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THE ROLE OF PERFORMANCE MANAGEMENT IN THE HIGH PERFORMANCE ORGANISATION

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The Role of Performance Management
in the High Performance Organisation

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Purpose

In order to create a High Performance Organization (HPO), managers and employees have to behave in such a way that the objectives and goals of the organization are achieved on a world-class level. In practice, this means that the organization's performance management system has to provide the right information so that the organisation's members can behave in a performance-driven manner. This article goes into the relationship between performance management and the HPO.

Design/methodology/approach

For this research, the Performance Management Analysis (PMA) and the HPO Framework and were used. A questionnaire, which combined questions on PMA dimensions and HPO factors, was administered to two Europe-based multinationals. Based on 468 valid questionnaires, a correlation analysis was performed on the PMA dimensions and the HPO factors in order to test the impact of the latter in the light of organizational success.

Findings

Theoretically, a strong correlation between the PMA and the HPO Framework was predicted. The research results indeed showed strong and significant correlations between all the PMA dimensions and all the HPO factors , indicating that a performance management system that fosters performance-driven behaviour in the organisation is indeed of critical importance to create an HPO.

Originality/value

This research adds to the literature in the sense that factors of high performance have now been correlated with the characteristics of the performance management system. This makes it possible for organizations to work in a more focused and targeted manner towards improving the organization's performance management system and herewith on strengthening the organization.

Keywords: performance management, performance-driven behaviour, performance management analysis, PMA, High Performance Organisation, HPO

INTRODUCTION

In recent years, a consensus seemed to have emerged about the advantages of applying performance management in an organization. Increasingly, researchers found that performance management enhances the financial results of an organization, in the sense that revenue and profits increase while costs decrease (Malina and Selto, 2001; Sim and Koh, 2001; Davis and Albright, 2002; Said et al., 2003; Braam and Nijssen, 2004; Davis and Albright, 2004; Neely et al., 2004; Robinson, 2004). They also reported considerable non-financial advantages of performance management, such as improved communication, closer collaboration, better knowledge sharing, stronger focus on what really matters and on the achievement of results, better strategic alignment, higher operational efficiency, higher commitment of organizational members, higher innovativeness, higher employee satisfaction and customer satisfaction, and a strengthened reputation of the organisation (Malina and Selto, 2001; Shulver and Antarkar, 2001; Lovell et al., 2002; Baraldi and Monolo, 2004; Heras, 2004; Neely et al., 2004; Papalexandris et al., 2004; Robinson, 2004; Lawson et al., 2005; Tapinos et al., 2005; Meekings et al., 2009; Maley and Moeller, 2014).

However, Waal and Kourtit (2013) did find some disadvantages from using performance management, such as information overload, too much subjectivity, too much financial and backward-looking information, and a too expensive and bureaucratic approach, but these disadvantages were only found on a limited scale. In summary, it can be said that implementing performance management is considered to be a constructive means for an organisation to gain competitive advantage and to continuously react and adapt to external changes (Chau, 2008; Cocca and Alberti, 2010).

As such, performance management may be a useful tool for organizations to support them in their journey toward becoming an high performance organization (HPO). An HPO is defined as an organization that achieves financial and non-financial results that are exceedingly better than those of its peer group over a period of five years or more, by focusing in a disciplined way on that what really matters to the organization (Waal,

2012). In order to create a sustainable HPO, managers and employees alike have to behave in such a way that the objectives and goals of the organization are achieved on a world-class level. In practice, this implies that the organization has to be structured to such an extent that its performance management systems provide the right information so that the organisation's people can behave in a performance-driven manner. In this article, the relationship between performance management and the HPO is investigated on a detailed level, using the Performance Management Analysis (PMA) (Waal, 2010) and the HPO Framework (Waal, 2012), in order to evaluate which dimensions of performance management have the highest impact on achieving high performance. This is important because the outcomes of this research can be used by organizations to shape their performance management systems, which, in turn, will help them in their quest to become an HPO. This article is structured as follows. In the next two sections, the HPO Framework and the PMA are described. Then the methodological approach and research results are given. The article ends with a conclusion, the limitations of the research, and opportunities for future research.

THE HPO FRAMEWORK

The HPO Framework was developed on the basis of a descriptive literature review of 290 academic and practitioner publications about high performance (Waal, 2012, 2014). Out of each of the reviewed publications, those elements were extracted that the authors regarded as essential for becoming an HPO. Because the authors of the various scholarly contributions used different terminologies, the identified elements were grouped into categories which constituted possible HPO characteristics. For each of the possible HPO characteristics, the 'weighted importance' was calculated, i.e. the number of times that it was mentioned in the publications. Finally, the possible HPO characteristics with the highest weighted importance were included in an HPO questionnaire which was administered worldwide and which encompassed more than 3,200 respondents. In this questionnaire, the respondents had to grade how well they thought their organizations were performing with respect to the HPO characteristics (on a scale of 1 to 10), and also what their organizational results were compared to their

peer group (consisting of to their organization comparable firms). By performing a statistical analysis, 35 characteristics which had the strongest correlation with organizational performance were extracted and identified as the HPO characteristics. The correlation was as expected: the high-performing organizations scored higher on the 35 HPO characteristics in comparison with the low-performing organizations. This means that organizations that pay more attention to these 35 characteristics achieve better results than their peers, in every industry, sector and country across the world. Conversely, organizations which scored low on the characteristics appeared to rank at the bottom of their industry performance-wise. A factor analysis, performed during the statistical analysis, resulted in the determination of five distinct HPO factors.

The five HPO factors are described underneath (for a detailed description see Appendix 1):

1. *Management Quality*. In an HPO, belief and trust in others and fair treatment are encouraged. Managers are trustworthy, live with integrity, show commitment, enthusiasm, and respect, and have a decisive, action-focused decision-making style. Management hold people accountable for their results by maintaining clear accountability for performance. Values and strategy are communicated throughout the organization, so that everyone knows and embraces these.

2. *Openness and Action-Orientation*. HPOs have an open culture, which means that management values the opinions of employees and involves them in important organizational processes. Making mistakes is allowed and is regarded as an opportunity to learn. Employees spend a lot of time on dialogue, knowledge exchange, and learning, to develop new ideas aimed at increasing their performance and make the organization performance-driven. Managers are personally involved in experimenting thereby fostering an environment of change in the organization.

3. *Long-Term Orientation*. An HPO grows through partnerships with suppliers and customers, so that long-term commitment is extended to all stakeholders. Vacancies are filled by high-potential internal candidates, and people are encouraged to become leaders. The HPO creates a safe and secure workplace (both physical and mental), and lays off people only as a last resort.

4. *Continuous Improvement and Renewal*. An HPO compensates for dying strategies by renewing them and making them unique. The organization continuously improves, simplifies and aligns its processes and innovates its products and services, creating new sources of competitive advantage to respond to market changes. Furthermore, the HPO manages its core competences efficiently, and out-source non-core competences.

5. *Workforce Quality*. An HPO assembles and recruits a diverse and complementary management team and workforce with maximum work flexibility. The workforce is trained to be resilient and flexible. They are encouraged to develop their skills to accomplish extraordinary results and held responsible for their performance, as a result of which creativity is increased, leading to better results.

The HPO Framework is build upon the idea that there is a direct and positive relationship between the identified HPO factors and competitive performance: the higher the HPO scores the better the performance of the organization, and vice versa. An organization can empirically investigate its HPO status by having management and employees fill in an HPO questionnaire and calculating the average scores on the HPO factors.

When looking in more detail at the HPO characteristics, several characteristics can be noticed that have a direct relation with performance management: "The organisation is performance-driven"; "The management of the organisation focuses on achieving results"; "In the organisation everything that matters to the organisation's performance is explicitly reported"; "In the organization both financial and non-financial information is reported to organizational members"; "Management coaches organizational members to achieve exceptional results"; "Management focuses on achieving results"; and "Management inspires organizational members to accomplish extraordinary results." Thus, theoretically, a strong correlation between performance management and the HPO Framework can be predicted. To evaluate whether this is the case, the performance management system of an organization has to be empirically tested on its ability to actually support the organization toward high performance. This can be done by relating the HPO Framework to the so-called performance management analysis.

THE PERFORMANCE MANAGEMENT ANALYSIS

A technique which can be used to assess the quality of performance management in an organization is the performance management analysis (PMA) (Waal, 2010). The PMA makes a distinction between the structural and the behavioural side of performance management. The 'structural side' deals with the systems' architecture which needs to be in place to be able to use performance management. This usually involves determining Critical Success Factors (CSFs) and Key Performance Indicators (KPIs), and designing a Balanced Score Card (BSC). The 'behavioural side' deals with the organizational members and their use of the PMS. The PMA is based on the principle that the two sides, that is, the structural and the behavioural side, need to be given equal attention in order to establish a performance-driven organization. There are many things that can be measured and reported in an organization, but they will be of little value if organizational members do not use this performance information. Conversely, goodwill of organizational members does not account for much when they cannot access the performance information needed to display performance-driven behaviour. The PMA enables an organization to actually assess the degree of performance-driven behaviour.

The nine PMA dimensions are described underneath (for a detailed description see Appendix 2):

1. *Responsibility structure* (structural dimension): A clear parenting style and tasks and responsibilities have been defined and these are applied consistently at all management levels.

2. *Content* (structural dimension): Organizational members use a set of financial and non-financial performance information, which has a strategic focus through the use of CSFs and KPIs.

3. *Integrity* (structural dimension): The performance information is reliable, timely and consistent.

4. *Manageability* (structural dimension): Management reports and performance management systems are user-friendly and more detailed performance information is easily accessible through ICT systems.

5. *Alignment* (structural): Other management systems in the organization such as the human resource management system, are aligned with performance management, so what is important to the organization is regularly evaluated and rewarded.

6. *Accountability* (behavioural dimension): Organizational members feel responsible for the results of the KPIs of both their own responsibility areas and the organization as a whole.

7. *Management style* (behavioural dimension): Senior management is visibly interested and involved in the performance of organizational members and stimulates an improvement culture and proactive behaviour. At the same time, it consistently confronts organizational members with lagging results.

8. *Action orientation* (behavioural dimension): Performance information is integrated in the daily activities of organizational members in such a way that problems are immediately addressed and (corrective or preventive) actions taken.

9. *Communication* (behavioural dimension): Communication about the results (top-down and bottom-up) takes place at regular intervals as well as the sharing of knowledge and performance information between organizational units.

RESEARCH APPROACH

Sample and Procedure

For this research, the PMA and the HPO Framework were combined in one questionnaire, which was distributed to two multinational companies operating in Europe. One of the organizations was a bank of which the Dutch branch offices participated. The other organization was a car rental agency of which the sales offices in five countries (Netherlands, UK, Spain, Germany, France) participated. In the questionnaire, managers and employees of an organization were asked to rate their organization on the 35 HPO characteristics and the nine PMA characteristics, on a scale of 1 (the organization does not satisfy the characteristic at all) to 10 (the organization satisfies the characteristic completely). The scores of all respondents were averaged for the five HPO factors and the nine PMA dimensions. In total, 468 valid questionnaires were received, out of a possible total of 2,024 respondents, implying a response rate of

23.1 percent. Using the final valid sample of 468 respondents, a correlation analysis was performed on the HPO factors and the PMA dimensions.

Measures

In Table 1 the reliability of the PMA dimensions and the HPO factors is given, using Cronbach's alphas.

Table 1: Reliabilities of the PMA dimensions and the HPO factors

Dimensions / factors	Items in dimension/ factor	Cronbach's alpha
PMA dimensions		
Responsibility structure	4	.732
Content	5	.722
Integrity	5	.872
Manageability	5	.823
Alignment	5	.709
Accountability	5	.881
Management style	5	.819
Action orientation	5	.823
Communication	5	.804
HPO factors		
Management Quality	12	.897
Openness and Action-Orientation	6	.783
Long-Term Orientation	4	.818
Continuous Improvement	8	.877
Workforce Quality	4	.651

As can be seen from Table 1, all PMA dimensions and all HPO factors (with the possible exception of Workforce Quality) show a high reliability. This means that a relevant correlation analysis can be performed.

RESEARCH RESULTS AND ANALYSIS

Theoretically, strong correlations between the PMA dimensions and the HPO factors was predicted. As can be seen in Table 2, there are strong and significant correlations

(using Pearson's *r* correlations, one-tailed) between all the PMA dimensions and all the HPO Factors, indicating that a performance management system that fosters performance-driven behaviour in the organisation is indeed of critical importance to create and sustain an HPO.

Table 2: Correlations between the PMA dimensions and the HPO factors
(all correlations are significant on the 0.01level)

PMA dimensions /HPO factors	Manage-ment Quality	Openness and Action-Orientation	Long-Term Orientation	Continuous Improve-ment	Work-force Quality
Responsibility structure	.499	.414	.403	.469	.400
Content	.473	.465	.443	.520	.396
Integrity	.402	.437	.420	.526	.340
Manageability	.401	.431	.370	.481	.375
Alignment	.477	.510	.381	.391	.397
Accountability	.503	.482	.449	.523	.440
Management style	.456	.397	.307	.305	.367
Action orientation	.353	.353	.323	.329	.312
Communication	.440	.547	.402	.487	.418

The results depicted in Table 2 can be rearranged to show which PMA dimensions have the strongest impact on which HPO factor. Table 3 gives the results of this rearrangement in qualitative terms.

Table 3: The order of impact of the PMA dimensions on each HPO factor

PMA dimensions / Order of impact	Management Quality	Openness and Action-Orientation	Long-Term Orientation	Continuous Improvement	Workforce Quality
1	Accountability	Communication	Accountability	Accountability	Accountability
2	Responsibility structure	Alignment	Content	Integrity	Communi-cation
3	Alignment	Accountability	Integrity	Content	Responsibility structure
4	Content	Content	Responsibility structure	Communi-cation	Alignment

5	Management style	Integrity	Communi- cation	Manageability	Content
6	Communi- cation	Manageability	Alignment	Responsibility structure	Manageability
7	Integrity	Responsibility structure	Manageability	Alignment	Management style
8	Manageability	Management style	Action orientation	Action orientation	Integrity
9	Action orientation	Action orientation	Management style	Management style	Action orientation

Based on Table 3 a "ranking" can be made of the PMA dimensions according to their impact on the HPO factors (see Table 4).

Table 4: The impact ranking of the PMA dimensions

Order of impact	**PMA dimension**	**Type of dimension**
1	Accountability	Behavioural
2	Communication	Behavioural
3	Content	Structural
4	Responsibility structure	Structural
5	Alignment	Structural
6	Integrity	Structural
7	Manageability	Structural
8	Management style	Behavioural
9	Action orientation	Behavioural

It is clear from Table 4 that the PMA dimension Accountability has the strongest positive effect on creating and sustaining an HPO. This is in line with the outcomes as reported by many authors who found a positive relation between accountability and performance (see for instance GAO, 2005; Hochwarter et al., 2007; Wunsche, 2007; Marsh, 2010), For each of the other HPO factors there is a different order of impact of the PMA dimensions. This undoubtedly has to do with the specific nature of each HPO factor. It is interesting to note that the behavioural dimensions "bookmark" the

structural dimensions of the performance management system. It seems clear that certain aspects of the behavior of people in the organization are decisive for creating high performance but that this behavior has to be rooted in a robust performance management structure.

When an organization pays emphatically attention to strengthening the PMA dimensions, the HPO factors will be strengthened as well, which, in turn, will help improve the results of the organization. For sake of clarity, Table 3 has been depicted schematically (see Figure 1).
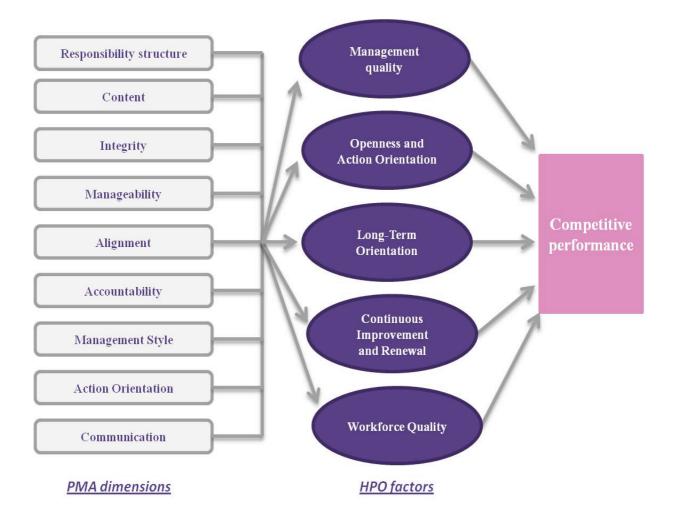

Figure 1: The relations between the PMA dimensions and the HPO factors, and competitive performance

CONCLUSION, LIMITATIONS, AND FUTURE RESEARCH

Now that the correlational pattern is known, an organization knows the dimensions which need to be present in its performance management system in order to have organizational success. Moreover, the organization has gained more insight into the order in which the PMA dimensions have to be improved in order to optimize the chance to strengthen specific HPO Factors. In this way, the chance of creating an effective performance management system is considerably increased. The research described in this article adds to the literature in the sense that factors of high performance have now been correlated with the characteristics of the performance management system. This makes it possible for practitioners to work in a more focused and targeted manner on improving the organization's performance management system and thus on strengthening the organization.

An important limitation of the research is that only two profit organizations, that operate in different industries in the Western world, and that both comprise large cooperations have been investigated. This means that future research is needed that should focus on empirically investigating the performance systems in use in specific industries, including non-profit and governmental sectors, in order to evaluate how these support HPO. Other opportunities encompass studying whether there is a relationship between performance management and HPO in a non-European context, and whether this relationship exists for small and medium-sized companies as well.

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APPENDIX 1: THE HPO FRAMEWORK

In this Appendix, the five factors and their underlying 35 characteristics of the HPO Framework are listed.

HPO FACTORS + CHARACTERISTICS
Continuous Improvement and Renewal
1. The organisation has adopted a strategy that sets it clearly apart from other organizations.
2. In the organisation processes are continuously improved.
3. In the organisation processes are continuously simplified.
4. In the organisation processes are continuously aligned.
5. In the organisation everything that matters to performance is explicitly reported.
6. In the organisation both financial and non-financial information is reported to organizational members.
7. The organisation continuously innovates its core competencies.
8. The organisation continuously innovates its products, processes and services.
Openness and Action-Orientation
9. Management frequently engages in a dialogue with employees.
10. Organisational members spend much time on communication, knowledge exchange and learning.
11. Organisational members are always involved in important processes.
12. Management allows making mistakes.
13. Management welcomes change.
14. The organisation is performance driven.
Management Quality
15. Management is trusted by organisational members.
16. Management has integrity.
17. Management is a role model for organisational members.
18. Management applies fast decision-making.
19. Management applies fast action-taking.
20. Management coaches organisational members to achieve exceptional results.
21. Management focuses on achieving results.

22. Management is very effective.
23. Management applies strong leadership.
24. Management is confident.
25. Management is decisive with regard to non-performers.
26. Management always holds organisational members responsible for their results

Workforce Quality
27. Management inspires organizational members to accomplish extraordinary results.
28. Organisational members are trained to be resilient and flexible.
29. The organisation has a diverse and complementary workforce.
30. The organisation grows through partnerships with suppliers and/or customers.

Long-Term Orientation
31. The organisation maintains good and long-term relationships with all stakeholders.
32. The organisation is aimed at servicing the customers as best as possible.
33. Management has been with the company for a long time.
34. New management is promoted from within the organisation.
35. The organisation is a secure workplace for organisational members.

APPENDIX 2: THE PERFORMANCE MANAGEMENT ANALYSIS

In this Appendix, the nine dimensions and underlying 44 characteristics of the PMA are listed.

Structural dimension: Responsibility structure of the organization
1. The organisation has a clear parenting style
2. There are clear tasks and responsibilities in the organization
3. There are clear guidelines for the planning and target-setting process
4. The chosen parenting style is consistently applied
Structural dimension: Content of the performance information
5. There is a balance of financial and non-financial information
6. A strategic focus is created through applying CSFs and KPIs
7. There is strategic alignment throughout the organisation
8. The targets are ambitious and relative to the competition
9. Ranking between organizational units is applied
Structural dimension: Integrity of the performance information
10. The information is reliable
11. User needs are regularly inventoried
12. The information is always on time
13. There is high consistency between data elements
14. Relevant data elements are standardized
Structural dimension: Manageability of the performance information
15. The information is user-friendly
16. The volume of information is limited
17. Exception reporting is used
18. Accessibility of underlying data is high
19. Tools for information presentation are integrated
Behavioural dimension: Accountability
20. Relevance of information to users is high
21. Managers use KPIs continuously
22. The influence of users on KPI results is high

23. Commitment of users to achieve results is high
24. User involvement in changing KPIs is high

Behavioural dimension: Management style

25. Commitment of managers to achieving results is very visible

26. Managers have high interest in employees' results

27. There exists a continuous improvement culture in the organization

28. Coaching by management is frequent

29. There is high consistency in management's behaviour

Behavioural dimension: Action-orientation of the organization

30. There is frequent analysis of results

31. Performance information is daily used

32. Corrective action is always taken

33. Prognoses are frequently made

34. Decision-making is always based on information

Behavioural dimension: Communication about performance

35. There is frequent top-down communication about results

36. There is frequent bottom-up communication about results

37. There is an open communication structure in place

38. There is frequent knowledge sharing between units

39. Strategy formulation always takes place in cooperation with organizational units

Alignment

40. The evaluation system is linked to the performance management system

41. The reward system is linked to the performance management system

42. The training system is linked to the performance management system

43. The organization achieves improved results through the use of the performance management system

44. The attitude of people towards performance management is positive