

THEORETICAL PERSPECTIVES CONCERNING ORGANIZATIONAL PERFORMANCE MEASUREMENT

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Abstract: *Many scientific disciplines have been concerned with the performance study within the organization. Researchers from different areas have studied performance use tools specific to these sciences, generating different perspectives on organizational performance. These perspectives, often, do not intersect, being isolated. These theoretical perspectives can be summarized as two historical perspectives: classical perspective (traditional or cybernetic) and modern perspective (multidisciplinary or holistic). This paper proposes a multidisciplinary approach based on the objective of achieving organizational efficiency. This approach can contribute to a more comprehensive understanding of measuring organizational performance.*

Key words: organizational performance; theoretical perspectives; cybernetic view; holistic view.

JEL Classification Codes: O15.

1. INTRODUCTION

Increasing organizational performance has always been a priority of the organizations, both from private and public sector, because the performance is related to value creation. Organizations are constantly competing to get better results, better market share and competitive advantages (Bartusevicienè and Sakalytè, 2013). Managers meet difficulties when an organization wants to achieve a proper measurement of organizational performance.

Most experts in management, organizational theory, entrepreneurship areas agree that one of the main goals of the organization is to improve organizational performance (Venkatraman and Ramanujam, 1986; Cameron, 1986; Brush and Vanderwerf, 1992; Murphy et al., 1996; Barney, 2002 Carton and Hofer, 2006; Wagner, 2008; Cameron, 2010; Merchant and Van der Stede, 2011; Hubbard, 2014; Venkatraman and Ramanujam, 2017; Hatry, 2017). Though, there are no agreement concerning which are the best ways to measure organizational performance. This is the result of subjectivism of researchers in terms of supporting a theory or goals that they have proposed within the research.

Many researchers have further perpetuated confusion between drivers of performance and performance indicators. However, knowledge of the determinants of organizational performance is essential because it allows to identify those elements on which to intervene in order to improve organizational performance (Gavrea et al., 2011).



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Character of organizational performance and its assessment has been a subject both academics and practitioners since when the organizations have appeared in their modern form in the economy.

Ways to achieve organizational performance is at the heart of several economic disciplines (Carton and Hofer, 2006). Accounting deals extensively with the historical evolution of organization’s financial performance, while management disciplines focuses on how to improve current and future organizational performance. There are a number of approaches that combine both perspectives: the accountancy view of historical nature and the management view aimed at future organizational performance (such as balanced scorecard method, developed by Kaplan, 1984). Another perspective organizational performance is the microeconomic view, that concern the way in which value of the organization is created (as the main measure of organizational performance) and its distribution (Landy et al, 2017).

In this paper we conducted a review of the literature regarding on the evolution over time of performance measurement models. This included a review of classical perspectives on organizational performance and a holistic perspective. Based on this study we found that there are several schools of thought concerning organizational performance measurement.

Structure of paper consists of seven sections. The first section provides introductory elements on organizational performance perspective. The second section sets research methodology. In the following five sections are described organizational performance perspectives. Section seven concludes.

2. ACCOUNTING PERSPECTIVE ON ORGANIZATIONAL PERFORMANCE

Assessment of organizational performance area from accountancy view “focused on the informational content of statements and financial reports of the organization” (Carton and Hofer, 2006, p. 45).

Table 1 presents the objectives, design and disadvantages of this approach.

Table 1. Accounting perspective

Objectives	<ul style="list-style-type: none"> - evaluate whether the return on capital is consistent with the information provided by the organization records regarding earnings; - establishing information content of earnings and their relation to the assessment organizations.
Design	<ul style="list-style-type: none"> - provide objective information from reports and financial statements; - not investigate causal associations between the information content of financial statements and reports, but rather their correlation to ensure accuracy of information.
Disadvantages	<ul style="list-style-type: none"> - conservative approach - does not capture data on future opportunities that the organization has created but which have not yet capitalized; - is based on previous effects of managerial decision making and specifically excludes expected future effects.

Source: Adapted from Carton and Hofer, 2006; Cameron, 2010; Landy et al., 2017

Carton and Hofer (2006), Cameron (2010), Landy et al. (2017) and Merchant and Van der Stede (2011) highlight multi-dimensional view on performance of accountancy in order to inform correctly all stakeholders which use these informations.

3. PERSPECTIVE PROVIDED BY THE BALANCED SCORECARD METHOD

In an attempt to reduce the discrepancy between theory and practice, Kaplan (1984) suggested "that effective organizational performance to be measured by method Balanced Scorecard" (Carton and Hofer, 2006). The Balanced Scorecard is a view of the multidisciplinary organizational performance (Landy et al., 2017).

Table 2 presents the objectives, design and disadvantages of this approach.

Table 2. Perspective provided by the Balanced Scorecard method

Objectives	- non-financial indicators provide information about the opportunities that have been created but have not yet generated financial results.
Design	- collect objective information from financial statements and reports and subjective information from company management as assessing their own performance.
Disadvantages	- subjectivism - which can lead to problems of accuracy and validity of responses; - using operational indicators that are unique for each organization; - situational and not generic implementation.

Source: Adapted from Kaplan and Norton, 2001; Carton and Hofer, 2006; Hubbard, 2014

Using financial and nonfinancial measures in parallel to evaluate the company's performance has been examined by many researchers (Schiff and Hoffman, 1996; Lipe and Salterio, 2000; Henry 2004). They suggest that managers do not pay enough attention to non-financial indicators of the Balanced Scorecard to produce the anticipated benefits of this method.

4. STRATEGIC MANAGEMENT PERSPECTIVE

Fundamental for studies in management area is to understand the goals and objectives of the organization and as well as the processes used to assess the degree of their achievement (Barnard, 1938; Drucker, 1954; Ansoff 1965; Freeman, 1984; Porter, 1996; Merchant and Van der Stede, 2011; Venkatraman and Ramanujam, 2015).

Table 3 presents strategic management perspective and its representative's ideas.

Summarizing, we can say that strategic management perspective on organizational performance is generally multi-dimensional and requires consideration of all parties with an interest in the organization (being multi-stakeholder).

The role of measuring the performance changes from of a simple component of planning and control cycle to an independently process with main strategic function (Nanni et al., 1992).

Table 3. Strategic management perspective

Barnard (1938)	- organizational performance multi-dimensional system, based on the ability to survive as a primary dimension, but in subsidiary with many other dimensions of the activity of a company that provides the ability to survive.
Drucker (1954)	- final organizational performance measure is the survival based on eight different dimensions of the performance, essential for survival and prosperity of a company (multidimensional view).
Ansoff (1965)	- suggested as “a final measure of organizational performance return on investment” (Carton and Hofer, 2006, p. 50) (one-dimensional perspective) with multiple sub-dimensional dimensions of this concept.
Freeman (1984)	- proposed multi-stakeholder vision (multidimensional): an organization can achieve its objectives if achieve organizational goals and objectives of stakeholders. Stakeholders are not seen as organizational constraints (Sitnikov and Bocean, 2013). Rather, they are a resource to meet organizational objectives. Freeman's perspective is multidimensional.
Venkatraman and Ramanujam (1986)	- proposed that the organizational effectiveness has three main dimensions: financial performance, operational performance, influence of stakeholders, composed in subsidiary of many other dimensions.

Source: Adapted from Barnard, 1938; Drucker, 1954; Ansoff, 1965; Freeman, 1984; Venkatraman and Ramanujam, 1986

5. ENTREPRENEURSHIP PERSPECTIVE

Entrepreneurship perspective on performance have a multi-dimensional and multi-stakeholder characteristics (Chandler and Hanks, 1993; Murphy et al., 1996; Carton and Hofer, 2006; Cameron, 2010), being subjective and contextual.

Table 4 presents the objectives, design and disadvantages of this approach.

Table 4. Entrepreneurship perspective

Objectives	- entrepreneur founder objectives identify with the organization's goals, resulting a one-dimensional perspective. - researchers in entrepreneurship adopt a multi-dimensional performance.
Design	- multi-dimensional and multi-stakeholder approach;
Disadvantages	- subjectivism; - using operational indicators; - situational and not generic implementation.

Source: Adapted from Chandler and Hanks, 1993; Murphy et al., 1996; Carton and Hofer, 2006; Cameron, 2010

6. MICROECONOMIC PERSPECTIVE

Many researchers have claimed that shareholders are associated in order to obtain economic benefits. They will invest in companies as long as companies will give the expected returns for their investments (Bocean, 2011). In the opinion of microeconomic researchers organizational performance is linked to meeting these requirements.

Table 5 presents the objectives, design and disadvantages of this approach.

Table 5. Microeconomic perspective

Objectives	<ul style="list-style-type: none"> - the link between the amount requested for the use of assets and the actual created value through use of these assets is organizational performance; - profit organization is equal to the value necessary to meet the requirements of all equity investors.
Design	<p>The difference between the expected and the actual value is economic rent. Performance above the normal value leading to economic returns, while performance below normal resulting in economic losses. Organizations with small profits will be abandoned by resource providers, which endangers their survival. Instead, organizations with yields than expected will attract additional resources, leading to growth.</p>
Disadvantages	<ul style="list-style-type: none"> - requires adjustment calculations; - it covers only the shareholders; has not a multi-stakeholder approach.

Source: Adapted from Barney, 2002; Carton and Hofer, 2006; Hubbard, 2014; Hatry, 2017

7. MULTIDISCIPLINARY PERSPECTIVES ON ORGANIZATIONAL PERFORMANCE MEASUREMENT

According to Henri (2004), models of performance measurement have evolved from the cybernetics view on performance measurement (based mainly on financial indicators and considered part of the cycle of planning and control) to a holistic view (based and non-financial indicators and the performance measurement is an independent process integrated in strategic vision of the organization). In the traditional view (cybernetic view), performance measurement is seen as an element of the cycle planning and control and aims to record performance information, allowing feedback and influencing behavior at work (Flamholtz et al., 1985) and implementation organizational strategy. Building this holistic view, Henri (2004) stated that “performance measurement influence strategic plans and organizational assessment” (Ittner and Larcker 1998), “performing as a reporting and strategic pilotage system” (Simons, 1990).

8. CONCLUSIONS

Starting from the definition of performance we conducted an exploratory research through literature. Although dozens, maybe hundreds of research papers are published every year there is not a consensus on what organizational performance is.

In this paper we conducted a review of the literature regarding the evolution over time of performance models. This included a review of the classical perspectives on organizational performance (accounting perspective, the perspective provided by the Balanced Scorecard

method, strategic management perspective, the perspective of entrepreneurship, microeconomic perspective, and cybernetic perspective).

Conducting research on these perspectives we have come to the same conclusion with Henri (2004) and Carton and Hofer (2006) that organizational performance have multidimensional facets, many ways to study, but there is currently no effective and generally accepted model. However, following exploratory research that we have conducted in the literature we revealed the need to develop contextual performance models that can be generalized. Multidisciplinary perspective could contribute to a more comprehensive understanding of the problems of measuring organizational performance. It is required a holistic view, in which the performance measurement plays a key role in developing strategic plans, acting as a strategic pilotage system.

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