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Article

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Measuring the Organizational Performance: A Theoretical Overview

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Abstract

The challenges of the new economic environment have led to the development of modern global customer-oriented entities and have reduced costs, increased innovation, gaining competitive advantage beyond space and temporality. This paper reflects a dynamic approach to the concept of organizational performance management with the added value of the business core. This study adds to the research on increasing the managerial and economic performance of entities by implementing a performance management system.

Key words

Organizational performance, digital age, KPI

JEL Codes: L1, L25

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1. Introduction and literature review

The current global economy is experiencing its fastest rate of change due to the emergence, evolution and influence of new economic concepts, whose impact is felt globally, regionally, locally, but also at the level of economic entities.

Specialty literature attributes the notion of performance to six stages of conceptual evolution, most of which are the result of research and deepening carried out since the second half of the 20th century. Thus, a first conceptualization of performance belonged to Etzioni (1960), who considered that "a frequent evaluation of organizations must be directly related to the attainment or non-attainment of a set of objectives" without taking into account the need for the existence and use of resources to achieve the objectives.

A few years later, Chandler (1962), through a deepening of the term, draw attention to the need to achieve performance within an entity, "to represent the underlying element of continuous and sustained development in the long run". Performance is thus associated with the effectiveness of meeting the entity's objectives.

Researches in the field also bring criticism to the notion of performance. One of the critics was Lorsch (1970), who argued that "performance measurement is related, on the one hand, to the environment the organization is part of and to its members on the other". In support of Lorsch, Lawrence (1970) brings a new dimension to the concept of performance, linking it to "relevance," interpreted in terms of "customer satisfaction". Theorists and practitioners of the 1970s continue to deepen the concept of performance, bringing new approaches. Among them, Lupton (1977) stands out with a clear and explicit approach. In his view, "in a performing/efficient entity, the productivity rate and motivation level of its members is high, while costs and unemployment are low or non-existent".

In addition to Lupton, Katz and Kahn (1978) interconnect the concept of performance with efficiency and effectiveness, stating that they are two vital components of an entity's overall performance. Performance management concerns continued in the 1980s following two trends: firstly, the impact of strategic planning on an entity's performance, and secondly, the role of strategic planning in strategic decision making by the entity leadership.

Cherrington (1989) defines organizational performance as "a concept that reveals the success and effectiveness of an organization's activities and is an indicator that shows the effectiveness of achieving organizational goals". The idea is developed and sustained by Adam (1994), who is of the opinion that it is imperative that organizations "allow its members access to know-how in order to acquire new knowledge whose applicability contributes gradually and in time to the performance of the entity and are constituted in elements that enable the entity to meet the new challenges of the environment in which it operates".

The 2000s bring to the attention of theoreticians and practitioners a new threat that will radically change the way of approaching and interpreting many concepts, a threat that refers to the scarcity of resources. In this sense, Peterson, Gijsbers and Wilks (2003) relate performance to "the ability of the entity to make use of the resources available to achieve and meet established objectives, as long as it considers them relevant to those to whom it is addressed." We therefore assume for the first time a triple relationship of the concept of performance: with the objectives of the organization - which determines its efficiency; with the organizational resources and, last but not least, the degree of satisfaction of the stakeholders - which express relevance.

Rigby (2003) defines performance through three dimensions: the first refers to the alignment of individual and team goals with the entity's development goals. The second dimension is related to one or more objectives set by the entity whose performance is being analysed, and the third dimension refers to the features that are revealing and can be addressed to determine the degree of achievement. The latest approaches to the concept of performance define it by achieving, in addition to the classic objectives of quality, effectiveness and "assessment and piloting objectives" (Bartoli and Blatrix, 2015).

By extrapolating, the same authors (Marchand and Raymond, 2008; Schein and Schein, 2010; Katzenbach and Smith, 2015; Barnes *et al.,* 2016) demonstrated that performance can be achieved only by entities whose activity is governed by organization, by systematically applying methods to achieve the qualitative objectives. Its conceptual content was followed by successive updates and additions, taking into account two reports: the first related to the notion of time - the performance achieved today from a previous moment, and the second - the comparison with other entities, which will later be the basis of the development of the benchmarking concept.

2. Points of view on the concept of organizational performance measures

From a conceptual point of view, performance has seen multiple interpretations and approaches from the theoreticians and practitioners whose concerns have turned toward studying it. The specialized practice reveals the interference of the concept of organizational performance with other concepts such as: management, leadership, profitability, predictability, economic-financial indicators, and metrics (Neely *et al*., 2003; Lansiluoto and Jarvenpaa, 2008). All these interferences have led to an interdisciplinary approach and a deepening of the concept of performance, depending on the specificity of the field in order to extend its spectrum of applicability (Olsen *et al*., 2007).

The economic era of the digital age, characterized by an acceleration of the technological innovation, fierce competition in gaining competitive advantage, increasing consumer expectations, and emerging market pressure, leads leadership to adapt its vision and entity strategy to the new performance standards (Burgess *et al.*, 2007). The challenge is all the more so since the influence of the endogenous and exogenous factors of the entities is continuous, difficult to control and in which the concept of performance brings together under this umbrella and other characteristics beyond the economic and financial ones, which modern entities need to incorporate and develop in their own strategy, such as adaptability, flexibility, customer orientation, talent recruitment and retention, and the ability to disrupt (Khan and Wibisono, 2008).

Performance recognizes new approaches that go beyond profitability barriers and in which the sustainability factor becomes paramount (Srimai *et al.*, 2011). For the leadership of new economic entities, performance is directly related to resource scarcity - resource mitigation and stewardship which includes understanding the cost opportunity. Adapting to the influence of these trends cannot be possible without the direct involvement of theoreticians and practitioners whose concerns are directed to clarifying the concept of performance in all aspects, starting from economic, legal, technical and continuing social and environmental issues, thus supporting a multidisciplinary approach.

The specialized literature refers to the concept of performance measurement system by the contribution of some authors to the development of performance management, as follows: the performance measurement matrix (Keegan *et al*., 1989); the pyramid of performance (McNair *et al*., 1991); the matrix of results and determinants (Fitzgerald *et al*., 1991); the balanced scorecard (Kaplan and Norton, 1992); the performance measurement process developed at the University of Cambridge (Neely *et al.*, 1995); the performance prism (Neely, 2005).

According to the authors Moldoveanu and Roşca (2011), three other directions of performance measurement have been developed: the first direction determines the real performance of an entity as a result of the endogenous factors of the exogenous factors that influence the values of the entities; the second direction involves the use of a standard that aims at two actions: the evaluation of the present state by the difference between the performed and the standard performance; and the third direction, which refers to the speed of change within entities to adapt to the environment.

But even if conceptually terminology provides clarity of approach, practice in the field reveals difficulties that entities encounter in defining KPI's, which are due to differences in the field of activity. In order to counteract the appearance of

confusion, it is imperative that the entities clearly determine the field of activity for which KPI's specific alignment is to be developed, whether financially, in human resources or operations.

In order for this approach to take shape, specialized practice recommends an integrated approach to internal and external resources and greater attention to the implementation of the concepts of knowledge management, supply chain management, knowledge-sharing, open innovation, enterprise resource planning (ERP), enterprise interoperability. In addition to this integrated resource approach, the theoreticians recommend that the entity's leadership develop and apply the linear performance concept step by step, precisely to reduce the rate of change the entity faces in the turbulent environment in order to get closer to the real competitors.

3. Results and discussions

In this Digital Age, performing entities play their best cards for three stakes: the first is sustainable performance, second finding and retaining talent, the quality of the human resource contributing to differentiation in a global and aggressive competitive market, and the third is research and innovation.

In the opinion of industry practitioners and because of the very high pressures of the external environment, high-performance-oriented entities are entities with exceptional financial results, satisfied customers and employees, high productivity, organizations that encourage innovation and leadership skills development. We can add to this list, depending on the entity and the environment in which it operates, the following specific features: sustainable financial development, long-term orientation, and outstanding outcomes.

As a result, the entity leadership is increasingly focused on creating an organizational culture geared to excellence and performance, and to crystallize the elements that define and contribute to the development of such an environment - Performance Indicators/KPI's.

The need for entities to monitor their activities and results is vital in order to cope with the threats of competitiveness and to respond in real time to these threats through adaptability and flexibility, while at the same time gaining competitive advantage over direct competitors.

In the process of achieving high performance and co-opting, restraining and capitalizing on human resources with a high potential, performance management is a determining factor, the instrument of leadership being "to evaluate individual and team objectives in line with the strategic objectives of the company, in order for the company to gain that competitive advantage in an ever-evolving market".

The specialized practice reflects the direct interdependence between performance management and measurement. Thus, performance management represents the framework for the measurement process, defines its intended directions, the variables considered, while the measurement process assumes that within the context of performance management a suitable model can be constructed for the entity, in order to collect, analyse and interpret the data, and finally to be able to issue documented and positively valued conclusions for the analysed entity.

4. Conclusions

This new global context and entity perspective to achieve and maintain sustainability performance imposes and forces the entity's leadership to synchronize managerial decisions with the financial and accounting situations as well as the industry's predictability reports.

The implementation of performance management within an entity meets multiple requirements directly related to the level of achievement of the set goals. A first requirement refers to the need for leadership to evaluate and manage a low level of performance relative to objectives, which has other implications: focusing on the entity's strategic objectives, aligning resources with activities, feedback and future development directions.

Within a modern entity, the performance must be managed by a performance architect or a strategist manager who is responsible for creating a framework to implement the strategy, monitor progress and upgrade performance, by developing an implementation project the KPI and its coordination; establishing the tools used and the deployment framework; informing stakeholders by organizing training sessions; providing assistance to all stakeholders and KPI leaders; performing evaluation sessions; upgrading the performance management system; reviewing the strategy etc.

2030 represents the new time horizon that has prompted entities to shape their vision, strategy and performance objectives as clearly and convincingly as possible. Although it seems remote as a time horizon, an in-depth knowledge of the resources of each entity with a potential to increase performance includes the management system as a whole, along with the methods and techniques implemented to define performance indicators.

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