Integrated performance management: adding a new dimension

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Abstract
Argues that effective integrated performance management (IPM) needs both strategic and maturity alignment. The management literature focuses on strategic alignment; develops the concept of maturity alignment. Maturity alignment indicates that an organization must install the appropriate managerial and operational processes in accordance with the desired maturity level. Identifies four different maturity levels that indicate how well the organizational and managerial processes within an organization are defined and developed. Argues that insufficient maturity alignment is one of the major reasons why many performance management initiatives fail.

Introduction

Why do so many companies have difficulties in delivering sustained (financial) performance? One explanation is that companies find it extremely difficult to define a unique strategic position in an ever-changing competitive arena. Having a clear vision and a well-elaborated strategy, however, is not enough. In their most recent book *The Strategy-focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment*, Kaplan and Norton (2001) see the ability to execute the strategy as an even bigger management challenge than determining the right vision and strategy. These authors point to the importance of adequate performance management systems as a critical success factor for the strategy implementation.

Interest in performance measurement and management has rocketed during the last couple of years. Many different frameworks have been developed, which all have contributed to our understanding of performance. But each offers a different perspective on performance (Neely, 2002). Clearly, what is needed is a more integrated approach towards the management of performance. Integrated performance management (IPM) is recognized as a hot business topic today and the demand for such systems and processes is increasing. But, as is the case with many widespread management concepts, there is confusion about what it exactly stands for. We define IPM as a process that helps an organization to formulate, implement and change its strategy in order to satisfy its stakeholders' needs. IPM should enable an organization to develop and implement its strategy to live up to its performance expectations. In this paper, we argue that IPM is effective if the

organization achieves both strategic alignment and maturity alignment. The first concept is generally accepted in the strategy and management literature. The second concept is new, but helps explain why many performance management initiatives fail. In this paper, we will present an integrated performance management framework that provides concrete guidelines for achieving both strategic and maturity alignment.

IPM and strategic alignment

Strategic alignment is a prerequisite for effective performance management. This is increasingly acknowledged in the management literature. For example, Kaplan and Norton (2001) state that strategy implementation requires that all business units, support units, and employees be aligned and linked to the strategy. In this way, effective performance management provides a systematic link between organizational strategy, resources, and processes. Thus, aligning operational and management processes to key performance indicators that capture the results of business strategies is at the heart of successful strategy implementation (Institute of Management Accountants, 1998; Knight, 1998; Ashworth, 1999).

Strategic alignment is not a new concept in management. The concept of strategic alignment – or strategic fit – has been investigated in different subdisciplines of management. In management control, there is a substantial literature that investigates the relationship between management control structure and strategy (Miles and Snow, 1978; Porter, 1985; Miller and Friesen, 1982). Management control researchers have also demonstrated a link between strategy and the management control process

(Chenhall and Morris, 1995; Govindarajan and Fisher, 1990; Bruggeman and Van der Stede, 1993). Researchers have also shown that compensation should be aligned with organizational strategies (Balkin and Gomez-Mejia, 1987; 1990; Balkin et al., 1991; Boyd and Salamin, 2001; Heneman, 2001; Montemayor, 1996). And in the human resources literature, there is a trend towards strategic human resources management. This is defined as the linking of the human resources function with strategic goals and objectives of the organization in order to improve business performance and develop organizational cultures that foster innovation and flexibility (Truss and Gratton, 1994; Tyson, 1997; Purcell, 1999; Holbeche, 1999). Strategic alignment is also a major issue in the information systems (IS) literature. IS researchers have sought empirically to test whether the alignment of IS and business strategies has created a competitive advantage (Henderson and Venkatraman, 1993; Chan and Huff, 1993; Kearns and Lederer, 2000).

Unfortunately, the concept of strategic alignment has been approached in a fragmentary way. Management controllers have mainly looked at alignment between control and strategy, IT researchers have investigated what strategic IS alignment means, and in organizational behavior, researchers from a variety of management disciplines have investigated how to link organizational structures, HR, rewarding, and leadership to strategy. All these researchers have focused on their own domains, and have only touched upon implications for the other management disciplines.

Another major problem with the traditional contingency research is the different conceptualization of the strategy concept. Common frameworks are the frameworks developed by Porter (1980), Treacy and Wiersema (1995) and Miles and Snow (1978). These frameworks are very different in nature. The frameworks of Porter and Treacy and Wiersema focus on the content of strategy. However, Treacy and Wiersema also pay a lot of attention to describing the organizational implications of a particular strategic choice. The framework developed by Miles and Snow is slightly different and offers a theory of strategy dynamics (prospector, analyzer, defender and reactor) and aligns these four types with underlying organizational processes. Chakravarthy and White (2002) favour Miles and Snow's approach and argue that strategic alignment should focus on strategy

dynamics. They identified four "new" strategy dynamics:
1 consolidating;
2 improving/imitating;
3 migrating; and
4 innovating[1].

According to these authors:
> ... this typology provides an approach for integrating process research on business, corporate and international strategies – as well as research on steady state (consolidating) and change (improving/imitating, migrating, innovating) (Chakravathy and White, 2002, p. 187).

Towards an integrated performance management framework

If we want to further develop the concept of strategic alignment, we need to specify more clearly what elements of the management and operational system need to be aligned with the overall strategy. Garvin (1998) has argued that researchers who want to describe organizational functioning, need to adopt a process perspective on management and organization because processes provide a powerful lens for understanding organizations and management. This approach is not uncommon and process theories have appeared in organization theory, strategic management, operations management, group dynamics, and studies of managerial behavior (Garvin, 1998). In strategic management, Porter's (1980) value chain is a good example of how a process view is used to analyze sources of competitive advantage.

At the highest level, a business can be broken down into three key processes: operational processes, support processes, and management processes. This typology is not uncommon; we found similar classifications in Ashworth (1999), Childe et al. (1994), and the CIM-OSA Standards Committee (1989). Operational processes are those processes that create, produce, and deliver products and services that customers want; support processes are those processes that support the operational processes and that are necessary for running the business (Garvin, 1998; Porter, 1980). We also identified management processes as a separate category of processes. These processes do not focus on what tasks to accomplish, but are more involved with how to accomplish tasks. The focus is on working with and through others to achieve organizational objectives in an efficient and ethical manner (Buelens et al., 2002). The management processes include: direction-setting processes (often

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referred to as planning), monitoring and controlling, organizing, staffing and leading (Megginson *et al.*, 1989)[2]. We have regrouped these five categories into three major management activities:
1 goal setting;
2 controlling; and
3 organizational behavior processes.

This latter activity focuses on the "working with and through others" part of the definition of management (see above) and consists of all kind of organizational behavior aspects that intend to create commitment and motivation across all employees and managers within the organization[3].

In summary, we consider the following management and organizational processes:
- goal-setting processes:
- operational processes;
- support processes;
- control processes; and
- organizational behavior processes and structures (see Figure 1).

Then, strategic alignment is a process that creates a fit between organizational strategy and the various components of this IPM framework. As we already mentioned, most academicians and consultants have adopted a fragmentary view on strategic alignment. The IPM framework offers new opportunities to broaden the concept of strategic alignment, and to integrate insights from other management disciplines into the performance management discussion. But it is clear that much more research and theory building is needed to come to a more integrated approach of strategic alignment.

Although we believe that strategic alignment is of crucial importance for effective performance management, we believe it is not sufficient. Many companies start initiatives that intend to create strategic alignment within the organization, but the success of these initiatives is in many cases only moderate. We believe that the moderate success is caused not only by a lack of strategic alignment, but also by a lack of "maturity alignment" of the managerial and operational process. The experiences of Electrabel, Belgium's largest utility company, might suggest that we need to take another dimension of alignment into consideration.

Maturity alignment focuses on the process side of the performance management trajectory and describes how well the integrated performance management process has been developed. Some management practices work well in one phase, but may cause crises in another phase. Greiner (1998) identified "five phases of growth", which are all characterized by a dominant management style (but all face a dominant management problem that must be solved before growth can continue). Our approach towards maturity alignment also starts from this principle. Like Greiner, we identify a number of maturity phases, and argue that the management and operational processes need to be aligned with the corresponding maturity level of the organization. One of the major problems with current performance management practices is that this is often not the case. In such cases, organizations are misaligned from a maturity perspective. Before we explain the concept of maturity alignment, we present four different maturity levels that represent different stages of development of an organization.

Four different maturity levels

We have identified four different maturity levels for an organization. We define maturity as the extent to which organizational and management processes are developed. The concept of "maturity" was borrowed from the different capability and maturity models (CMM) that are applied to processes such as software development and HR[4]. However, we use the concept in a broader context. Furthermore, we have identified four maturity stages, whereas the CMM models typically describe five levels. The four maturity stages are:
1 start;
2 low;
3 medium; and
4 high (see Figure 2).

These four maturity stages correspond with different "management styles":
1 pioneer environment of launching and trying (start);
2 phase of artisanal habits (low maturity);

Figure 1
The different components of the IPM framework

INTEGRATED PERFORMANCE MANAGEMENT FRAMEWORK

Direction and goal setting/ Objectives	Operational processes	Support processes	Evaluation and control	Organizational behavior
				• Organizational design • HRM systems • Leadership skills • Reward systems

Figure 2
IPM components and maturity level

IPM component / Maturity level	1. Goal setting	2. Operational processes	3. Support processes	4. Evaluation and control	5. Organizational behavior processes
HIGH	Broadly revised	Autonomous and flexible	Integrated and optimized	Learning	Self-directing teamwork
MEDIUM	Unequivocally known	Streamlined	Formal and powerful	Correcting	Disciplined teamwork
LOW	Identified	Structured	Conventional	Coordinating measuring	Cooperation
START	Partly known	Activities delinked	Informal according to needs	Informing	Ad hoc

3   structured professional approach
(medium maturity); and
4   competent do environment (high
maturity).

The start phase is – as the term says – situated when organizations (or departments within organizations) are set up. The emphasis is on creating both a product and a market (Geiner, 1998). Objectives and goals are only generally defined and determined. There is no vision and goals are short-term oriented, focused to the realization of the next project. Processes are organized on an *ad hoc* basis; via trial and error, the organization tries to produce the products or services and tries to cope with the demand. There is overlap with other initiatives, and it is not always clear if the different operational processes contribute to the overall goal. Contributions and responsibilities are informally engaged and based on interpersonal relationships, habit and individual goodwill. There is a lack of experience, interfaces are fuzzy, and there is no clear distinction between operational and supporting roles. Control is simple: "watch if it works out or not". Global performance is driven by enthusiasm of the participants to succeed. Some kind of godfather (in many cases the founder of the company or the department) takes the lead; he directs towards immediate results.

Organizations that grow successfully reach the low maturity phase ("artisanal habits"). Deliverables and targets are identified, and the scope of activities is defined. Goal-setting is a top-down process. The operational processes are getting structured, and efficiency becomes key. Management has defined what tasks are necessary, and for each task there are clear expectations what needs to be done. Product control is set up. The organization tries to optimize each activity; however, there are no overall

structural process improvements. Technical competences are essential, and the focus is internally oriented. Financial resources, IT tools and other support activities are delivered if the investments can be justified. Information-sharing occurs "on the job". There is an overall operating budget for the organization (or department) and internal control is the major control and evaluation tool. Organizations in the low maturity phase are hierarchical: the manager makes the decisions, and employees implement what is decided by the manager. Technical skills and "belonging to the family" determine the appreciation, but rewarding systems are traditional. There are "mental coalitions" between different responsibles or between different departments or sub-units.

Organizations can move to the medium maturity phase, which is called the structured professional approach. In this phase, the core business of the organization is clearly identified. If the organization is part of a larger company, then it is clear how the organization contributes to the mission of the company. There is a good knowledge about what internal and external customers want, and the organization has identified the major stakeholders. The vision and strategy are well-developed. Employees are involved in the goal- and target-setting process. Operational processes are clearly depicted, aligned and adequately controlled. There is a systematic approach to solve problems, which stimulates organizational learning. Prevention is very important. Roles and contributions of the different employees are explicitly determined and interfaces are clear. Competence management, training and education are well established. Management accounting, internal communication, good documentation, good IT tools are important supporting tools. Control focuses on the key performance indicators, which logically flow

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from the vision and the strategy of the organization. Control systems are available and are used to determine whether the organization still is "on the right track". The focus is on solving problems through team actions; teams are combined across functions to handle specific tasks. Many "organization-wide" initiatives emerge; multidisciplinarity is promoted. Organization structures are becoming more complex: matrix-type structures are frequently used to assemble the right teams for the appropriate problems. Rewards are becoming strategic, and are linked to the realization of the formulated goals.

We have called the high maturity phase the "competent do environment". This is the stage that is often promoted in management textbooks. The mission is known by all employees, the vision incorporates the interests of the different stakeholders and becomes some form of "strategic intent" (Hamel and Prahalad, 1989), and everybody in the organization contributes to the strategy (formulation and implementation). Individual goals correspond with corporate objectives, and are adapted to the changing environment. Flexibility and organizational learning are key words in this maturity stage. Operational processes are extended and incorporate many supporting tasks (thanks to the multidisciplinarity of the people). Operational changes and process reengineering are common practices as line workers easily adapt to the changing working environment. Competence management and empowerment are crucial issues in HR. Far-reaching authority and responsibility is granted to project teams, and apart from some necessary basic agreements and targets, any formality and interference from above is eliminated. Routine work is facilitated by automation and IT systems, and workers can spend time to system improvement. For some specific and exceptional situations, appropriate service centers are developed. Control not only focuses on internal control; learning is equally important. Diagnostic and interactive control systems are used together (Simons, 2000). The results of these control activities are used to re-evaluate the vision, strategy and goals of the organization. All members of the organization are actively involved in the control process and are stimulated to propose performance improvement projects. The members of the organization work closely together in teams and once the targets are specified have the autonomy to organize the tasks themselves. In practice, there are a few non-negotiable rules that apply to the whole organization.

These rules serve as some of beliefs or boundary systems (Simons, 2000) that delineate in what opportunity space organizational members can act. The organization is lean and mean, and people are highly empowered. Everybody feels responsible for the overall mission and vision of the organization, which is driven by a "striving for excellence".

Maturity alignment

Our central proposition is that apart from strategic alignment, an organization also needs to align its different components of the IPM framework in correspondence with its maturity level. This means that an organization can only be successfully managed if all component of the IPM framework are more or less situated in a similar maturity level. For example, if an organization has positioned itself in the medium maturity phase, then its goals need to be unequivocally known, operational processes should be streamlined, supporting processes need to be well-developed, and control processes should be based on key performance indicators. Management should go for disciplined teamwork as the appropriate organizational behavior process (as is presented in Figure 2).

But what happens if an organization is maturity misaligned? Figure 3 presents two types of maturity misalignment that we encountered in various organizations.

Situation A describes an organization where objectives outrun operational processes, supporting activities, evaluation and control processes. For example, a company has defined and communicated a clear vision, captured in a challenging mission statement. However, the organization lacks efficient operational processes and appropriate supporting processes, and there is no discipline to measure and manage performance. It is clear that this is an inappropriate situation which – if the slope of the curve is significant – can create a lot of frustration among decision makers.

In this organization, there is vision but no action. Imagine a service company that defines its competitive advantage in terms of customer orientation, but lacks adequate and well-structured complaint processes. If clear objectives are set without adequate measurement, it will be impossible for management to judge if the organization is on the right track. Managers get confused by biased and conflicting information. For sure, this will create frustration. In one company,

Figure 3
Maturity misalignment

	1. Direction/ objectives	2. Operational processes	3. Support objectives	4. Evaluation and control	5. Organizational behavior
Start	Partly known	Activities not linked	Informal according to needs	Informing	Ad hoc
Low	Identified	Structured	Conventional	Coordinated measuring	Cooperation
Medium	Unequivocally known	Streamlined	Formal and powerful	Correcting	Disciplined teamwork
High	Broadly revised	Autonomous and flexible	Integrated and optimized	Learning	Self-directing teamwork

Situation A

	1. Direction/ objectives	2. Operational processes	3. Support objectives	4. Evaluation and control	5. Organizational behavior
Start	Partly known	Activities not linked	Informal according to needs	Informing	Ad hoc
Low	Identified	Structured	Conventional	Coordinated measuring	Cooperation
Medium	Unequivocally known	Streamlined	Formal and powerful	Correcting	Disciplined teamwork
High	Broadly revised	Autonomous and flexible	Integrated and optimized	Learning	Self-directing teamwork

Situation B

objectives were set to achieve a return on capital employed (ROCE) of 10 per cent. However, every division used its own definition of how to calculate ROCE. In some departments, we saw clear, well-defined objectives. However, some managers led their division and team in a very task-oriented way without giving any responsibility to their people. The objectives were never owned by the employees and the objectives quickly became: "Do as the boss says".' A similar problem exists – on a higher level – with some multinational corporations: local managers often receive the message that they are accountable for their own bottom line, while most decisions on revenue and cost drivers are decided and imposed by the head office.

Situation B is a different situation. In this organization, results are intensively monitored, but operational processes are poor and objectives are not clear, so that teams are not sure about which direction the organization wants to go (e.g. after a merger or acquisition). This is unreasonable and leads to frustration among employees of the operational departments. Similarly, an organization that installs formal and powerful support activities without a clear vision and a process-oriented approach, is wasting time and resources.

Putting highly sophisticated performance monitoring on hardly organized processes is dangerous, because there is no assurance that the measurements reflect reality. For example, a service company measures and internally benchmarks maintenance interventions after service calls from its customers on the basis of elapsed time between various crucial process steps (client call, planning of the intervention, the intervention, closure of intervention, invoicing of customer). The processes, however, are not at all streamlined around these process steps. In the meetings about these monitoring activities, there is more discussion about the interpretation of the measurement than about actual performance and correction.

Linking incentives to objectives that employees cannot influence is a dangerous thing. One of the common problems is that companies want "X" but pay for "Y". For example, the management of a plant wanted to limit the duration of major overhauls by reengineering the work of the maintenance crews. Nobody seemed to be very enthusiastic about going along with the idea. After a while, the management realized why. An HR procedure defined the bonus for major overhauls in direct proportion to the

duration of the overhauls: the longer the overhaul, the bigger the bonus!

The nature of the problems organizations encounter owing to maturity misalignment differs according to the type of misalignment. Depicting the maturity level of each component of the IPM framework offers insights where management should pay attention. Obviously, managers should pay attention to the component that is least developed, and that should be brought to a higher maturity level. On the other hand, if one component is too well developed in comparison with the overall maturity of the organization, it is better to set less ambitious targets for this particular component.

Looking at an organization with a maturity perspective provides us with some good insights as to why many performance management initiatives fail. Many companies try to apply the new management hypes that were developed by business schools and consultants in their organization, often with only mediocre success. For example, balanced scorecards (or whatever other balanced performance measurement frameworks), empowered employees, knowledge workers, lean and mean (i.e. flexible and learning) organizations are some of the "holy grails" for modern companies. However, these all require an organization to be either at the medium or high maturity stage.

Managers often overlook the fact that some elements of their management system (one of the five components of the integrated performance management framework) are still situated in the start or low maturity stage. It is clear that new management initiatives will succeed only if the whole performance management system is adapted and organized according to the appropriate maturity level.

This means that you not only educate and empower your employees, but also that you create the appropriate organizational structures and have the appropriate leaders and reward and HR systems. This calls for a real integrated approach, where attention is paid to all components of the integrated performance management framework.

Conclusion and implications for further research

In this paper, we have argued that effective IPM is based on two premises:
1   strategic alignment; and
2   maturity alignment.

The current focus in the management literature is on strategic alignment, but there is no agreement among researchers what constitutes strategic alignment. The IPM framework is an interesting tool that can be used to develop a more integrated approach towards strategic alignment. Future research should explore how different organizational strategies are translated into the five components of the IPM framework. For example, what does the management and operational model of a cost leader/ operationally excellent company look like? And does it differ from the management model of a product leader or customer intimacy company?

In the paper, we have focused on maturity alignment as a new dimension for effective IPM. This dimension has not been examined as such in the performance management literature, but explains why so many performance management initiatives fail. One of the main challenges is to operationalize these ideas and to explore empirically whether maturity alignment affects organizational success significantly. Furthermore, we would like to explore what are the major challenges for organizations that are situated in the start, low, medium or high maturity level. And it would be interesting to examine whether these challenges differ for organizations that pursue different strategies. In this way, we would combine theories that address both strategic and maturity alignment, and provide further insights into the dynamics of integrated performance management.

Notes

1 Improving/imitating advances the firm's strategic position towards the strategy frontier. The strategic frontier is where those firms with the current best practice are positioned. Other firms which are on the strategy frontier, or those closer to it, provide the firm seeking improvement ready benchmarks to follow. Firms that have reached the strategy frontier can start consolidating and maintaining this position by monitoring its competitors and making incremental improvements. Firms can also start innovating, i.e. moving beyond established best practices and advancing the strategy frontier. Migrating is the fourth option, and involves a change in a firm's position along the existing frontier. While this is a significant change for a firm, it differs from innovating. According to Chakravarthy and White (2002), a firm migrating from one generic strategy to another has exemplars: the position it seeks is not new. Other firms, elsewhere on the strategy frontier, provide benchmarks. This is a luxury that innovators do not have.

2 There is considerable agreement on the basic "functions of management" and most definitions point in the same direction. Traditionally, planning is defined as choosing or setting an organization's mission, or purpose, and objectives and then determining the policies, projects, programs, procedures, methods, systems, budgets, standards, and strategies needed to achieve them. Controlling involves devising ways and means of assuring that planned performance is actually achieved. It can be either positive or negative. Organizing is the function that provides the formal structure through which work is defined, subdivided, and coordinated. Staffing is planning personnel needs; recruiting, selecting, training, and developing capable employees; placing them in productive work environments; and rewarding their performance. Leading is getting employees to do the things you want them to do (Megginson *et al.*, 1989, pp. 26-7).

3 A more academic definition goes as follows: "Organizational behavior is an interdisciplinary field dedicated to better understanding of management of people at work" (Buelens *et al.*, 2002).

4 CMM is a registered trademark of the Software Engineering Institute and Carnegie Mellon University. These institutions now offer a more integrated approach, which is called CMMI. The purpose is to provide guidance for improving an organization's processes and ability to manage the development, acquisition, and maintenance of products and services (see www.sei.cmu.edu/cmmi).

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