The Two Approaches to Performance

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Abstract. This paper works on conceptual level reviewing academic literature on performance and its measurement or management and points out an inconsistency in the discourse on performance. Two different meanings of performance are distinguished. On the one hand, there is an analytic approach claiming that performance is the result of a causal system of goal-setting and measuring. On the other hand, a more synthetic approach claims performance to be a by-product of exemplary behavior. Managing performance means replicating this behavior. Both approaches fail to explain what performance is and create further problems on practical, theoretical and scientific level.

Keywords: Performance, Measurement, Management, Strategic Management, Operations Management, Analytic-Synthetic Dichotomy.

1. Introduction

What does "performance" mean? A first look at business handbooks and the language associated with the managerial science reveals that many firms speak about increasing performance. Concepts aptly called "business performance management"[1] or "corporate performance management"[2] are integral part of a discourse driven by the intuition that the success of a firm is closely – even causally – dependent on its performance. However, these concepts may share an underlying logical problem: they lack a substantial understanding of performance. This claim, in itself bold, should be properly explained.

Neely[3] recognizes the problem of treating "performance" as the variable to be explained. It entails not defining its precise content. In this case, the concept means the sum or the aggregation of its explaining variables. This, however, is a logical fallacy since it presupposes that the connection between the explanandum and the explanans is one of pure causality. Even a strong correlation between both warrants an a priori explanation of the concept being explained, performance.

In its usual usage [4], performance denotes the execution of an action, the fulfilment of a claim, the ability to act efficiently and even the response to stimuli. In management sciences, the term performance – since its introduction coupled to its management – was coined by Daniels[5] who identified two critical elements of performance: behaviour and results. Later, Eccles[6] reasserted the term as having its own grammar and measures. Whereas Daniels saw performance as the result-driven behaviour, Eccles recognized that in order to speak about performance a stable set of rules about its content is needed. He even explains that some of the components of the rules are in constant flow. This means that performance is not only about what happens but also about how it is perceived and how relevant information about its changes is acknowledged. Eccles emphasizes the measurement of performance by criticizing unilateral focus on financial data and advising firms to broaden their measures as to embrace all aspects of the value-creation.

Even in this short introductory session, the main contention of the article springs to view: Whereas Daniels still saw performance as something related to behaviour; Eccles expanded the concept but at the same time tightened its base by assuming that it can be measured. The shift from explaining behaviour to measuring it is a logical step that warrants an explanation. The lack of this explanation leads to a certain obscurantism in the treatment of the concept of performance in management science. Although it is seldom recognized, literature tends to treat performance either analytically as the outcome of goal-achieving behaviour or synthetically as unit in itself, or, as unique form of behaviour. This dual usage of the term is at the core of this paper.

From a scientific point of view, this paper is concerned with the research field of performance management, especially the meaning of performance in research literature. The goal is to show the lack of a proper understanding of the term, for this basing on the review of state of the art literature, the body of research will be grouped under two concepts (approaches) and the inner logic of the treatment of the term performance within those groups will be analysed.

2. The Two Approaches to Performance

2.1. The analytic approach

In this section, the paper discusses the analytic concept of performance and its management as forwarded by Eccles[6]. The term analytic is used to refer to the the ability to analyse a conceptual scheme meaning the division of it into elements or principles. Neely[3] is among the leading proponents of this approach. In his words: "Performance measurement can be defined as the process of quantifying the efficiency and effectiveness of action. A performance measure can be defined as a metric used to quantify the efficiency and/or effectiveness of an action. A performance measurement system can be defined as the set of metrics used to quantify both the efficiency and effectiveness of actions."

Otley[7] and his subsequent works with Ferreira[8] are also analytic approaches. Together, they developed and assessed a framework for performance management consisting of five areas. The first area relates to the identification of the key organisational objectives and the processes and methods involved in assessing the level of achievement in each of these objectives. The second area relates to the process of formulating and implementing strategies and plans, as well as the performance measurement and evaluation processes associated with their implementation. The third aspect of the framework relates the process of setting performance targets and the levels at which such targets are set. The fourth area draws attention to rewards systems used by organisations and to how these are influenced by achievement or failure to meet performance targets. The final key area of the framework is about the types of information streams required to provide adequate monitoring of performance and learning from experience.

All three authors – taken here as a sample of the vast literature on performance management – have somewhat different understandings of how to deal with the concept. However, they share the intuition that performance can be managed by separating its components, setting goals for them, measuring them and then aggregating them into an overall result. This basic intuition may be shown as follows: For the sake of an example, a firm has the strategy of being the best in market. According to this exemplary firm, this entails three components, customer satisfaction, quality and return on sales. These components will be measured and given certain goals. For measuring customer satisfaction, the firm monitors the ratio of the value of returned purchases to overall sales. This ratio may be higher than 5%. For measuring quality, another ratio is used. The total value of damaged goods is contrasted to the total value of produced goods; the ratio cannot be over 2%.Lastly, the return on sales is set to be higher than 4%. If this same exemplary firm wants to increase its performance, it changes the goals to 4.5, 1.8 and 4.3% respectively. Achieving these goals is monitored electronically and those business units achieving them are rewarded. This simple example fulfils the expectations set by the analytic schemes of performance management. The next step is to ask, what it shows.

This example reveals three essential features of the analytic approach to the concept of performance. First, it is presupposed that all relevant realms of performance can be broken down into measurements, ideally ratios. For Neely[3] this is an implicit claim, for Otley[7] and Ferreira[8] it is more explicit since they postulate deriving measures from a firm's strategy. This automatically entails that all of a firm's strategy can de divided into smaller scale measures. Why and how this might be so, remains unexplained. Apparently, the process of separation recurs to managerial practices and to "good sense". In the example above, the single measures were chosen by the availability of generally recognized ratios. While this can be considered accurate, it hardly seems an analytical procedure. I.e. it lacks a rule on how to transform strategy into measures.

Second, once separated, there is no further discussion on how these measurements complement each other. They may be interlinked – as financial measures normally are – but it remains unexplained how these realms interact in the light of the firm's strategy. From "being the best in market" does not necessarily follow "having high quality" let alone "achieving a high return on sales".

The third feature of the example is essential. Through this decomposition, performance equals achieving the goals and more performance means setting higher goals. I.e. the goals are in themselves performance. In this approach, performance means the aggregation of single-unit goals. As such, the concept is not being explained but reduced to something else. The question remains if this "something else" corresponds to the use of the concept of performance. It is important to note that this is not a critique of the necessity of measurement in business science; it is a discussion on the conceptual scheme behind performance and performance management. The analytic approach claims to offer a model to manage performance through its analytical dissolution into measurable elements and giving them a goal. Performance can be increased by adjusting the goal. The logical problem of this approach arises when instead of postulating an influence of those components on performance, the approach assumes a causality of them without explaining how the aggregation of goals leads to it. If the aggregation in itself is performance, then there is no necessity of using the term at all. If, however, there is something peculiar to this concept, then the analytical approach fails to point out what it is.

2.2. The synthetic approach

The term synthetic is used to denote a combination of two or more parts, whether by design or by natural processes. Furthermore, it may imply being prepared or made artificially, in contrast to made naturally. The terms are being used here together with "analytic" to show a dichotomy in the usage of the concept of performance by managerial sciences. This dichotomy echoes the analytic-synthetic discourse in the philosophy of social science[9].

The synthetic approach goes back to Daniels[5]. Daniels derives the concept of performance from behavioural science. For him, a critical component of successful performance management is that performers gain excellence in their own performance—developing habit strength that can be applied across similar or different settings for effective problem solving and work habits. Whether it is developing highly technical skills in bookkeeping or excelling in customer service in a restaurant, the goal at the individual level is to do work well, efficiently and effectively, and to find fluency in the tasks. The conditions that surround behaviour help to support sustained patterns or diminish such patterns of success.

Other proponents of this approach are Aguinis[10] or, the Peters and Watermann[11]. Despite of the popular nature of this last book, it further develops Daniels' approach by identifying successful firms, isolating certain unique behavioural traits they share – in Daniels' words "habit strength" – and proposing other firms to replicate this behaviour. Within this approach, performance can be measured similarly to the analytic framework. However, the importance of performance is not its measurability but its behavioural foundation. Performance is the combination of different habits that usually lead to overall excellence.

Let the exemplary firm now operate under the synthetic approach to performance. It will identify its above-average competitors and discern those habits they share (and the firm itself lacks) making them to excel. In this instance, the exemplary firm finds out that these habits are: launching one new commercial line each four months, letting the sales departments having the lead over the whole firm, having all human resources actively participating in the development of new products. According to this approach, the exemplary firm redesigns its processes to adapt to the identified behaviour. By gaining habit strength therein and setting up an environment that enforces the new behaviour, the firm should increase its performance.

Again, this example reveals four important features of the synthetic approach. First it combines behaviour, environments and even analytical components. Second, it replicates habits that are considered to lead to higher performance. The identification of these habits remains however unexplained. Also, there is the danger of a further logical fallacy here. From the state of a given behaviour leading to excellence under some circumstances in a given firm does not follow (a) that this behaviour or the circumstances are replicable and (b) that its implementation in another firm will necessarily lead to higher performance there. This point may even be taken one step further. It does not follow that it will have a positive impact at all. Most synthetic approaches take the replicability of behaviour and its positive correlation with performance as given.

Third, the example does not show how to sort out the traits and environments that make a firm an over-performer. It seems to take a heuristic process of benchmarking, or identification of the group of firms serving as the objective and their habits of success. This is in as far problematic as the synthetic approach admits to combine different traits of other behaviour but seems not conscientious that the “other behaviour” itself might be a combination of different traits and environments. Or, even more problematic, that only the combination of different types of behaviour turns a firm into an over-performer. If these questions are thought to their logical ends, all firms would have to be completely equal in order to achieve the highest performance. The synthetic approach combining different elements in order to manage and enhance performance might as well entail the process of constant assimilation of successful behaviour eventually making all firms function alike. But if they all work alike, no firm has competitive edge over the others.

Fourth and this parallels the analytic approach, there is no further explanation of what performance might be. The synthetic approach forwards a purely instrumental concept of performance. Instead expanding a conceptual scheme, the synthetic approach opts for pointing out what a firm has to do in order to increase performance. Concerning this, it has the same strategy than the analytic approach that also opts for the instrumental notion of performance instead of defining it. Although both share the same fallacy, the logical problem unfolds two different meanings according to the approach. As explained before, the problem within the analytic approach is the logical fallacy. The problem within the synthetic approach is that it is not able to tell when a given firm reaches performance or when it deviates from it. If performance is the combination of habits, once a firm combined them, it reached performance. This, for one, imposes a deviation from the usual sense of the concept and makes it furthermore opaque (performance means replication behaviour).

2.3. Conclusions

In this brief paper, two different approaches to performance were analysed. On the conceptual level, the review of the relevant academic literature shows that there are two approaches to performance. This paper opts for qualifying them as “analytical” or “synthetic” pointing out that they share the same problem. They define systems for managing performance while taking this very term out of the equation. At the end, both approaches offer management systems, but none can offer a sufficient explanation of performance and what it means to manage it. This imposes at least three types of further problems, on practical, theoretical and scientific level.

On practical level, the question arises, which approach to use. Moynihan and Pandey[12] asked a somewhat related question and found out that performance management is highly dependent on the manager’s individual beliefs, job attributes and external factors. Their research also shows that systematic measurement systems are unlikely to be used by non-financial managers. At the same time, most managers acknowledge their will to increase performance. But since performance cannot be reliably defined by the respective management systems, it cannot be delivered therefore making its management dependent on the single manager’s choice. On practical level, it is difficult to manage what cannot be named or defined.

Second, there is a theoretical problem with the lacking of a proper understanding of performance. The less the above-mentioned approaches define the concept and its frame of reference, the more performance becomes identified with the tools for managing it. This offers a theoretical insufficiency because instead of increasing performance, managers will be increasing the accuracy of the tools they chose to use, which on its turn is something different from the common use of the term “performance”.

On scientific level, the lack of definition of performance and its subsequent purely instrumental treatment implies that management science is researching the wrong subject. Paralleling the theoretical problem, scientists would say to be researching performance whereas in reality they would be analysing management systems or tools. Ultimately, this would mean that research on performance management is a misleading tag for more general research on management systems.

Sceptical members of the academic community might doubt the value of asking what performance really is. However, the term is being used and the management systems developed so far for increasing performance are in place. However, they seem to miss the peculiarity of the concept by not defining it or reducing it to other factors. As this paper pointed out in the analytic as well as in the synthetic approach, the meaning of performance after a model has been built up does not fully match its expectations and fails to analyse the very phenomenon they want to explain.

Finally, this paper does not claim the superiority of one approach over another nor that the definition of performance is necessary or achievable. This paper merely points at insufficient treatment of the term once it is specified. Further research might indicate on how to make the usage of the term more specific or which other problems the lack of proper definition may lead to. This paper could not answer the introductory question about what performance is. However, it points out that this question has been left open by the body of research and that the open texture of the meaning of performance can pose serious problems.

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