On the Theoretical Basis of Strategic Performance Management
——An Analysis Based on the Need of Practical Effectiveness

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Abstract: Performance management has gained increasingly attention in management education and practice, yet the link between theory and performance management practice is still to be made explicit. This paper firstly briefs relevant literatures on the theoretical basis of performance management, then analyses the goal and tasks of strategic performance management. It is proposed that three interrelated theoretical modules underlie effective strategic performance management practice, that is, Cybernetics, performance formation theory and performance measurement theory. This paper has its significance to performance management researchers and practitioners.

Keywords: Performance management; cybernetics; performance formation; performance measurement

1 Introduction

Performance management has gained increasingly attention in management education and practice, yet the link between theory and performance management practice is still to be made explicit. For instance, March and Sutton (1997) argue that “the emperor of organizational performance studies is for the most part rather naked”[1]. Buchner (2007) suggests that although prevailing performance models often show some indications of underlying theories, they are not made explicit [2]. In their analysis of the characteristics of performance management research, Thorpe and Beasley (2004) find that one of the most striking characteristics of the performance management literature is its applied nature. The large majority of studies involve the application of a particular performance management tool or technique and the case study method is common” [3].

It’s widely agreed that it’s desirable to maintain a close link between management theory and practice. On the one hand, a demonstration of the link at some stage in the research process lies at the heart of how management research might be thought of as maintaining its relevance. On the other hand, a thorough understanding of the link between theory and practice would help managers be more effective in their management efforts. With regard to performance management, the lack of a reasonable understanding of the theoretical underpinnings of performance management may not only contribute to the rote application of performance management processes, but also made it hard for managers to benefit from relevant theories (Buchner, 2007) [2].

In this paper we attempt to outline the underlying theories of performance management. In the following sections we first provide a brief review of the explorations on the theoretical basis of performance management, followed by an analysis of different conceptions of performance management and the basic tasks of Strategic Performance Management (SPM). We then propose three interrelated theoretical modules as the components of SPM’s theory basis, and conclude by suggestions for future research.

2 Literature review: Explorations on performance management’s theoretical basis

Although it is widely agreed that performance management research should move the focus of study away from simply practice and more toward theory. The seriousness of the theory crisis may be varied to different observers. A review of the literature shows that two clusters of theories was considered underlying performance management: (1) the first cluster consists of system theory, cybernetics, information theory and management control theory. It is argued that the essence of performance management system is to control performance through the acquisition and application of performance information. So performance management system is in its nature a management control system. Therefore, management control theory constitutes the theoretical basis of performance management practice (LI, 2003; XU, 2005) [4][5]. (2) The second cluster consists of some established organizational behavior theories such as goal setting theory, work motivation theories and so on. For example, Buchner (2007) uses three of the vast and rich array of motivational theories as example to show that applied performance management should take full advantage of advancing theory [6]. In addition, some theories or analytical tools are usually deemed to be important for the practicing of performance management. For example, performance management textbooks pub-
lished in China often will include some introduction to strategic human resource management, MBO, Benchmarking, KPI and Balanced Scorecard (BSC)(WANG, 2011) [6]. To some extent, this can be regarded as kind of speculation of the theoretical basis of performance management.

It is suggested that the exploration of the theoretical basis of performance management can be advanced in two aspects. Firstly, it’s beneficial to specify the scope that needs to be covered. Since relevant theories may come from wide range of sources, we’d better have some ideas what a complete theoretical basis of performance management might look like, so that we can know what component theories might be needed and where we can stop our endless search. Secondly, it’s desirable to consider the possible ways to integrate different theories into a whole framework. Since the component theories are usually more or less connected, we need to find out the meaningful way how the component theories link together and constitute the theoretical basis of performance management (WANG,2011) [7].

A possible way to deal with the above two problems may be to find the right question to ask .As Peter Drucker had said, “Don’t worry about getting the right answer; what matters is setting up the right problem”, “A problem begins to be solved the moment it can be defined, the moment the right questions are being asked, the moment the specifications are known which the answers must satisfy. For then we know what we are looking for, what fits and what is relevant” [8]. Buchner (2007) suggests that one of the questions that need to be raised in performance management is “to what degree is applied performance management supported by valid theories?” [2]. We deem that perhaps the most appropriate question to be asked is around the effective attainment of the purpose of performance management, that is, “what theoretical guidelines are need for performance management practice to achieve its purpose?”

3 Strategic performance management: definition and basic tasks

Performance management is a latest hot phrase, but there is some confusion about what the term really refers to. So it is necessary to clarify what it is and what it does before we go on to deal with the theory underpinnings about how to make it work.

Historically, performance management referred to individual employees and was used by the personnel and human resources function [9]. Performance management concepts of this kind are thought to be developed from performance appraisal and took its shape in the1970s. As the notion of strategic human resource management (SHRM) was gradually established during 1990s, performance management was accordingly linked to the attainment of strategic goal. For example, Herman Aguinis (2007) defines Performance management as “a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goal of the organization” [10]. In the field of human resource management, this kind of performance management conception has sometimes been labeled strategic performance management (SPM).

Contemporary thinking in performance management is also active among researchers with financial and accounting academic backgrounds. Performance management in this area is usually viewed at an enterprise-wide level, and defined as the process of managing an organization’s strategy. For example, Andre A. de Waal (2003) defines performance management as a process enabling an organization to continuously create values and identifiable contributions, including strategy formulation, budgeting, goal-setting, performance measurement, performance appraisal and incentive compensation[11]. Cokins(2011) simply defines performance management as the translation of strategy plans into results—strategy execution [9].

Clearly there are some relationships between these three kinds of conceptions of performance management. As figure 1 shows, organization performance is the appraisal of strategic results according to organization goals. Organizational goals are derived from organization mission, values and visions. And strategic results depend on the rightness of strategy plan and the successfulness of strategy execution. Successful strategy execution can be further divided into three steps: (1) Do task analysis to specify what is needed to do to execute the strategy; (2) Divide the whole strategic tasks and allocate them within certain organization structures to specific positions and individual employees; (3) Manage individual performance to ensure that all the allocated tasks are effectively and efficiently performed. Thus, an organization’s performance is ultimately depends on all its employees’ individual performance, while individual performance is only meaningful when they are in alignment with the organization’s strategy. And there is great overlap between the latter two kinds of performance management conceptions.

![Figure 1. A conceptual framework of organization performance](image)

This paper adopts the second kind of performance
management conception, that is, the so called SPM. According to the above conceptual framework, SPM needs to deal with two basic tasks: one is to conduct strategy task analysis and division to identify individual performance and align them with the organization’s strategy; the other is to improve all employees’ individual performance, which will ultimately translate into improved organization performance under the condition of strategic congruence.

4 Three basic theory moduels needed by effective SPM practices

According to Douglas McGregor (1960), theory and practice are inseparable. “Every managerial act rests on assumptions, generalizations and hypotheses—that is to say, on theory. Our assumptions are frequently implicit, sometimes quite unconscious, often conflicting; nevertheless, they determine our predictions that if we do a, b will occur” [12]. With its ultimate goal to improve organizational performance, performance management practices presume a theory of organizational performance. From the practical perspective, to make explicit the theory basis of strategic performance management is to make explicit what theories are needed to effectively deal with its two basic tasks. We suppose that the theoretical basis of SPM should consist of three modules.

4.1 Cybernetics and its implications to SPM

Management is goal-directed actions. So is Strategic performance management. In order to ensure the attainment of organization’s strategic goal, SPM can gain insights from the philosophy of cybernetics or control theory. According to the cybernetic hypothesis (Wiener, 1948), the feedback loop is the fundamental building block of action. In its simplest form, the loop consists of four elements: a referent standard or goal, a sensor or input function. In the simplest feedback sequence, an input is perceived by the sensor, which sends a signal to the comparator, where it is tested against the standard. If this comparison reveals a discrepancy, an error signal is generated, and the system takes some action via the effector to reduce the discrepancy. This process of sensing, comparing, and effecting is repeated until the discrepancy subsides (Klein, 1989)[13]. Take for example a thermostat controlling the temperature of a room. In this case, the referent standard is the temperature the thermostat is set at, the sensor is the element monitoring the current room temperature, the comparator is the mechanism that compares the current and desired temperatures, and the effector is the furnace of air conditioner.

Although this is a much narrower use of the term “cybernetic”, the simple feedback loop has attained the status of a proper paradigm in a wide area of systems theory (Hofstede,1978)[14]. Of course, Human control systems are more complex than the simple feedback loop. For example, in human control system feedback involves much more than the mechanical sensing of the environment, goals are not predetermined inflexible standards, and there are several alternatives for reducing discrepancies (Lord & Hanges, 1987)[15]. However, in the cybernetic view, human control systems do operate in the same basic way—utilizing feedback to ensure the attainment of goals.

It seems that control theory indeed explains some aspects of performance management practices. For instance, an effective strategic performance management system is usually supposed to include a “PDCA” cycle and an effective performance measurement system (WANG, 2011)[16]. In the view of cybernetics, “PDCA” cycle can be seen as the direct application of feedback loop sequence. Since all feedback loops rely on the acquisition and transferring of information, it also seems quite obvious that the construction of an effective performance measure system is also essential to the operation of SPM system.

Although all cybernetic system has the same basic elements and operate in the same basic way, the “effectors” and “sensors” of different systems are not the same. As for SPM, the “effectors” and “sensors” must be constructed before the SPM system can function. So, performance formation and measurement theories to close the intelligence gap before the philosophy of cybernetics can be translated into effective SPM practices.

4.2 Theories about performance formation

As far as performance formation are concerned, since SPM deals with performance at organizational and individual level simultaneously, performance formation...
theories should be accordingly divided into two levels.

Firstly, the ultimate goal of SPM is to improve an organization’s performance. Therefore, we need first and foremost a theory about the formation of organizational performance, the core of which is to explain the process how organizational performance is produced, the influencing factors, and the relationships among different factors. In fact, SPM as a field per se is based on the hypothesis that individual performance has some relationship with organizational performance. As Figure 1 shows, among all the factors that can influence organization performance, SPM focuses particularly on the execution of strategy, which means that a theory about strategy execution is especially important to the operation of SPM.

Secondly, since SPM seeks to improve organization performance via the alignment and improvement of individual performance, a theory about the formation of individual performance is essential, the core of which is to explain the process how individual performance is produced, what are the influencing factors and their interrelationships. Actually, there usually are analysis about the formation of individual performance in the current performance management textbooks where the function

\[ P = F(S, M, E, O) \]

is often used to depict the formation of individual performance [WANG, 2011] [16]. Although it provides some useful insights to SPM practice and individual performance diagnosis, it is too simple in that the process of formation of individual performance and the relationship between different factors are not clear.

4.3 Theories about performance measurement.

As for performance measurement, since SPM concerns performance at organizational and individual level simultaneously, performance measurement theories should also be accordingly divided into two levels: one is the theory about organizational performance measurement, and the other is the theory about individual performance measurement. They work together to provide managers with guidelines to design sensitive and objective performance appraisal system.

In the SPM literatures, much attentions have been focused on the design of performance appraisal systems, which is further detailed into five questions concerning the who, what, how, when and why about the appraisal system [WANG, 2011] [16]. Among others, the “what” question attracts more attention from researchers and managers in organization, where Management by Objective (MBO), Key Performance Indicators (KPI) and Balanced Scorecards (BSC) are often used as guiding principles. Recently, the integration of MBO, KPI and BSC has received some attention. However, whether they can be integrated or what is the best way to integrate them is still open (WANG, 2011) [16].

5 Conclusion

All managerial acts rest on theories. Effective managerial decisions and practices should be based on valid theory hypotheses. With recognition of the importance to make explicit the link between management practice and underlying theory, this paper suggests cybernetics, performance formation theory and performance measurement theory as three essential modules that consists of SPM’s theoretical basis. Regarding the relationship among them, it is obvious that cybernetics serves as the integrating framework of the three, but it also needs the supplement of the other two modules before its philosophy can be translated into SPM practices.

Except for the cybernetics, there are no such theories called performance formation theory or performance measurement theory. However, there are indeed some models functioning as a proxy in literature and practice, either implicitly or explicitly. Actually, if SPM is to accomplish its intended goals, they are inevitably necessary. It seems more reasonable that we regard performance formation theory or performance measurement theory as focal points to unifying related mini theories than to construct them from the scratch. Future researches can either identify existing integrating frameworks or search for new integrating frameworks based on the theory development in relevant research field.

References

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