

Performance Management

Per Nikolaj Bukh and Jan Mouritsen

Abstract

Performance is an ambiguous concept. In this editorial to the special issue on *performance management* we take the lack of clear definitions as an invitation to explore what is meant by performance, how performance can be perceived and how we can understand managerial activities related to performance. The papers in the issue consider performance management at an organisational level and address new developments and thinking in relation to performance management. The focus of the papers demonstrates how performance management constitutes an umbrella for the study of formal processes that organizations use in attempting to implement their strategic intent, and to adapt to the circumstances in which they operate. Performance management draws on many disciplines although the concept appears to have merged with management accounting and control highlighting that the central role of budgeting as a control technique has declined.

1. Introduction

Organisations in all sectors of the economy attempt to improve performance at a general level but the irony is that as a concept it is ill defined. It is ambiguous and holds different potentialities for different stakeholders (e.g. Dooren *et al.* 2010; Moynihan 2008; Talbot 2010). It can also be defined in relation to a very wide range of entities – such as organisational units, individual employees and managers, lateral processes, value chains, inter-organisational collaborations and societies – where both design and behaviour are important antecedents to the functioning of performance management in all those contexts.

It is not strange that the aim of performance management is to enhance performance. In other words, the problem of performance management is to identify the managerial and organisational efforts that are expected to produce performance effects. Since managers and organizations continually adapt their performance management practices to changes in dynamic environments, it is likely that new ways of performing as well as new ways of managing performance are developed. The openness of the term performance as well as the impossibility of clear general definitions of what is meant both by managing and by performance have been suggested as hindrances for building a cumulative body of research (Baxter &

Chua 2003; Ferreira & Merchant 1992). However, it can also be seen as an invitation to explore in much further detail how instances of performance management can be understood and explained.

The old management adage »You can't manage what you don't measure« has an intuitive appeal to practitioners developing performance management systems. It seems somehow obvious that unless you measure something you do not know if it improves or worsens. If there is no knowledge about improvements in performance variables it is difficult to see how and when interventions can be contemplated (e.g. Cokins 2009; Davenport & Harris 2007; Kaplan & Norton 2008). This view is a key driver in much modern public sector reforms as well as development of strategic performance measurement systems in the private sector.

The problem is that it may not be so clear what should count as performance. As Colin Talbot suggests it may not be possible to quite to determine whether organisations »have a 'real' performance that is 'out there', independent of any cognition or perspective, or is it merely a 'construct' dependent on the observer« (Talbot 2010, p. 54). This means that an appeal to performance is not really a solution; it is a problem in the sense that it requires not only managers but also researchers to make their situated notion of performance open. Even if performance measurement points to the idea that numbers have objectivity, it is also clear that the object that the numbers reflects with some idea of objectivity may not themselves be beyond doubt and requirement of explanation. Measurements are thus »selected, interpreted and used by actors in different ways consistent with their institutional interests« as Moynihan (2008, p. 8) puts it.

In the call for papers for this special issue on performance management the aim is to address new developments and thinking in relation to performance management. This can include new perspectives, new techniques and related analysis designed to improve individual, group organisational and inter-organisational performance. Performance means different things to different people, and the dimensions of performance differ between various situations and contexts. The papers in the special issue all consider performance management at an organisational level. But the performance to be managed emanates from efforts to manage produced at many levels.

2. Narrowing down the performance concept

Talbot (2010) traces theories of organisational performance to the literature on organisational effectiveness after the end of World War II. He points out one line of argument consistent with the literature from the 1980'es and early 1990'es, which aimed at improving organisations as e.g. Peters & Waterman's (1982) famous study, *In search of Excellence*.

Another line of argument related to literature focusing on the managerial activities and can be tracked back to Robert Anthony who in 1965 introduced the management control concept as distinguished from strategic planning and operational

control (Anthony 1965). Management control systems provide in the current meaning »information that is intended to be useful to managers in performing their jobs and to assist organizations in developing and maintaining viable patterns of behaviour (Otley 1999, p. 365). As a common denominator for this literature, the management of improvements of performance stands out.

Performance can, however, be given many and often ambiguous meanings and can be associated with a range of activities. Dubnick (2005) mentions mundane activities such as opening a door or re-enacting a musical and concludes that »performance stands in distinction to mere ‘behaviour’ in implying some degree of intent« (Dubnick 2005, p. 391). Also David Otley (2001) emphasizes intent in his characterisation of performance management as it provides »an umbrella under which we can study the more formal processes that organizations use in attempting to implement their strategic intent, and to adapt to the circumstances in which they operate« (Otley 2001, p. 250).

In other words, performance is about intentional behaviour. Yet, the question of what to perform is left open. Although the central issue in management control remains in the contemporary understanding of performance management the way management control is expressed has as noted by Otley (2003, p. 315) changed since it was introduced in 1965. Thus, performance management reflects the same issues and concerns as management control, however the central role of budgeting as a control technique has declined.

Many aspects of performance can in commercial firms often be related to financial terms. Sometimes the performance in producing outputs or procuring inputs can be translated to financial number by valuations. In other situations can various non-financial aspects of performance as demonstrated by Nielsen *et al.* (2014) be linked analytically to financial terms.

To some extent, public sector organisations may differ, as their performance cannot be narrowed down to a question of profitability. Rather the public sector is said to be characterised by activities performed by professionals, public services that are multiple-value entities and are developed and delivered in co-production mode (See also Bruijn, 2007). However, performance management systems in the form of principles of financing decentralised units, e.g. schools, hospitals, agencies etc. using case based formula funding (cf. Smith 2007) often structures the public sector very similar private firms as is seen e.g. in Jakobsen’s (2014) article on performance budgeting in this issue.

Increasingly, the financing of the public organisations, e.g. upper secondary schools and language schools for Danish immigrants (Dahler-Larsen & Pihl-Thingvad 2014), is dependent on the performance in various dimensions. There are complex relations between public services and financial appropriations. These relations are in need of being discovered and analysed rather than assumed. The problem is probably not that budgets and financial incentives are present; the

issue is much more how different kinds of budgetary mechanism and incentive schemes are related to the production of outputs and outcomes that are understood as socially desirable.

It is probably a good idea to look for the specificities to develop a nuanced theory of how performance management will be a resource for improving performance (Bruijn 2007, Moynihan 2008; Pollitt & Bouckaert 2011). Such an emphasis on various forms of performance management systems has also associated its implementation in many parts of the Danish public sector. Adopting a broader view of performance management may bridge the organisational and institutional aspects of performance with the techniques adopted.

Performance management has been an essential part of many new management accounting and control techniques that has been developed over the past thirty years (cf. Otley 2001, p. 248). Not only performance measurement but also many other management accounting techniques, as e.g. Activity Based Costing, is included in the performance management concept when Otley's lens is adopted. Further, issues within business intelligence (e.g. Cokins 1999) and analytics (e.g. Davenport & Harris 2007; Davenport et al. 2010) are also within the performance management umbrella.

3. The papers in the special issue

The first two articles in the special issue focus on the balanced scorecard (BSC). Since this performance management system was introduced by Kaplan & Norton in the beginning of the 1990'es (Kaplan & Norton 1992; 1996), it has been understood as moving from a performance measurement to a strategic management system (Kaplan & Norton 2001); by the introduction of the Closed-Loop Management model (Kaplan & Norton 2008) it has also evolved into a comprehensive performance management model encompassing a number of separate principles and techniques. BSC is widely used in all parts of the world, including Denmark where the first implementations were seen around 1995.

The balanced scorecard is defined in the books by Robert S. Kaplan and David Norton. However, in a national context it is shaped by supply-side actors, e.g. consulting firms, who adopt the concept according to their own specialties and experiences. In the first article Dag Øivind Madsen (Madsen 2014) examines how the Balanced Scorecard has been interpreted and used in Denmark. Drawing on interviews with suppliers and users of the BSC, Madsen shows how these different actors have attached different kinds of meaning to the BSC concept.

Madsen identifies the two main interpretations in Danish practice: the BSC as a 'performance measurement system' and as a 'strategic management system', the latter representing performance being managed and not merely measured. Interestingly, there is a distance between how consultants and user organizations interpret and attach meaning to the concept. While suppliers interpret and promote the

BSC as a strategic management system, users appear more likely to interpret and use the concept as a performance measurement system.

The second article is authored by Steen Nielsen, Erland H. Nielsen, Anders Jacobsen, Lars Bjørn Pedersen (Nielsen et al. 2014) and focuses on how system dynamics modelling can contribute to an increased understanding of a firm's strategy based on Kaplan & Norton's (2001) strategy map. A strategy map represents a high-level model of causal relationships among strategic objectives and Kaplan (2009, p. 1268) has previously suggested that a detailed system dynamics model could incorporate causal linkages that have both time delays and more complex feedback loops than can be represented in a traditional strategy map. However, empirical applications of this technique have been sparse and the article by Nielsen et al. is an important contribution to the literature.

The article demonstrates how it is possible to enhance understanding of the causal relationships in the strategy map by this approach and thus help to develop activities and other decisions that connect even better with the company's strategy. By combining the idea of balanced scorecards as a causal loop system with systems thinking, the authors address not only the comprehensiveness of the balanced scorecard, but also the methodological approach which by the use of differential equations makes it possible to identify the strength of its causal relations.

The third article by Peter Dahler-Larsen and Signe Pihl-Thingvad (Dahler-Larsen & Pihl-Thingvad 2014) examines the stress effects performance management. The article is based on a comprehensive survey among three groups of public sector employees: language teachers for Danish emigrants, upper secondary school teachers and job consultants in job centres. The article focuses on differences between these groups and points out a series of specific factors potentially leading to stress in relation performance management for these three types of jobs.

The choice of employee groups is in a Danish performance management context an innovative and interesting setup. Job centres have used performance measurements as incentives to a very high degree in the public sector in Denmark: Employees experience an intense public control in the form of statistical indicators and benchmarking and this area has much public and political attention. This public debate has often argued that the performance management focus here harms the working environment.

Also upper secondary schools and language teachers are, as explained in the article, exposed to performance measurement and performance management, although to a lesser degree than the job centres. Important for the study, the professional self-understanding of upper secondary teachers is based on academic degrees, although their various disciplines range from humanities over social science and business to the natural sciences, while, there is no clear basic profession among job consultants and language teachers.

Contrary to expectations the stress level is found to be lower among the job consultants than in the two other employee groups. In analysing the results, the authors suggest that stress in each group is best explained by a classical model that looks at work load, clarity of indicators, and lack of control over the work situation. The most stressful group experienced freedom in their work, were very engaged in the work, set high standards for themselves, but on the other hand, the most stressed group felt that performance indicators did not help to create clarity about what should be done at work. Even though further analysis of differences between individuals within group could shed more light on the mechanisms discussed in this article, the article points to the importance of role of clarity in performance management and to the role of the employee's own work standards when performance management systems are designed.

In the fourth article Bente Bjørnholt, Jeppe Agger Nielsen and Andrej Christian Lindholm (Bjørnholt *et al.* 2014) investigate the differences and similarities between performance management systems in two different areas of public services in Denmark: Social services (eldercare) and technical services (park services). As suggested by Otley (2001), see also Moynihan *et al.* (2011), performance management systems should be designed and adapted to achieve intended organizational strategies and the design of a performance management system is contingent on a number of external and internal organizational factors, including the task complexity of particular services.

From this contingency perspective, Bjørnholt *et al.* (2014) suggest that the characteristics of performance management systems should be expected to vary across policy areas in the public sector. Contrary to expectations for divergence due to differences in task complexity, the authors find that the characteristics of performance management systems in the two policy areas tend to converge with respect to purpose, target setting, measurement, and motivational mechanisms.

Bjørnholt *et al.* (2014) trace the reasons for the convergence and suggest a set of complementary propositions in addition to the already established proposition on the influx from government-wide policies, which can assist in explaining convergence in the characteristics of performance management systems in the public sector. Specifically, it is proposed that convergence can occur due to similarities in policy-specific reforms, institutional pressures, and complementarity between political and managerial needs

Finally, the fifth article by Mads Leth Felsager Jakobsen (Jakobsen 2014) is about the degree of adoption of a specific performance management technique, performance budgeting, at Danish hospitals. As frequently documented in the public management literature formal adoption does not necessarily imply real changes (Dooren *et al.* 2010; Moynihan 2008). Drawing on Olivier's (1991) framework of strategic responses to institutional processes Jakobsen (2014) examines how and why the hospitals as well as specific orthopaedic wards respond to various institutional forces.

Overall, Jakobsen concludes that the pattern of adoption mirrors the international trend of partial adoption of performance management systems. Hospitals and wards have had their reimbursement linked to output, but this has only partly been accompanied by financial autonomy. This partial adoption has been particularly prevalent at the ward level. Furthermore, the patterns of adoption seem to be the combined result of an institutional pressure directed at the formal elements of formula-based performance budgeting and the fit between performance budgeting and management capacity.

In particular, management capacity could be an important explanation for the different patterns of adoption at the hospital and the ward level although it requires more studies and analysis to understand what it requires to design, implement and use technically advanced performance management systems. The performance budgeting concept implemented by the Danish hospitals imply that rather advanced formula funding models (cf. Smith 2007) should be implemented. The question is whether the managerial capacity and the accounting sophistication at the hospitals is at a level where full adoption of performance budgeting is technically feasible at all.

4. Conclusion

Approaching performance management as an umbrella term where we can study the more formal processes that organizations use in attempting to implement their strategic intent, and to adapt to the circumstances in which they operate (cf. Otley 1999, 2001) has the strength that it includes a wide range of performance management issues and management devices and that it recognizes that it is the combination of performance elements that is of interest, rather than the isolated parts of a performance management system.

Performance management remains a rich and interesting field of research with many opportunities for new and creative studies that combines existing fields of research and paves new roads to new practises. When studying the operation of systems as complex as performance management it is clear that increasingly more concerns, entities and objects are taken into account. What appears to be a simple technical interest in setting targets and associated funding rules, performance management is a broad organisational field that ranges from individuals' problems with stress to organisational strategy, and in-between are the many diverse mechanism that allow organisations to operate make objectives, coordinate and delegate on many diverse organisational values.

References

- Anthony, R.S. 1965. *Management planning and control systems: A framework for research*. Boston: Harvard Graduate School of Business.
- Baxter, J. & W.F. Chua. 2003. Alternative management accounting research: whence and whither. *Accounting, Organizations and Society*, Vol. 28, pp. 97-126
- Bjørnholt, B., J.A. Nielsen & A.C. Lindholm. 2014. Three propositions on why characteristics of performance management systems converge across policy areas with different levels of task complexity. *Danish Journal of Management & Business*, this issue.
- Bruijn, H.de. 2007. *Managing performance in the public sector*, second edition. London: Routledge.
- Cokins, G. 2009. *Performance Management: Integrating strategy, execution, methodologies, risk and analytics*. Hoboken: John Wiley & Sons.
- Dahler-Larsen, P. & S. Pihl-Thingvad. 2014. How Performance Indicators can lead to Stress: A group level analysis on performance measurements and stress. *Danish Journal of Management & Business*, this issue.
- Davenport, T.H., J.G. Harris & R. Morison. 2010. *Analytics at work: Smarter decisions, better results*. Boston: Harvard Business Press.
- Davenport, T.H. & J.G. Harris 2007. *Competing on analytics: The new science of winning*. Boston: Harvard Business School Press.
- Dooren, W. van; G. Bouckaert & J. Haligan. 2010. *Performance Management in the Public Sector*. London: Routledge.
- Dubnick, M. 2005. Accountability and the promise of performance: In search of mechanisms. *Public Performance & Management Review*, vol 28, pp. 376-417.
- Ferreira, L.D. & K.A. Merchant. 1992. Fiels Research in Management Accounting and control: A review and evaluation. *Accounting, Organizations and Society*, Vol. 5, No. 4, pp.3-34.
- Jakobsen, M.L.F. 2014. The partial adoption of performance budgeting at Danish hospitals. *Danish Journal of Management & Business*, this issue.
- Kaplan, R.S. 2009. Conceptual Foundations of the Balanced Scorecard. I *Handbook of Management Accounting Research*, Vol. 3, C.S. Chapman, A.G. Hopwood og M.D. Shields (red.). Amsterdam: Elsevier.
- Kaplan, R.S. & D.P. Norton 1992. The balanced scorecard – Measures that drive performance. *Harvard Business Review*, Vol. 70, No. 1, pp. 71-79.
- Kaplan, R.S. & D.P. Norton 1996. *The Balanced Scorecard: Translating strategy into action*. Boston: Harvard Business School Press.
- Kaplan, R.S. & D.P. Norton 2001. *The strategy-focused organization: How balanced scorecard companies thrive in the new business environment*. Boston: Harvard Business School Press.
- Kaplan, R.S. & D.P. Norton 2008. *The Execution Premium: Linking Strategy to Operations for Competitive Advantage*. Boston: Harvard Business School Press.
- Madsen, D.Ø. 2014. Interpretation and use of the Balanced Scorecard in Denmark: Evidence from suppliers and users of the concept. *Danish Journal of Management & Business*, this issue.
- Moynihan, D.P. 2008. *The Dynamics of performance management: Constructing information and reform*. Washington, D.C.: Georgetown University Press.
- Nielsen, S, E.H. Nielsen, A. Jacobsen & L.B. Pedersen. 2014. Management Accounting and Business Analytics: An example of using System Dynamics Modelling to facilitate the design of a Balanced Scorecard. *Danish Journal of Management & Business*, this issue.
- Oliver, C. 1991. Strategic responses to institutional processes. *The Academy of Management Review*, 16(1), 145-179.
- Otley, D. 1999. Performance management: a framework for management control systems. *Management Accounting Research*, vol. 10, pp. 363-382.
- Otley, D. 2001. Extending the boundaries of management accounting research: Developing systems for performance management. *British Accounting Review*, vol. 33, pp. 243-261.
- Otley, D. 2003. Management control and performance management: whence and whiter? *The British Accounting Review*, Vol. 35, pp. 309-326.
- Peters, T. & R. Waterman. 1982. *In search of excellence: Lessons from Americas best run companies*. New York: Harper & Row.
- Pollitt, C. & Bouckaert, G. 2011. *Public management reform: A comparative analysis – New public management, governance, and the neo-weberian state*. Oxford University Press.
- Smith, P. 2007. *Formula funding of public services*. London: Routledge.
- Talbot, C. 2010. *Theories of performance: Organizational and service improvements in the public domain*. Oxford: Oxford University Press.