ORGANISATIONAL PERFORMANCE: KNOWLEDGE MANAGEMENT ADDING VALUE TO MEASUREMENT SYSTEMS

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ABSTRACT

The concept of performance management is usually understood as a holistic, integrated performance evaluation method that is linked to the organisation’s strategy and objectives, and includes strategy planning, performance standards, performance measurement and evaluation, and at the individual level, training and development for managers and staff. Although organisational performance is largely measured in financial terms, other aspects of it such as organisational learning, knowledge management, growth and innovation are now starting to be addressed. This paper attempts to integrate the concepts of knowledge management, organisation learning and performance measurement in a strategic context.

INTRODUCTION

Performance measurement systems play a key role in developing strategic plans, in evaluating the achievement of organisation objectives and compensating managers (Larcker 1998) and in providing basic information for performance management, of which it is a subset. Where organisational performance is measured, it is largely in financial terms such as return on investment or return on equity. However, issues relating to other aspects of organisational performance, such as learning, growth, innovation (Kaplan and Norton 1992, 1996; Kloot and Martin 2000) and knowledge management in relation to organisational performance (Bollinger and Smith 2001; Von Krogh et al 2000) are now starting to be addressed, as there is increasing recognition that financial measures alone do not capture all the important dimensions of performance. The purpose of this paper is to briefly overview the current literatures in organisational performance, knowledge management and organisational learning, and to examine linkages between them. The overall aim is to integrate these concepts.

ORGANISATIONAL PERFORMANCE MEASUREMENT

The last decade has seen the development of a number of multi-dimensional performance measurement systems which take a broader perspective than simply measuring earnings per share and return on investment. One such system that has been the focus of considerable interest is that of Kaplan and Norton’s (1992, 1996) Balanced Scorecard (BSC), that focusses on strategy, and attempts to manage performance over the four dimensions of financial performance, customer perspective, internal business processes, and learning and growth. It is this last dimension that these authors believe leads to performance management.

ORGANISATIONAL PERFORMANCE MANAGEMENT

There are a number of factors critical to the success of the performance management system, all of which put the spotlight on people. The people must have a common understanding of the mission, values, goals, and objectives of the organisation and must grasp the part that they, as individuals, and as members of a team, play in achieving the organisation’s goals. The organisation must have the right systems and processes in place to support the people in the performance of their work; to facilitate ongoing feedback, coaching or mentoring, and learning and growth; to provide people with meaningful work, and appropriately recognise and reward the contribution that people make (Freiss and Galati 2001). Similarly, leaders of the organisation must be provided with the appropriate resources to help them identify problems, including appropriate and timely training and other learning opportunities, and the right technological support, to solve problems. Leaders at all levels must also be aware of the importance of their own role in creating a positive work environment and in managing both processes and people effectively. A positive work environment, where employees feel satisfied, will be reflected in dealings with clients and customers, leading to better business results (McKay 2001).
ORGANISATIONAL LEARNING

A holistic performance management system therefore focuses on innovation and learning, generally recognised as critical in the chaotic and turbulent business environment of today (Stata 1989; Den Hertog et al 2000; Kloot 1997). Learning has been defined, among other ways, as the process by which an organisation (1) detects problems both within itself and its environmental fit, and (2) determines the solutions to problems and how to adapt to organisational change (Kloot 1997). Carneiro (2000) suggests that there are different levels of knowledge an organisation must manage: basic and available to everyone, and specialised. It is the specialised knowledge which must be managed to support innovation in a dynamic environment. Developing a learning orientation within organisations can do this.

ORGANISATIONAL KNOWLEDGE MANAGEMENT

Knowledge per se, as a decisive factor affecting an organisation’s ability to gain competitive advantage (Von Krogh et al 2000) has only gained prominence in the management literature over the last five years. It is the management of knowledge that will achieve the goal of tapping into the collective intelligence and skills of employees (Bollinger and Smith 2001) Palmer and Hardy (2000) argue that the increasing rate of environmental change and technological complexity demand organisational forms in which knowledge based information is widely disseminated. Rowley (2000) and others suggest models in which information leads to learning which leads to knowledge which affects decisions, actions and behaviour.

Learning facilitators

Cultural factors impact on many aspects of organisational functioning, but those that may help facilitate learning include high trust and mutual respect; open communications; truthfulness; commitment; team learning; sharing; systems thinking; and a move from competition to collaboration and co-operation (McClean 2000). There are also numerous supporting infrastructure factors which can facilitate learning. McLean (2000). DiBella and Nevis (1998) suggest that an appropriate reward system is crucial if there is to be real commitment to learning. This implies some form of management: measuring learning and knowledge and rewarding learning-related behaviours. The question of how learning behaviours can be measured in order to be rewarded remains to be satisfactorily answered, however. Other factors include is technological support to facilitate access to the information which when acquired, distributed, interpreted and stored becomes knowledge and learning (McClean 2000). Clear systems for managing information and knowledge are also important.

Learning inhibitors

Argyris (1994) lists several learning and innovation inhibitors. These include bureaucratic structures and processes that may prevent innovations by subjecting every new idea to too many checks and balances; defensive reasoning, where individuals act to protect themselves and others whenever important problems involve potential threats or embarrassment; face-saving behaviour, and avoidance of dealing with emotional or threatening issues. The actual theory-in-use resulted to in moments of stress may also be quite different to the rational principles of the espoused theory-of-action. Beer and Eisenstadt (2000) suggest further factors which inhibit learning: top-down or laissez-faire senior management style; unclear strategy and conflicting priorities; ineffective and inadequate senior management team and leadership skills, poor vertical communication; and poor coordination across functions. The building of knowledge repositories is also likely to be time consuming, labour intensive, and very costly, and one should not overlook the difficulties involved in codifying tacit knowledge, and in keeping up with the constant changes and development in knowledge. Information overload and an employee’s inability to see the benefits of knowledge management will also generally result in the system not being used (Bollinger and Smith 2001). Szulanski (1996) concludes that organisations may not learn because they do not know how to learn. She suggests that knowledge related factors such as ambiguity associated with knowledge, the ability of the recipient to identify, value and apply new knowledge, and the ease of communication between the recipient and the source of knowledge may affect the ability to learn. Feelings of ownership of certain knowledge may also lead to a (deliberate or otherwise) lack of interest in sharing it for fear of losing the power that comes with having it.
INDIVIDUAL PERFORMANCE MANAGEMENT

Learning and innovation require organisations to effectively manage the performance of individuals. Performance management systems for individuals are typically based on managerial processes which link strategic planning, performance standards, individual objectives, performance appraisal, training and development (Pickett 2000). The approach is to identify corporate, business unit objectives, provide a framework for setting performance targets and review achievements against agreed objectives. However, there has been little emphasis placed on the performance dimension of innovative capacity and learning in performance appraisals to date. Consistent with the above discussion, Welbourne et al (1998) suggest that the role of innovator is an essential component of individual performance, as employees must be creative on behalf of an entire organisation, not just in their jobs. Employees need to behave in innovative ways to contribute to the effectiveness and adaptability of the organisation as a whole.

A CASE IN POINT

The authors, as academics in the Australian tertiary sector, have been able to be participant-observers of the systems and processes of two of the so-called 'new' universities. These two universities were proclaimed at the same time, yet one has made a conscious effort to align its strategic priorities and processes to facilitate learning and growth, while the other may best be described as an anti-learning, anti-innovation organisation. University One has no performance management system for individuals. That is, there is no mechanism for evaluating staff performance against a series of indicators, and indeed heads of academic units are precluded from evaluating staff performance. University One is also characterised by an inflexible bureaucracy, and poor management practices and leadership, all of which stifles learning and innovation. Further, while the university's strategic plan emphasises student learning and responsiveness to student's needs, the processes in place are such that these strategic dimensions cannot be fulfilled in practice. In contrast to this, University Two has placed a heavy strategic emphasis on innovation, which has flowed through into its processes and allowed it to act quickly in response to market opportunities. This university has required all teaching and administrative areas to focus on innovation and entrepreneurship. It has also introduced performance measures to enhance change. New degrees have performance targets in the form of numbers of students and revenues generated. At an individual level, staff performance appraisals are carried out regularly, and those not performing at the required level are counselled in order to improve performance in the future. Staff are expected to perform at a satisfactory level against a series of indicators related to the strategic priorities of the academic unit. This university has aligned its strategic priorities and processes to facilitate learning and growth, and in doing so will be better placed to provide that which their customers (students) need, while at the same time maximising their financial performance. If success is measured in terms of student demand, University Two is more successful as it has significantly higher entry scores to all its courses than does University One.

CONCLUDING COMMENTS

Organisational learning, innovation, creativity and knowledge management form essential dimensions of the performance management process described in the BSC. Learning and knowledge must be aligned to the organisation's strategic objectives if performance is to be successfully managed and enhanced. Despite the proliferation of books and articles on learning and knowledge, there has been little on strategically managing these processes. In particular, there has been little written on how organisations know what they need to know, and how they know if they are managing the process well or badly. The literature review presented here suggests that an integrated approach to performance management must include specific recognition and management of knowledge and learning within the organisation. Developing such an integrated approach must take into account the particular external and internal environments within which each organisation operates. It must also take into account the management of creativity at the individual level, for it would appear self-evident that organisations who can effectively harness the power of knowledge will be more competitive, productive, efficient, and profitable (Foy 1999).

A full list of references is available from the authors.