An issue of performance management

Business, Management

“ Profitability is coming from productivity, efficiency, management, austerity, and the way to manage the business.”

~ Carlos Slim

Introduction

Management is overarching, wide ranging term that can apply to anything from team building exercises to review meetings. However, there is one aspect of management and leadership that is particularly important within the finance sector: namely, performance management. In financial firms, both sales and service performance are key indicators for how well a company, bank, or other firm is doing, how they have done well in the past, and how they can do better in the future. With this in mind, this research project will examine the efficacy of two different approaches to performance management within the finance sector: a purely financial-driven performance measure (sales-based), or a balanced scorecard approach that includes non-financial factors of performance (service-based)?

In order to address this overarching question, the project will turn to both existing literature regarding performance management and conduct a comparative study of two bank branches designed to assess performance management approaches, their results, and the respective responses they received within each branch. The study is not designed to be a conclusive case for either approach, but to show both the merits and the potential drawbacks of each approach, which managers can then take into consideration for their own management strategies. This research proposal outlines the main research question, relevant literature, and planned methodology of the research project. While the literature review is not exhaustive and the methodology is certainly open to strategic tweaking, the proposal nevertheless reflects the main approach to the planned project, giving it a solid foundation before research begins.

Research Question & Objective

The overarching issue relevant to this research project is performance management within the finance sector. Even narrowed down like this, performance management is a broad topic with many strategies, styles and measurements to consider. In order to address a measurable and actionable aspect of performance management, this research project focuses on the following research question: does taking a sales-based or service-based approach in performance management make a financial services firm or bank more productive, and what cost does each approach represent for the firm?

The first aspect of this research question is directly related to productivity, and is simple enough; it is asking whether taking a sales-oriented approach can truly increase revenue for a bank, making it more productive, or whether taking a more balanced approach could be more productive in the long run. The second aspect of the question has more to do with other aspects of performance management, such as employee burnout, teamwork, incentives, training, etc. While one or the other approach may prove more productive, it is equally worthwhile to ask what the other, potentially detrimental, impacts of the approach would be. In this way, the main goal of the research project is two fold. First, the goal is to establish the productivity of a sales-oriented approach versus a balanced scorecard strategy for performance management. Second, the goal is to determine how these approaches can potentially work to the detriment of performance management more generally, and therefore hurt the firm, on an internal level, in the long run.

Literature Review

It is important to establish what performance management within human resources, and more particularly within the financial sector, means. In this regard, it is clear that the management of human resources within a firm have a direct impact on the performance and outcomes of that firm. As one source states, " The impact of human resource management policies and practices on firm performance is an important topic in the fields of human resource management, industrial relations, and industrial and organizational psychology" (Huselid 1995, 635). In other words, the strategies that managers within human resources take not only have an effect on firm performance, but also have a direct impact on the way an organization runs and the way individual employees function on a day-to-day basis. As Huselid (1995) goes on to state, " A firm's current and potential human resources are important considerations in the development and execution of its strategic business plan" (636). The benefit, then, of performance management to a firm is quite clear. But what does performance management look like within a firm? According to Huselid (1995), performance management practices include recruitment and selection, incentives and compensation, employee training, development of skills and abilities, motivations, and overall retention (635). Whether a manager is successful in achieving both high performance and retention as a whole largely depends on his or her ability to successfully manage employees and processes through all of these areas. The key here is that performance is tied to correct management: “ Organizational human resource policies can, if properly configured, provide a direct and economically significant contribution to firm performance” (Hselid 1995, 636). The question of this research project is therefore what this proper configuration looks like within the financial sector.

Related to this question, David Otley (1999) discusses a framework for management control systems that utilize both financial and behavioral aspects for objectives, strategies and plans within an organization (363). Otley (1999) begins by recognizing a fact that is crucial to this proposed research project: “ Management accounting has tended to restrict itself to considering only financial performance, and to use frameworks and theories drawn primarily from the discipline of economics” (363). The article states that even in cases when performance management considers behavioral aspects of performance, this is only done in accordance with an overall economic approach. This is confirmed by a quick survey of literature relevant to financial performance, a great deal of which shows a focus on the bottom line as the final indicator (Ambler et al. 2002; Bolton 2011; Lusch & laczniak 1989; Wong & Merrilees 2015). The point of this article from the start, and how it will be used in the proposed research project, is in regards to the very definition of performance. The article notes that there are various ways of defining good performance within an organization: “ an organization that is performing well is one that is successfully attaining its objectives” but, on the other hand, “ one that is effectively implementing an appropriate strategy" (Otley 1999, 364). In this way, Otley (1999) challenges purely financial and budgetary notions of performance: " It will become apparent that more attention will need to be paid to the definition of performance from the perspectives of relevant stakeholders" (364). This is also the major notion of the research proposal at hand. Namely, the question of the project is which form of performance management is more effective for organizations, which involves a discussion not only of financial performance but organizational health and development as well.

One key research finding that drives this point home is an academic discussion of organizational commitment and employee development (Tansky & Cohen 2001). The research found that " when organizations make efforts to develop their managers, the managers become more committed to the organization and also more likely to develop their employees" (Tansky & Cohen 2001, 285). In other words, the researchers found that it is not enough to simply set a sales quota or target goals for new business in the bank; instead, success in both the long and short run depends more (or at least just as much) on career development, skills training, and even management training itself. More specifically, Tansky and Cohen (2001) found that " organizational commitment and perceived organizational support were significantly correlated with satisfaction with career development" (285). As the authors conclude, it is not a far stretch to conclude that those with a higher level of satisfaction in career development are more likely to result in higher performance. That said, it is important to realize that the individual strategies of management and development depend on the context of the given firm, company or bank. This is called the contingency theory of management accounting, and will serve as an important foundation for the conclusions and recommendations of the final research project. As Otley (1999) describes it, contingency theory in management accounting suggests that there is no universally applicable system of management control but that the choice of appropriate control techniques will depend upon the circumstances surrounding a specific organization" (367). In other words, management is context-specific, even within the financial sector. With this in mind, the main limitation of the literature review for this research project is that the majority of the literature is conceptual rather than completely objective, and can only provide a description of various management methodologies and strategies, rather than a precise prescription of how managers should approach performance. In short, performance management is not an exact science.

Regardless of the approach, much of the relevant literature to this topic discusses performance management in terms of a holistic point of view. As one professional report states, an effective performance management program includes four main components: " Setting individual and team goals that are aligned with the agency's goals; establishing a measurement system that is accepted by users; providing adequate, timely feedback; and rewarding and recognizing desired performance" (OSOPM 1997, 4). This report specifically links performance management to high-quality customer service, which makes it an even more holistic approach and ties performance to goals and factors that are not explicitly financial. In the last two decades, this approach has become associated with what is called the Balanced Scorecard, an approach that makes strategic planning and management decisions by aligning performance with all business activities and goals rather than a purely financial or sales-oriented perspective (BSI 2016). This perspective considers “ aspects of the financial, customer, internal processes and learning and growth” (Rostami, Goudarzi & Zaj 2015, 25). In other words, the Balanced Scorecard attempts to develop an organization or firm based on both external and internal factors, developing the organization along the lines of finances and human resources.

Many managers in enterprises have recognized the importance of this kind of human resource management, stating that the developing and training of individual employees and managers; they even considered this to be more important than communication and remuneration (compensation) for the overall stability of an organization (Rehof 2015, 111). Another study found that focusing on teamwork and goal orientation had a positive relationship with sales, increasing performance of the organization as a whole (VandeWalle, Brown, Cron, & Slocum 1999, 249). As these scholars conclude, management should avoid “ an excessive focus on performance goal orientation without a comparable skill-development focus” (VandeWalle, Brown, Cron & Slocum 1999, 249). The benefit of this holistic approach is clear. Finally, yet another study confirmed the value of the Balanced Scorecard approach, by finding that bank branches that implemented this approach for performance management outperformed those branches that focused instead on solely financial measures of performance (Davis & Albright 2004, 135). These final academic reports will serve as a foundation of both the methodology and conclusions of the final research project.

Methodology

Key Concepts

In order to effectively address the topic presented above in original research, this research project must present the specific methodology that will be utilized. However, even before the research design can be discussed, it is also crucial to discuss the specific terminology and working concepts that will be used throughout the research project. In order to establish a cohesive research design and final project, the specific terms and concepts within this main research question should be discussed and defined, as specifically as possible. Again, there are many professional resources that deal with these two different approaches, and both the present research proposal and final research project will utilize these resources accordingly.

As mentioned above, the balanced scorecard maintains financial measures, but goes a step past this in order to consider factors like long-term capabilities and customer relationships (BSI 2016). In this way, when the research project discusses a " service-based" approach for performance management, it does not throw out financial indicators altogether, but instead brings in other important factors, such as stakeholder satisfaction, efficiency, knowledge, innovation, and employee development (BSI 2016). This is a crucial differentiation, as both groups in the comparative study will be utilizing financial measures; however, one will be including additional measures that may make for more productivity in the long run. Therefore, the operational definition of this service-based approach will be synonymous with the Balanced Scorecard for the purposes of this research project.

To contrast this, the research project will also deal with a " finance-based" approach to performance management, which focuses solely on measurable outcomes in terms of the firm's budget, bottom line, and other salient and predictable financial factors. For instance, the majority of the key performance indicators (which is a classic approach in performance management) are purely financial: asset quality, capital adequacy, assets under management, loan loss, new business, etc. (PWC 2007). This has the potential to turn even the most retail-focused banks into sales agencies, which is one of the dangers to be discussed in the final project. As one professional resource describes what they call the " results approach", the approach " focuses on removing the subjectivity from the measurement process by evaluating objectives based one employee performance results… you either meet or you do not meet the given objective" (Sarieddine 2016, n. p.). With this in mind and for the purpose of this research project, the financial approach to performance management will be operationally defined as focusing performance reviews on purely financial milestones or goals. Whereas the " service-focused" approach will include outside factors that affect performance, this approach will only consider explicitly financial goals.

Finally, the key term to be utilized throughout the research project is found in the second part of the research question: that is, the costs associated with each of the above approaches. These will not be defined as direct economic or financial costs for the firm (although there is a case to be made that each approach would cost firms money in different ways). Instead, the research project will define costs as organizational casualties of the performance management approach. For the service-oriented approach, these are likely to be performance issues like a lack of competitiveness, opportunity costs, and unclear quotas or goals. IN contrast, the ‘ costs’ associated with a sales-based approach to performance management are likely to include employee burnout, lack of training and skills, lack of specific development feedback, and even a lack of teamwork in firms that would otherwise benefit from team-based projects and clients (Turgut & Mert 2014). In this way, the costs associated with each approach will be a major part of the project’s conclusions and recommendations.

Research Design

Now that the key terms of the research project have been defined, the section can turn to the research approach, strategy and specific tools for this research project. First and foremost, the research philosophy that this project will take is an empirical approach when it comes to epistemology and a pragmatic approach when it comes to ontology. In other words, the research project will attempt to address the issue of performance management from an empirical perspective, but recognizes (as mentioned above) that performance management is not an exact science, and should be left up to the discretion of managers and other organizational leaders. In terms of research approach, the project will be utilizing a comparative method as its central tool for examining the worth, efficiency, and value of the two approaches to performance management discussed above. The comparative method, by its very nature, deals with a small number of cases: “ Given inevitable scarcity of time, energy, and financial resources, the intensive analysis of a few cases may be more promising than the superficial statistical analysis of many cases” (Lijphart 1990, 481). With this in mind, the research project will focus on two retail branches of a bank operating in the United States, having one utilize a service-oriented approach and the other a sales-oriented approach to performance management.

More specifically, the study will take place over the course of one fiscal year. Before the comparative trial begins, all employees and manages will be given a survey that asks about everything from organizational culture at the bank to their personal preferences for dealing with clients and customers. Then managers in each bank will be given specific instructions regarding how to enact the two different performance management approaches discussed above. For instance, one branch manager will be instructed to conduct regular feedback and development meetings with employees, while the other will be instructed to make quotas explicit and treat employees entirely dependent on their financial performance (such as the bringing in of new business). Following the twelve-month period, the research project will utilize two specific data collection methods: first, it will collect a follow up survey of employees and managers to compare with the initial survey and, second, it will gather the financial records of each branch to assess how each branch has fared over the past two months. In order to ensure that the independent variable (i. e. the performance management) is being accurately assessed, the project will also compare the financial records from the study period with those from the previous year. In this way, the project will utilize two methods of analysis: a subjective analysis of the survey results and an empirical analysis of the financial results of each firm. Utilizing these two forms of analysis will balance the subsequent discussion, which will seek to answer both the first and second part of the research question equally.

Limitations & Reliability

The main limitation with this research project is the same as for any comparative method study: there is a “ weak capacity to sort out rival explanations” (Finifter 1993, 106). In other words, in the analysis of the data collected for this research project it will be difficult to pinpoint which performance indicators had to do with the change in performance management style and which had more to do with personnel issues, previous management styles, and outside influences like the socioeconomic status of the area surrounding the bank branch. However, the reliability and validity of this research project will be realized by combining the empirical data (financial performance indicators) with more analytical indicators (the results of the survey). Overall, the project does not seek to prove or disprove a given approach, but rather show the efficiency of each in specific contexts.