither of them has any incentives to move.

\begin{footnotesize}
\begin{itemize}
\item Vroom - 3.2.4 Other theories of motivation
\item Inspired by Brickley, Smith, & Zimmerman, 2009, p. 286
\end{itemize}
\end{footnotesize}
Consequently, both agents will continue slacking off, rendering the system incapable of incentivizing higher effort.

Consider now an extrinsic positive reward system is installed, with a bonus pool (20). Winner takes it all, if no one wins, the bonus is split.

![Game Scenario 2, positive rewards](image)

This game has only one NASH-equilibrium, where both agents make an effort. The interesting element is that both agents would be better off ultimately, if they kept slacking off. If the bonus could not be split, the NASH-equilibrium would still be the same as long the value of bonus exceeded the effort utility-cost. This game can be corrupted if the agents are coordinating, but in that case, it should be remembered, that caseworkers are not allowed to view each other’s performances, and that there are more than two caseworkers to coordinate. It should also be noted, that if the caseworkers anticipate a risk of getting fired by performing equally as bad as every other co-worker, the NASH-equilibrium would be identical to the second game, thus obviating the need for positive rewards, ceteris paribus.

### 7.5 Employee Buy-in

Criticism of the performance measurement system amongst the employees has been brought up in the second analysis and later discussed in relation to negative rewards. Latent problems concerning trust, honesty and some sense the instrumentality of future incentive systems have been identified, but consequences of the employee skepticism towards a performance measurement system are still to be discussed.

It have been concluded several times that an intrinsic motivation is costly and might only, notably, benefit the overall job satisfaction of the employees. Employees feeling of safety, identified by Maslow as a fundament and an enabler for higher motivation, will of course be lowered as
employees feel threatened by the system. The inconsistent managerial decisions regarding a planned personnel saving excise and a huge investment in keeping employees from leaving the organization have been identified and confirmed alongside with several other related inconsistencies. In regard to employee buy-in, this inconsistency is even more pronounced. As employees feel threatened by the performance measure system, the job fails in fulfilling their safety needs to the same degree, thus lowering their perceived value of the job resulting in a weakening of the negative incentive of losing the job when performing poorly. As such, the skepticism towards the system weakens the system. This does not necessarily need the explicit assumption, that a fulfillment of Maslow’s needs affects the agent’s perceived value. The assumption that a higher risk is perceived as a cost would also suffice.

There are theoretical approaches to address such skepticism. Employee buy-in can be fostered if employees are granted decision rights. This is due to three reasons (Brickley, Smith, & Zimmerman, 2009, p. 379):

1. Asymmetric information leaves the employees in uncertainty due to lack of insight.
2. Employees have less to fear, when a decision is made by a person with the same interests as the employees.
3. An employee’s reputation is at stake, when his/her decisions are unsuccessful.

It is difficult to see how employees can be involved in any decisions concerning the system other than setting a standard for absolute rewards or providing ideas to non-monetary rewards. This kind of involvement should not be underestimated, but it will not guarantee any strong employee buy-in. Asymmetric information can also be shared without granting decisions rights, yet it might come off as being impractical and irrelevant, however, it should not be neglected; especially in light of the unclear information regarding the personnel saving strategy already discussed.

An alternative way to create employee buy-in could be to actually make the employees value the system by adding rewards instead of relying on the negative incentives discussed earlier. Generally speaking, no rewards are yet associated with the criticized system. Adding a risk/cost to the employees by introducing a system could, from an economic perspective, be countered with rewards, though it should be noted, that the employees’ risk adversity, ceteris paribus, would require a higher reward to cover the risk premium. Even if only some agents would benefit from these rewards, the principal would gain some supporters, who would be incentivized to contain any rising skepticism. On the other hand, it may also cause disunity amongst the employees, perhaps even punishment of rate busters, less teamwork, etc. These latent issues will be discussed soon.
7.6 Concluding the discussion

So far, a discussion concerning the critical findings in relation to how motivation is understood and utilized by the managerial group in the Danish Business Authority has confirmed, and elaborated on, significant inconsistencies and their consequences to Business Support. It is concluded that the director-general justifies the heavy investments in intrinsic motivation on a narrow understanding of motivation as being homogenous and unidirectional. As such, the motivation is not configured towards the tasks or the working practices of the employees. In consistencies in how and why the board of directors have chosen to utilize the performance measurement system is also showing a lack of understanding of how motivation can be utilized. The consequence hereof is a significant cost in intrinsic motivation combined with very limited benefits to organization and a possibly high opportunity cost in not utilizing the already installed performance measurement system to its full potential. This opportunity cost, the possibilities of the performance measurement system, will be discussed in the following chapters.
8 Discussion - Designing an incentive system

The performance measurement system has been analyzed and discussed from several perspectives. The objective is now to configure the best practice for using this system. This section can also be viewed as a part conclusion to the second analysis. The particular section will build upon the article of Allan Hansen, 2010, where a framework with costs and benefits of performance measurement system designs is thoroughly explained. This framework provides a structure, which is useful for configuring a performance measurement system like the one found in Business Support. The discussion will rigorously follow the article’s framework explained in section ‘C.’ and ‘D.’, also visualized in the model below. Headings will be identical to those of the article, C. 1-4, D. 1-3, and will thereby, at the same time, serve as references.

![Diagram](image)

Figure 12: Design and design criteria, A. Hansen, 2010

8.1 Choosing how to measure

8.1.1 One-dimensional vs. multidimensional

*Distortion:*

Throughout the article, Allan Hansen distinguishes between financial and non-financial measurements. Naturally, the government has only one financial measurement as explained in the introduction of the case organization; cost. The caseworkers’ performances are not measured in
expenditures. This is because they actually do not have any resources other than themselves to account for. Their salary is fixed, and hence so is the expenditure. Arguably, their time spend on a customer, which is measured, is some kind of resource consumption, and can thereby be considered a cost. Yet, the Business Support is still nowhere near the definition of a cost-center, which ‘(...) focus(es) primarily on (...) cost minimization.’ (Brickley, Smith, & Zimmerman, 2009, p. 523).

None of the seven different measurements presented in the beginning of the second analysis are financial, yet they are still very different in their focus as presented earlier in ‘Defining Efficiency’. Some measurements are directly connected to the quantity of the output, others to the quality. Remember that two job duties are measured; the casework and the phone support. The monitoring of casework performance is at the moment very limited, however, solutions to widen this monitoring will be proposed later, and this discussion will therefore not be limited by the current state of the measurement system’s functionalities. The very different, however strictly non-financial, kinds of measurements, including the customer satisfaction make the system capable of measuring in some sense of multi-dimensional approach.

Non-financial measurements can lower distortion associated with externalities by making them visible to the principal. For instance, one caseworker’s poor performance could affect another caseworker’s customer satisfaction rating, if the particular customer had to call back, and got hold of another agent. This is also the case with redirected calls. The multi-dimensional measuring can enable multitasking. In this case, multitasking is useful in terms of making the agent focus on several aspects of their performance, but not in terms of their two different job duties of casework and phone service, as these duties are separated on a fixed schedule.

Risk:

Allan Hansen refers to the ‘informativeness principle’, which states that the value of the system increases as the risks of the agents are lowered. This can be explained by the agent’s risk-premium, which is relatively costly because of risk adversity, as explained earlier.

Waiting time and missed calls can vary a lot from time to time, but the important thing is that these two measurements pose general risks. As explained in the second analysis, these risks are not a concern when dealing with relative performance evaluations. Numbers of redirected calls, callbacks, handling time, customer satisfaction, number of cases processed, and error-rates will all reflect most of the performance of the agent. There are surely differences in customers and cases in terms of complexity, time consumption and the responsiveness of a customer. Individually these are to be considered local risks, but considering the high amount of calls and cases, and the fact that the caseworkers share the same pool of calls and cases, the risks should be considered general and predictable, low risks, not local. There are over a thousand cases being handled manually by
caseworkers every month, statistically speaking, the risks will level off quite a bit. That being said, it is the agents’ perceptions of the risks that really determine their risk premium. Nevertheless, the risks of including every measurement should be considered low.

**Manipulation:**

Asymmetric information complicates and clouds the principal’s evaluation of the non-financial measurements. In this case, the type of work is very standardized and taught on the job, causing the different aspects of the job duties to be very transparent. This increases the credibility in the principal’s fairness and precision. Low credibility can be considered a cost, as it creates incentives to for influence activities and risks of evaluating agents unfairly. Especially when measuring relatively under competition, as shown in the game-theory examples, the cost of manipulation should be fairly low.

**Cost of measuring:**

The cost of measuring multiple dimensions would, ceteris paribus, be higher than the cost of measuring only one dimension. In this case, the cost of developing the physical system for the phone support is already paid for, and is thus, in this case, sunk cost. The development of the casework monitoring of error-rates and individual performance will be examined later. There are also costs associated with evaluating multiple dimensions in time consumption for the principal. However, considering the fairly low risk and manipulation, and most important, the lowering of distortion, this particular system would benefit more from measuring multi-dimensional.

### 8.1.2 Individual vs. collective

**Distortion:**

Measuring collectively can improve multitasking by coordinating team-competencies. This would require that the Business Support allowed agents to trade shifts. Collective measuring can also internalize externalities, by giving agents an incentive to be mindful of their work’s influence on co-worker’s performances. As stated earlier, these externalities are considered very small in this particular case.

**Risk:**

By measuring collectively risks will be shared by every agent, as so the agents’ risk premium will be less costly to principal. As explained before, risks related to the work are considered very limited, however, as reviewed in the 6.3.1 Performance evaluations, private risks, such as sickness, can be viewed as a somewhat exogenous risk, but the working capabilities a person can be difficult to assess. Exogenous risks should be absorbed by the principal because of agents’ risk adversity, but

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26 ER-statistics (excel on CD)
addressing sickness absence by discarding the days of absence in the individual performance evaluation could incentivize caseworkers to stay home after having two good weeks hereby collecting an even better reward than by going to work, making an effort. On the other hand, caseworkers could also be incentivized to stay home more days than necessary, if their pay relied on a collective performance.

**Manipulation:**

The individual incentives will be weakened by measuring collectively. The return of utility pr. effort would be substantially lower; \( 1/n \) (\( n = \text{number of agents} \)), ceteris paribus. This can cause moral hazard by free-riding. At the same time the incentive to moral hazard and adverse selection would equally fall.

A cooperating culture could also emerge from a collective performance measuring. Caseworkers would have incentive to help each other, and, in fact, mutually monitor each other’s effort. In this case, that would require agents to gain access to see the performance results of each other, which is not allowed today.

**Cost of measuring:**

The cost of measuring individually would normally be higher. In this case it will cost a small amount to develop a functionality to measure casework individually; as stated before, this will be reviewed later. Every other development cost is sunk cost. There will be an extra monthly cost in evaluating each agent individually instead of the whole team collectively, however, in light of limited benefits of internalizing externalities, the low risks, the limited benefits of teamwork, and the very important substantial cost of the lowered incentives, the best suited measurement practice would instead be **individual**.

### 8.1.3 Objective vs. subjective

It is important to notice that this section will define subjective measurements as an ex post activity, while objective measurements are defined as an ex ante activity. Ex post corrections are addressed when discussing standards.

**Distortion:**

Subjective measurements can embrace more complex value creation; lifting team spirit, etc. The subjectivity also enables internalization of externalities and multitasking. All of these factors are, as discussed above, considered relatively insignificant, however, it is important to remember, that agents are different people, and as discussed in regard to motivation, can respond in different ways to incentive systems. A way to address this is by recruiting and building a homogenous employee group in terms of interests. This solution will be addressed later.
**Risk:**

There are three types of risks associated with subjective measuring:

1. Favoritism - The principal can, intentionally or unintentionally, favor a certain type of agents. This can be terms of educational profile, attitude, personality etc.
2. Compression tendency - A principal’s conflict-avoidance or equalizing tendencies will flatten out performance evaluation results.
3. A principal’s asymmetric information or poor evaluation competencies can cause unfair evaluations.

All three are lowering the *instrumentality* of the system, thus lowering the incentives and posing a risk to the caseworkers. In this particular case, it is not expected, that the principal will find standardized working processes difficult to understand, yet every other risk should be taken seriously. It should also be added, that a caseworker’s perception of being evaluated unfairly can cause poor relationships between caseworkers and managers. This will affect motivation negatively according to the Maslow and Herzberg.

**Manipulation:**

Some manipulation costs are indeed to be expected in this case when measuring subjectively. There are many kinds of influence activities related to subjective measurements. Caseworkers’ attempts to influence the principal can be costly in many ways, even when not successful, as explained in 6.3.1 *Performance evaluations*.

**Cost of measuring:**

In this case, explaining and justifying, possibly arguing, with every caseworker would also be very time consuming to the principal as well as the agents. Expenses associated with developing objective monitoring can be costly, but in the case those expenses are sunk cost. In this case, the benefits of multitasking and internalizing externalities are excessively outweighed by the costs out risks, manipulation and measuring. Hence, the most fitting measurement would in this case be *objective*.

**8.1.4 Absolute vs. relative**

In this particular discussion, following Allan Hansen, absolute/relative measurements are defined as the dimensions of which the principal measures, whereas the later discussion of absolute/relative standards will assume dimensions are fixed. In contrast to relative measurements, measuring absolutely will therefore be ex ante.
Distortion:

When assessing the cost and benefits associated with relative measurements, Allan Hansen claims that “Relative measurements creates a unique possibility of capturing the value creation in situations, where it is unknown in advance, which parameters that express value.” The idea is that the principal can discover relevant dimensions to measure. This would require another subjective measurement to compare it to. The channel manager is measuring both relatively and absolutely. The dimensions are absolute, an absolute goal is set, but the dimensions are not weighted against each other, and the agents are still evaluated relatively. Dimensions are already set, so a relative measure will not limit the distortion in this case.

One could also expect that the expectations of performance would become more unclear to the agents; thus creating distortion. This is indeed a relevant point in the context of the case.

Relative measurements can negatively affect agents’ incentives to help co-workers. In this case the channel manager mentions, that agents seek out help from each other from time to time, but the work is a one-man job; hence, the distortion cost would be limited.

Risk:

It is important to understand, that when relative measurements are defined as whether or not the dimensions are fixed, measuring relatively will not automatically absorb general risk; a relative standard will. In fact, setting dimensions ex post creates uncertainty (lower instrumentality), because the agents risk that the principal chooses to rely on dimensions influenced by local externalities. The caseworkers would hereby be affected negatively by risks relating to relative measurements as opposed to risks relating to relative standards.27

Manipulation:

Manipulation can be increased by adverse selection, for which both absolute and relative measurements are exposed. In light of the learning-effect, lowering distortion, relative measurements are less exposed to adverse selection, however, they also hold a subjective element that creates incentives for influence activities. The cost associated with influence activities could be relevant in this case.

Cost of measuring:

It can be difficult, and therefore time consuming, to compare agents, figuring out which agents to compare, if they do not perform the same activities. This is obviously not a problem in this case, as every agent shares the same job duties, but setting a standard ex post would put unnecessary risk on agents and cause manipulation costs. Keeping this definition of relative measurements in mind,

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27 For this reason, this thesis finds the Allan Hansen’s ‘Tabel 1a’ to be incorrect in its assessment of general risks in relation to relativity. (Hansen, A. p. 242)
meaning that internalization of general risks are unaffected by this design choice, the measurement should be **absolute**.

### 8.2 Setting the standard

#### 8.2.1 Objective vs. subjective

As stated during the discussion of measurements’ objectivity/subjectivity, *this part will focus on objective and subjective corrections*. Notice that objective corrections are always ex ante; meaning that the correction is included in the standard.

**Distortion:**

If an organization's goals suddenly changes, subjective corrections (ex post) can change the performance evaluation to reflect value creation. Objective corrections can be included in the standard, but only when changes are anticipated. The Danish Business Authority is in a very changing environment, but no fundamental changes will come to the Business Support without few months warning. Objective corrections (ex ante) could be useful in configuring the demanded level of handling time and customer satisfaction to depend on the number of calls or the current waiting time. However, like stated earlier, it should be remembered that an incentive system must be clearly understood by the agents (*instrumentality*) in order for them to respond to it.

**Risk:**

Risk can be absorbed by objective corrections. Ex post subjective corrections will, ceteris paribus, put more risk on agents. In 6.3.1 *Performance evaluations* it is seen, that the channel manager uses relative evaluations as ex post corrections. The fact that it is determined ex ante, what the correction is based on, does, in fact, also characterize the correction as partly objective. The important thing to remember is, that these particular risks would be absorbed by the relative evaluations in the first place; as discussed earlier.

**Manipulation:**

Caseworkers will most likely be affected by small uncontrollable externalities every day; computer-problems, unresponsive, rude customers, etc. However, the number of cases and calls, and the fact that every caseworker shares the same random cases and calls, limit the ultimate risks, making corrections unnecessary. The objective corrections can be affected by adverse selection from agents, who are incentivized to manipulate the standard. Ex post subjective corrections includes all manipulation costs examined in the discussion about measuring objectively/subjectively. But additionally, agents have incentive to come up with excuses for a low performance. If this excuse is rooted in an uncontrollable externality the evaluation should be corrected in favor of the agent.
Whether externalities are controllable or not can prove difficult to assess. This can be exploited by the caseworkers and lead to a ‘culture of excuses’.

Cost of measuring:

Ex post subjective corrections is often more costly than ex ante objective corrections. The principal will be forced to investigate situations to distinguish bad excuses from good and good performance from good luck. In Business Support the cost of correcting ex post will depend on the channel manager’s willingness to investigate smaller matters. Considering that most risks are general and thus can be absorbed by relative measurements, and that a simple objective measurement has better instrumentality than objective corrections, the Business Support should not use corrections at all. Both options are too costly with respect to the limited benefits; hence the system should actually include none.

8.2.2 Absolute vs. relative

As explained, for the discussion of this particular design choice, dimensions are assumed fixed.

Distortion:

The most fundamental benefit of a relative standard is the competition that follows. Depending on the compensation design, benchmarking against comparable agents can incentivize further than an absolute standard. Caseworkers are measured in the dimensions listed in 6.1.1 Technical specifications; absolute goals are set by the channel manager.28 One example is a goal of 75% customer satisfaction. If an even better performance is not rewarded, the agents would not have incentives to satisfy customers better than, what is expected of them, ceteris paribus. When competing with other caseworkers, the incentive to perform better would persist, as long as other agents are performing well. This could be very relevant to the caseworkers, as they are indeed very comparable. On the other hand, caseworkers will be less incentivized to help out each other. As stated earlier, the job duties of a caseworker may involve a question to a colleague once in a while, but it is a one-man job and does not benefit significantly from teamwork.

Risk:

It has been stated in 6.3.1 Performance evaluations, that general risks are absorbed by a relative performance evaluations, and that these general risks indeed are present because of politics, laws on taxes, reporting, and auditing, IT-system breakdowns and updates. Individual risks, which are not considered very substantial, are not absorbed by a relative measurement. As discussed in relation to relative/absolute measurements, general risks are internalized automatically by a relative performance standard, but not by measuring relatively. Risks can also be addressed by objective or

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28 4.3 Defining efficiency
subjective corrections, but that would include all the costs examined in the discussion of objective/subjective standards.

**Manipulation:**

A relative standard eliminates the cost of adverse selection in setting an absolute standard. This is true because no relative stand is set ex ante. The cost of adverse selection in relation to setting absolute standards is difficult to assess. In this case, the channel manager has already set an absolute goal and a set of dimensions. The adverse selection would only be relevant if these goals were to be reset. However, in light of the standardization and simplicity of the work, asymmetric information is very limited making adverse selection a small cost.

A relative standard can, theoretically speaking, create incentives for the agents to sabotage each other’s performances. In this case, that would be very difficult to do; hence this is not a relevant cost to consider.

**Cost of measuring:**

The cost of relative performance evaluations is largely determined by the uniformity of work performed by the agents. In this case agents are tasked with the exact same activities. The cost of a relative standard is therefore low in this particular case. The cost of setting an absolute standard depends on the principal’s knowledge of the agents’ potential and their work processes. The channel manager’s knowledge of the agents’ potential is in reality unknown to everyone.

The relatively small cost in manipulation, the low distortion and the internalization of the most significant risks suggest that a relative standard would be most beneficial to Business Support. Absolute goals can still be kept on a management level, or as a symbol, but setting the standard should be **relative**.

**8.2.3 Standard deviation vs. actual performance**

The last part of (re-)designing the performance measurement system concerns the anchoring of performance evaluations in standards; whether to compare performances to a standard or not.

**Distortion:**

In situations where it is difficult to determine the value of the measured dimensions, a standard can create distortion by neglecting other important dimensions not measured. Corrections can be costly to perform. By measuring performances without a standard, the principal can rely on agents to balance the priorities of their work. As stated several times before, the job duties of a caseworker are pretty transparent. Not much distortion would come from a setting a standard.
Risk:

Without a standard, one might say that the ‘actual performance’-measurement is ‘fully corrected’ in itself. Consequently, every risk is internalized. This also includes controllable risks. With the assumed risk-adversity of agents, this can be very favorable to the organization, ceteris paribus.

Manipulation:

With a defined ‘fully corrected’ measurement, agents may be free to invest very little effort. Slacking off is a moral hazard-issuc that was discussed in the second analysis and in the previous section in relation to Game Theory. This problem is probably the most significant, important issue in the case, and the problem that the heavy investments in intrinsic motivation failed to solve, as it was shown in the first analysis and the discussion of the board of directors’ basic assumptions about motivation.

On the other hand, setting a standard creates incentives for agents to manipulate the principal with adverse selection, to tip the standard in their favor. As discussed earlier this is a less serious problem as the job duties are simple, transparent and shared by every performance measured caseworker.

Cost of measuring:

Setting standards is obviously a cost that can be avoided completely by measuring the ‘actual performance’. The cost of setting a standard comes from obtaining knowledge of the work processes and the agents’ potential. As stated several times, this is not a relatively big cost. The cost of corrections can also be avoided by measuring the ‘actual performance’. Nor is this cost a concern, as corrections were opted out, because general risks were internalized by setting the standard relatively. The small distortion cost, the unnecessary risk internalization, the small adverse selection-problem and the insignificant cost of measuring associated with standard deviations are heavily outweighed by cost of the moral hazard problem; hence the optimal choice is to measure deviations from a standard.
9 Proposals for achieving higher efficiency

This chapter will conclude the case study and the theoretical discussions with four separate, independent proposals for achieving higher efficiency in the Business Support. The Danish Business Authority has shown reluctance in adopting a monetary reward system. This was shortly examined in the 6.3.2 Rewards. The explanation for this reluctance seems mostly like a political tradition in the public sector rather than an actual legal boundary. The initial proposals will be relevant to the organization; even under the assumption that monetary rewards can not be offered. Eventually, a way to relax this assumption will be represented, making way for the final proposal.

9.1 Proposal 1: The new incentive system design

Based on the previous chapter, the performance measure system should in the future reflect the following design settings:

**Fixed multi-dimensional, individually, objectively measuring and relatively comparing to a standard without corrections.**

This design will be most effective as an incentive system when combined with some extrinsic monetary rewards, as discussed earlier, but it can also be used solely as a performance measurement system if the board of directors insist on not rewarding monetary. The extrinsic motivational effect would also be unnecessary if the Good Citizen-model stands, as discussed earlier. Extrinsic rewards to match this system will be proposed at the end of this chapter.

9.2 Proposal 2: Casework performance measurements: process time and random samplings

9.2.1 Quantity: Process time

As explained in the second analysis, the quantity of casework is only measured on group level, whereas the quality is not measured at all, because it is believed to be too costly to measure. The casework quantity is measured using scripts connected to a database with the case records, as examined in the beginning of the second analysis. In a few months, entities of individual
Caseworkers will be linked to these case records making it possible to monitor, how many cases each caseworker processes, and how much time each casework is spending on the specific cases.\textsuperscript{29}

In the beginning of the case study, casework efficiency was defined as:

\[ \text{Efficiency}_{\text{Casework}} = [\text{Number of cases processed}] \times \text{c}[1 - \text{Error rate}] \]

By increasing the ‘Number of cases processed’, the efficiency will, ceteris paribus, be increased. It is therefore tempting to performance evaluate caseworkers on this soon available data. This is an inexpensive, effective measurement, unlike what measuring error-rates is believed to be. The logic is straightforward, however, very misguiding. Choosing only to evaluate quantity could cause serious unintended results on the quality.

\textbf{9.2.2 Quality: Error-rate}

As promised at end of the second analysis, the casework quality-dimension defined as the level of error-rate in ‘Defining Efficiency’ will be addressed. In 6.1.2 \textit{Casework error-rate} the channel manager talked about the possibility of hiring full time-employees to take random samplings and was quoted with the rhetorical question: ‘..\textit{is that worth the resources?’}

This can actually be answered with more than a simple guess.

\[ \text{Number of errors} = C \times r \]

\[ C = \text{number of cases}, \quad r = \text{error rate}, 0 \leq r \leq 1 \]

Reporting and processing a case is associated with a cost in time consumption for the private agent reporting data on behalf of a firm and the public caseworker processing the case. Assuming that a flawed case takes the same amount of time for both parties to redo as it takes to process correctly from the beginning:

\[ \text{Caseworker Cost of errors} = t_c \times w_c \times C \times r \]

\[ \text{Private agent Cost of errors} = t_p \times w_p \times C \times r \]

\[ t = \text{time}, \quad w = \text{hourly wage} \]

It is a general principle at the Danish Business Authority, that the cost saved for a private company is considered an equally sized revenue to the authority.\textsuperscript{30} Total cost to the Danish Business Authority is thus:

\textsuperscript{29} I have, as an IT-employee, been tasked with this assignment. Samples of statistics from my data for the group performance can be found in the appendices on an attached cd.

\textsuperscript{30} www.erhvervsstyrelsen.dk/hvad-er-amvab
Excluding the heavier cases of limited companies (for which data is not yet available), the Danish Business Authority processed from October ‘13-’14 an average of 16,270 registrations a month; 1,355 cases a month were manually handled by caseworkers.\textsuperscript{31} The error-rate is unknown. A caseworker handles roughly 30 cases on a 7.5 hour workday,\textsuperscript{32} though cases may vary a lot. The wage of a caseworker is approximately 120 DDK/h, as stated in the introduction of the case organization, overhead not incl. The average private agent (representative of the firm) is estimated to the wage-level of a ‘private business worker without managerial responsibility’, in 2013: 318 DDK/h,\textsuperscript{33} with a 5\% wage trend since then, 333 DDK/h. Overhead not incl. Because a lot of time is spend on correspondence, a fair assumption would be, that the private agent spends the same amount of time on a manual case as the caseworker does:

\[\text{Total Cost of errors} = (1335 \times r)(0.25 \times 120 + 0.25 \times 333) = 1335 \times r \times 108\]
\[= r \times 144,180.00 \text{ DDK/month}\]

This means that every error costs 108 DDK of which approximately 25\% are incurred by the Danish Business Authority and 75\% by the private firm. The monthly salary of a caseworker is 20,435 DDK.\textsuperscript{34} In order for a full time-quality controller to even have a potential of creating value, the error-rate must therefore exceed:

\[144,180 \times r = 20,435 \quad \Rightarrow \quad r = 14\%\]

It is important to understand, that the error-rate must drop 14\% as a consequence of the quality control. Locating errors will not in itself create value, as they are discovered and redone over the years anyway. Instead, the monitoring of the quality must function as an incentive effective enough to bring down the error-rate by at least 14\%. Consequently, if a caseworker only was assigned half the time to random samplings, the error-rate should be brought down at least 7\% to break even.

It is highly possible, that the channel manager guessed correctly, and that the random samplings would not be a good investment at the moment, but as soon as the caseworkers’ performances are measured and evaluated as individual quantity, there is a high risk of moral hazard, sloppiness or even gaming. It is recommended that the Danish Business Authority measures the approximate error-rate and calculates the total cost of errors as soon as the casework quantity is being monitored. This can help the channel manager assess the cost of unintended effects and perhaps calibrate a standard. If cost of unintended effects proves to be relatively low, the quality control may be terminated again.

\footnotesize\textsuperscript{31} ER-statistics (excel on CD)
\footnotesize\textsuperscript{32} E-mail documents a caseworker’s estimate. – a number of 30 cases is used to attribute 8\% sickness absence. Sonia, ‘Sagsbehandling’ - Appendix
\footnotesize\textsuperscript{33} Documented in an e-mail from a Per, working with AMVAB, ‘Personalegrupper fra SLON21’ - Appendix
\footnotesize\textsuperscript{34} 4.3 Defining Efficiency
9.3 Proposal 3: Outsourcing of the call center

If the board of directors, for whatever legal or political reason, feel limited in their managerial options, or find it too costly or culturally unfitting to reward extrinsically and run a ‘performance culture’, as the channel manager defines it, a suitable solution could be to outsource the call center, or the most simple services of the call center. Lower average cost is often found in the market because of specialization and economies of scale (Brickley, Smith, & Zimmerman, 2009, p. 605). For basic, simple phone support, this would also be highly probable.

There are many different aspects to consider when assessing the cost of in-/outsourcing. The basic aspects will be divided into the following three (Brickley, Smith, & Zimmerman, 2009, chap. 19):

Asset-specificity:

The asset-specificity of simple phone support is quite low. A simple search on the internet will show many firms offering to supply phone support for other businesses. The competition will suggest a low price, thus favoring an outsourcing of the call center.

Uncertainty:

As explained in the introduction of the case organization, the environment is not completely stable. The political decisions can change businesses over a short period of time, especially in relation to an election. This particular service would however most likely remain unchanged unless it is merged with similar services from other ministries. If not the uncertainty would be pretty low on this specific area, which also speaks in favor of outsourcing.

Transaction costs:

The basic transaction costs can be in divided into three groups:

1. Cost of searching for a supplier
2. Cost of negotiating
3. Cost of enforcing contracts

A service can be less transparent than a physical product, and the cost of enforcing a contract can therefore be high, however, the motivation for this proposal was that the Danish Business Support seemed limited in enforcing its internal contracts. Furthermore, as stated several times, the job is pretty simple and thereby easier to measure.

If the Danish Business Authority insists on not rewarding extrinsically, the phone service should be outsourced to a private firm. This will keep the efficiency up without changing the culture or overstepping a political boundary. It is recommended that the contracts reflect the dimensions

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35 Interview with the channel manager: 8:03
already determined by the channel manager to ensure both quantity and quality. The contracts should be limited to a few years to match the political instability and the latent IT-improvements that can supersede this particular service.

9.4 Relaxing assumptions

Monetary performance rewards seem to be found unfeasible with by the board of directors, as reviewed several times throughout the case study. Nevertheless, a document defining the remuneration policies show that the Danish Business Authority, in fact, can pay out bonuses and permanent pay supplements. The lower boundary of a caseworker’s salary is still fixed by the union agreements, but the fact that there is no upper limit give the Danish Business Authority some leeway, of course, depending on how much caseworker efficiency is valued. Both types of compensation are negotiated once a year. For HK-employees, like caseworkers, the union-representative negotiates on behalf of the employees.

Permanent pay supplements are practiced a lot amongst academic workers in the organization. The problem with such compensation is, that the incentive disappears as soon as the supplement is given, yet the higher cost in salary remains. The obvious benefit is, that agents may be less incentivized to seek out other job opportunities. Bonuses are not permanent and must therefore be renegotiated every year. The Danish Business Authority should be aware of three latent problems in relation to monetary rewards:

Problem 1:
The union-representative has little incentives to defend the interests of a rate buster. With a fixed budget pool the union would instead seek to equalize the performance rewards; what Allan Hansen refers to as a ‘compression tendency’ (2010, p. 228). This will weaken the effect of the incentive system. Conveniently, the salaries and bonuses of HK-employees are kept private by the union, while the measured performances are kept private by the channel manager. This would possibly minimize the conflict with the union.

Problem 2:
The extra compensation is given at the beginning of every year, based on a subjective evaluation of the previous year. With the subsequent year’s budget pool not yet defined, agents would be less certain of the size of the bonus; they would be rewarded at the beginning of the subsequent year. It would require trust in the principal. Lastly, the agents would lose their compensation, if they quitted the job before the following salary negotiations, where the budget is reset. These three factors would together lower each of the three factors in Vroom’s expectancy theory. To avoid this

36 ‘NOTAT - Lønpolitik i Erhvervsstyrelsen’ - Appendix
37 ‘NOTAT - Lønpolitik i Erhvervsstyrelsen’ - Appendix
problem, Business Support would have to reserve a big part of the budget to bonuses for the entire year. This could also give conflicts with the union, but that would be a necessary cost.

Problem 3:

A third latent problem to be aware of is a motivational aspect. The overjustification theory suggests that when introducing an extrinsic reward system, agents will attribute their behavior to these rewards. If the extrinsic reward system is removed again, the agents will then be less motivated than before the introduction of the extrinsic reward system (Kunz & Pfaff, 2002). The theory suggests that there can be a hidden cost in trying out a monetary system and removing it again. In that sense, the channel manager could be right in advising the organization to tread lightly when dealing with performance culture, as she was quoted in the second analysis. It should be noted, however, that it can be difficult to assess whether agents are intrinsically or extrinsically motivated. If the agents are not really motivated to begin with, the hidden cost of overjustification would not matter. On the other hand, as examined in the ‘Theory’-section, Herzberg talks about demotivation in hygiene factors, claiming that the level of motivation may decrease even further than to point zero. Even if this is a relevant point, a comparison with the many beneficial aspects discussed in the previous chapter, would suggest that the risk of overjustification is too insignificant to dismiss the monetary rewarding system.

9.5 Proposal 4: Monetary rewards

A monetary reward system can basically be defined as (Lazear & Gibbs, 2008, p. 265):

\[ a + b \times PM \]

So far, it has been determined that \( a \) is fixed, as a caseworker’s salary by the union agreement. \( PM \) (Performance Measures) has been defined in the first proposal. In that sense, \( b \) is the only remained element yet to be discussed. In the previous section, the assumption, that bonus rewards can not be offered for good performance, was relaxed. This is essential as such rewards should be considered the factor, which aligns the agents’ interests with the interests of the organization; in other words, what makes the performance measurement system an incentive system.

Assuming that agents invest effort in a trade-off between pay and slacking off (the opposite of effort), without a perfect substitution, an iso-curve for a given agent’s utility could be reflected as below.
If the performance measurement system has little cost and, in its broadest sense, reflects the effort of a given agent, then $PM = e$, effort. In light of the internalization of risks and the transference in the work processes, discussed in the previous chapter, this is a fair assumption to work with. The Performance contract would then be: $Pay = a + b \times e$, while the effort options, $O(e)$, would reflect the utility-functions in the ISO-curve by showing the output of an increasing dislike of effort.

The optimal level of effort, hence the agent’s rational choice, would be in $Pay’ = O’(e)$, which holds the biggest utility (benefit - cost). If the agent chooses to invest more effort than $e^*$; for instance by taking fewer breaks, the pay will be higher, but the total utility will be lower, as the dislike of effort increases more than the payment is valued.

By increasing $b$, the $e^*$ invested by the agent would consequently increase. In order for the principal to optimize the Danish Business Authority’s value, the optimal level of effort would therefore have to be a function of $e$ and $b$. The Business Support’s bonus options can thus be described as $B(b,e^*)$. Remember, $PM$ which reflects efficiency was assumed to reflect effort. Caseworkers’ efficiency as defined in the beginning of the case, is thus defined as effort; $PM= e$. In
Proposal 2, it was referenced that expenses saved by private firms as a consequence of caseworkers’ efficiency are considered revenue to the Danish Business Authority. The revenue for a given caseworker is thus:

\[ \text{Revenue} = W_p \times e \]

\( W_p \) is still a fixed constant, 333 DDK private hourly wage, as explained in Proposal 2. The wage-level of a caseworker is obviously no longer fixed, as they now include a bonus based on the principal’s on the caseworker’s optimal effort choice, as reasoned above. The cost for a given caseworker is thus:

\[ \text{Cost} = a + B(b, e^*) \]

Where \( a \) can be considered the base hourly wage on 120 DDK, and \( B(b, e^*) \) the caseworker’s choice of effort depending on the bonus contract.

![Graph of Revenue and Cost](image)

**Figure 15: The optimal bonus and effort-level**

The optimal level of effort (and bonus) for the Business Support is once again found, where

\[ \text{Cost}' = \text{Revenue}' \rightarrow B'(b, e^*) = W_p \]

It should be noted, that \( a \) only is fixed per caseworker. The bigger picture includes every caseworker, in which case, the constant, \( a \), becomes a linear function of the number of caseworkers. Cases could be included as an upper limit of effort, if \( a \) is no longer fixed. The utility function would in reality also have to be defined with respect to each caseworker’s individual preferences. Risks, Risk appetite and skills could also be included. All this would add new variables to optimize, yet the logic would remain the same.
Individual utility functions are difficult to estimate, but with logic examined above, it is recommended that the Business Support installs a bonus-system and intensifies it in step with the value increase derived from the results of the performance measurement system. The number of employees is, of course, a variable to consider, but it should not be ignored that the difference in employees’ utility functions also is an important factor. Establishing new recruiting practices might therefore become relevant in this situation, however, it should also be expected, that the bonus system will keep the individuals with matching preferences employed relatively longer and hereby automatically change the average utility function of the caseworkers over time. For this reason, the Danish Business Authority must have patience for the optimal results of the incentive system to occur.
10 Conclusion

It has been confirmed that caseworkers are being reallocated for inexpedient reasons. The explanation for this costly prioritization is found in cultural values, which albeit have become gradually counterbalanced by acceding, contrasting values, however, not at all completely replaced due to resistant, associated basic assumptions concerning motivation of employees.

These inadequate basic assumptions are reflected in a narrow understanding of motivation as being homogenous and unidirectional, rather than configurable towards specific tasks, which has resulted in an overinvestment in intrinsic motivation, including job variety by temporary reallocation of caseworkers, yielding very limited benefits to the Business Support in terms of efficiency.

These particular basic assumptions, in addition to a not fully thought through design of the performance measurement system, and the very limited utilization of the system as an incentive system inhibit a potential higher efficiency for the Business Support. The purpose of the performance measurement system is found to be both divergent in itself, with the proposals in the thesis, and with the identified basic assumptions, by exhibiting a disregard for the importance of motivation and a lacking understanding of contract theory. This inhibits the utilization of the system’s potential and contributes negatively to skepticism towards the system amongst the employees. It is found that Business Support can benefit greatly from optimizing the performance measurement system by configuring the system’s design, and additionally, extend the scope of the monitoring to include more dimensions on the casework.

It is recommended to shift the focus away from intrinsic motivation of caseworkers to more extrinsic, monetary rewards, for which greater incentive effects and lower costs are expected. This will require changes in, how the salary budget is managed. Furthermore, it will possibly trigger a minor conflict with the respective union, HK, and most likely change the organizational culture substantially for the caseworkers with a significant element of competition. Alternatively, it is suggested that parts of the phone service are outsourced, if the board of directors, for some reason, find these proposals too radical.
11 Other perspectives

11.1 Recruiting

Updating recruitment policies might be beneficial to attract employees matching the new culture and reward system (Proposal 1). With a more competitive culture, a more demanding effort and a possibility of higher rewards, candidates should, ceteris paribus, be less risk averse, and value pay relatively higher than slack compared to current caseworkers (Proposal 4, Figure 13: ISO-Curve).

The obvious option is to hire an external consultant experienced in this field, but other initiatives could be studied by the human resource department or the channel manager. Picking out the right candidate should not be the biggest concern. No education is required for the job, and agents are rewarded for their efficiency; hence less efficient employees will be less costly, which minimizes the problem. Personality tests could perhaps be useful to assess a candidate’s’ independence and competitive nature. The focus should nevertheless be on attracting more, and matching, candidates. Merkelsen (2010, p. 159) lists six general reasons, why recruiting is demanding more attention from companies. The two most important in this case is that the newer generations are smaller in size; hence the workforce-supply is decreasing, and that the loyalty towards companies is decreasing, making the frequency of open vacancies higher. In this specific case, there are other concerns to be aware of as well. Making the vacancy reflect the job is important in order to attract a matching candidate. Merkelsen (2010, p. 168) claims that a very common mistake is to promise too much from a job, making it unrealistic, and in too general terms, making it opaque. Business Support should for instance not promise great career opportunities, which is both wrong and difficult to interpret. Instead it should promise a competitive pay-for-performance-environment without the less appealing intrusive elements of a telephone salesman. Such working environments would not be expected from a public organization, and Business Support should therefore look into rebuilding their employer brand: “A process, where you optimize recruiting through image communication.” (Merkelsen 2010, p. 164) The public sector already has a corporate brand defined by the employee culture, the management’s visions, and the public image. The whole state’s corporate brand will be an obstacle to the employer brand of the Business Support, which perhaps should be addressed specifically in the vacancies. It is highly possible that such vacancies will attract completely different candidates, more similar to the phone supporters and phone salesmen from the private sector; probably many university students. Danish Business Authority should therefore expect a conflict with the union, HK.
11.2 Change management

The case study touched upon the absence of employee buy-in; a possibly increasing problem as the incentive system is intensified. During the discussion of negative incentives, it was mentioned that employee buy-in can be increased by increasing the rewards of the system. Rationally seen, agents should be supportive with pareto efficient changes. Pareto efficiency (Brickley, Smith, & Zimmerman, 2009, p. 61) is not always the optimal solution, and if caseworkers are to be laid off, or finds the new system risky, employee resistance is inevitable. To achieve maximum employee buy-in for a given performance measurement system, and thus avoid cultural discomfort and increase employee satisfaction, much can be done from a change management perspective.

Anderson & Anderson (2011, chap. 1), split a change process into three areas: Content, People, and Process. To obtain the best results from a change all three areas must be balanced. This can visually be presented like the three legged stool reviewed in the introduction to organizational economics.

![Figure 16: Three legged change management stool](image)

The content; the technology, strategy, products, practices, the system design, the intended cultural, etc., is largely concluded with this thesis. The People-areas is addressed, to some extent, in the analysis and discussion of, how the system can pose a risk to employees. The area should be addressed further by looking into the communication of the strategy, the manager's honesty, and, if possible, the inclusion of caseworkers in the presentation of the system and the design of rewards. All three parts were mentioned in the discussion but not concluded. The Process-area, the process of introducing and implementing a change, has not been addressed at all. To balance the change, implementation strategies, plans and corrections must be discussed. To do so, the type of the given change must be identified.

Anderson & Anderson (2011, chap. 3) claim there are three different types of changes: The development change, the transition, and the transformation. According to them, the type of the change can not be planned or foreseen but only identified once the change process is initiated. The development change is an enhancement of what already exists; hence something evolutional. It will not inflict the culture or the individual noticeably, and will therefore often not entail much complex resistance. A development change could be communication or concretization of an objective. In this
case, this is actually, what the performance measurement system does, yet extensive resistance is still felt by the channel manager. The explanation is found in the perceived risks of being fired and the rising element of competition introduced in the non-competitive culture. In terms of culture, the change is revolutionary to Business Support. The second type, transition, represents a revolution. Typically, it will include new work practices or new technologies; this is not the case here, however, in light of the changing culture, the possible planned personnel savings, and the present resistance, a transition would be a good guess on the type of change, Business Support is going through at the moment. The most dramatic change is the transformation. It is not linear as the course is constantly being adjusted. A transformation is strongly characterized by the cultural change and the personal changes. It requires a so called ‘wake-up call’ to succeed. A wake-up call must be triggered on a personal level. This is the most risk-provoking change requiring changes in basic assumptions and is therefore, by far, the most difficult change to go through. Dealing with a transformation will require much managerial involvement in dialogue addressing every employee concerns. The risk of being fired could definitely form a wake-up call, however, a transformational change is not linear, and the proposals are pretty transparent, suggesting that the change type will not become transformational.

It is important for the managerial group to identify the type of change as the change moves along in order to balance the three areas correctly, use the correct measures, notice the relevant dimensions, and access the cost and risks associated with the change. Change management should be considered a necessary cost.

11.3 Incentives for the board of directors

This thesis has focused specifically on the incentives of the caseworkers, but in order for the radical proposals of the thesis to be accepted by the Danish Business Authority, the board of directors must have a relatively strong incentive to increase efficiency to the detriment of cultural changes, conflicts with unions and criticism from employees. Furthermore, the director-general or the Business Support managers might be incentivized to ‘empire build’; having a larger staff than optimal (Brickley, Smith, & Zimmerman, 2009, p. 61). It should also be noted that the position of director-general in one of the largest authorities is one of the highest positions within the state government; careers advancements within the public sector is limited to the head of the minister department; hence showing outstanding results to principal would possibly not be very rewarding in terms career advancements.

As mentioned in the introduction to the case organization, the minister department is, as a substitution for financial results, controlling the Danish Business Authority using explicit
performance contracts. The phone support is not mentioned in the performance contract, the case-efficiency demands are already achieved by the digital improvement, and the board of directors are already getting fine ratings on the contracts. Following the organizational economics perspective, these contracts do not incentivize far enough; the absolute standard is set too low. Overreaching this standard might just cause recalibrations of the standards for following years; the earlier mentioned ratchet-effect. Measuring relatively to other authorities will be difficult and include many local risks. An obvious solution is to improve the contracts.

Decision processes have four steps (Fama & Jensen, 1983, p. 303):

1. **Initiation** - generation of proposals for resource utilization and structuring of contracts;
2. **Ratification** - choice of the decision initiatives to be implemented;
3. **Implementation** - execution of ratified decisions;
4. **Monitoring** - measurement of the performance of decision agents and implementation of rewards.

where *initiation* and *implementation* is referred to as *decision management*, *ratification* and *monitoring* is *decision control*. The performance contracts are agreements between the director-general and the permanent secretary. The initiation is performed by the Danish Business Authority based on the strategy of the ministry and the ratification by the minister department. One example:

**Strategic goal**: “Predictable and responsible business environment through simple and effective regulation.”

**Performance requirement**: “In 2015, the Danish Business Authority increases the number of money laundering supervision to at least 150.”

It is very difficult to see, how the ministry department should have any knowledge on how many supervisions, the Danish Business Authority is capable of handling. Such asymmetric information could become a problem of adverse selection, rendering ratification useless. Furthermore, the monitoring of the quality in these supervisions seems rather difficult for the ministry to do. With such heavy asymmetric information, one could suspect that both decision management and decision control is performed by the Danish Business Authority. If this is the case, the proposals of this thesis will probably never be implemented. Local information can be gathered by stationing an agent from the minister department in the authorities; thus enabling an effective decision control. This would of course also benefit from an effective incentive contract addressing any loyalty conflicts an agent of the ministry would experience when being stationed in an authority.

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38 [www.erhvervsstyrelsen.dk/sites/default/files/media/resultatkontrakt_2015.pdf](http://www.erhvervsstyrelsen.dk/sites/default/files/media/resultatkontrakt_2015.pdf)
39 It is still a relevant measurement in the public sector, on a general level. [www.produktivitetskommissionen.dk/om-kommissionen](http://www.produktivitetskommissionen.dk/om-kommissionen)
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