

MANAGEMENT AND BUSINESS PERFORMANCE OF THE ORGANIZATION

Arsenije Dabetić⁴², Milica Popović⁴³, Zoran Davidovac⁴⁴, Nada Božić⁴⁵

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Abstract

Performance measurement is crucial for evaluating the organization's progress against set goals, but it is not enough by itself. For example, although a business may record an increase in sales, this does not explain the causes of the increase. To move from mere performance measurement to effective performance management, an organization needs to analyze results and clarify their causes, as well as identify areas for improvement. A concrete example can be a situation in which a company notices a drop in the satisfaction of its customers. Instead of focusing only on data and figures, management should investigate the causes of dissatisfaction through surveys or feedback analysis. Based on these insights, it can develop strategies that will improve the user experience. In addition, the organization should be proactive and anticipate changes in strategic direction. For example, if a new trend emerges in the market, such as increased demand for sustainable products, management should be ready to adjust their strategies and resources to take advantage of the opportunity. This requires a methodology that includes data analysis, planning and implementation of actions that will help the organization to adapt and improve its performance at all levels.

Key words: *management, business, organization.*

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⁴² Arsenije Dabetić, Management at Politecnico di Milano, Italy, email: dabeticarsenije@gmail.com ORCID <https://orcid.org/0009-0004-1954-4005>

⁴³ PhD Milica Popović, assistant professor, Faculty of Applied Sciences, Niš, Serbia, email: milica.popovic.edu@gmail.com ORCID 0000-0002-5783-671X

⁴⁴ PhD Zoran Davidovac, senior lecture, Belgrade Business and Arts Academy of Applied Studies, Belgrade, Serbia, email: zoran.davidovac@bpa.edu.rs, ORCID 0009-0009-3749-3420

⁴⁵ Nada Božić, The Higher School of Vocational Business Studies "Biznis" Niš, Serbia, email: bozic7774@gmail.com ORCID: 0009-0004-1141-2884

Introduction

In modern business conditions, it is extremely useful to have the ability to predict the necessary changes in the strategic direction of the organization, as well as the appropriate methodology for implementing those changes. Performance management helps organizations improve their development activities by providing feedback that is specific rather than general, based on specific goals related to the desired performance measurement outcome. Many authors believe that all managerial concepts are related to performance management, which is why business performance management is often described as the foundation of all managerial disciplines. The business performance management system is a structured system that the organization builds gradually, connecting various elements such as performance measurement and evaluation, risk management, business processes and human resources, into one functional unit that is focused on improving the organization's efficiency and achieving defined goals.

It should be noted that in management research, the line between performance management and performance measurement is often not clearly defined. Different authors use different criteria to define these terms, and some even treat them as interchangeable categories. Researchers from Cranfield University, after reviewing more than 300 documents discussing the concept of performance measurement, found only 17 definitions of this term. This indicates that many authors do not define at all what they mean by the phrase "business performance measurement system" (Franco-Santos et al., 2007). Also, most of the research in the field of performance management has a theoretical character and deals with different aspects of this concept, starting from the very concept of performance to considering its interdisciplinary character. However, there is very little empirical research that provides concrete examples and models that would help implementers find appropriate solutions for specific environments (Muehlen, 2007). The lack of such studies is considered one of the key reasons for the weak application of the concept of performance management in practice (Škrinjar et al., 2008).

Management system for performance management

Changes in the modern world are becoming deeper and more frequent than before. The free market enables, but also requires, organizations to constantly adapt to changes in their environment and new requirements. Quick reaction to changes becomes crucial for the survival of companies, and the ability to quickly react to changes and the challenges that come with them, becomes a key factor of competitiveness in the global market.

Flexibility is a feature of an organization that indicates its ability to quickly react to changes in the environment, with minimal costs. This means that the organization must adapt quickly in order to amortize the threats and take

advantage of the opportunities that arise in the environment. Rapid adaptation to a changing environment becomes a condition for survival, especially in the context of growing competition on the global market, labor mobility and rapid development of new technologies (Appelbaum et al., 2017). In order to increase flexibility, companies must constantly develop their dynamic capabilities, which includes the ability to quickly react and successfully adapt to changes, as well as internal and external flexibility and responsiveness. The speed of adaptation depends on two key factors: the time it takes to recognize the signals of change and the time it takes for the organization to react to those changes. Shortening the time for both aspects of adaptation increases the organization's chances of taking appropriate action in time. The success of those actions, as well as the speed of adaptation, depend on the flexibility of the production system, applied technologies, organizational structure and culture, as well as the flexibility of the information system, which constitutes aspects of the internal flexibility of the organization (Janović & Golubović, 2024). Unlike internal flexibility, which refers to the organization's ability to adapt to external influences, external flexibility is considered the organization's ability to influence its environment. Through this influence, organizations try to become less sensitive to external changes. The external flexibility of the organization depends on the characteristics of the market (products, raw materials, workforce), as well as on the characteristics of consumers, technologies and other factors in the environment.

A key variable in an organization's ability to adapt effectively and quickly is its management (Hariyati & Tjahjadi, 2018). Modern managers are expected to focus their experience and intellectual capital (personal and corporate) on business improvement and increasing the organization's competitiveness. This is achieved, first of all, through the improvement of business processes, building the image of the organization, as well as strengthening its ability to anticipate and quickly react to changes. Adaptability, agility and innovation are just some of the key features expected of modern organizations, and their achievement is an imperative for today's management. As companies develop, new challenges and tasks for management appear. It is not only the decisions that are made, but also the choice of the way in which those decisions will be implemented. Without a doubt, managing an organization has become more demanding and complex than ever before. In the knowledge economy, the role of physical and financial resources becomes relativized in relation to intangible resources, such as human and other intellectual resources, which play a key role in value creation (Mihajlović & Todorov, 2024). Satisfying the organization's goals, while establishing a balance between effectiveness and efficiency, becomes the task of management, which must ensure the right combination of resource use. In order for the management to react in a timely manner, but also to influence the changes in the environment, it is necessary to think strategically about the long-term goals of the organization and the way of their realization. The strategic vision of the company's

development and the change management process are key to the efficient and effective realization of those goals. The biggest challenge of strategic management today is the implementation of a clearly defined strategy and the monitoring of its implementation.

Strategy implementation should turn planned strategies into concrete actions, in order to achieve the organization's goals (Savić & Bonić, 2022). If the strategic goals set in the plans are not achieved, it is a sure sign that the implementation of the strategy (or the strategy itself, or both factors) is not appropriate. The success of strategy implementation depends on the cooperation of all functional areas of the organization, including marketing, production, finance, research and development, human resources, information systems and others. The basic tasks for the successful implementation of the strategy are (Ghasemi et al., 2016):

- gaining all members of the organization to introduce and implement the chosen strategy;
- assessment of the organization's ability to implement the strategy, including harmonizing the necessary changes in the organization that enable the fruitful implementation of the strategy.

Implementation of the strategy requires serious preparation and management of its implementation. Preparation includes determining the conditions within each functional area of the organization that must be met in order for strategic plans to be successfully implemented. Then the existing conditions are assessed, in order to identify the necessary but missing conditions and the changes that should be implemented (Stevanović et al., 2019). In short, it is necessary for the strategy to be aligned with the organizational structure, knowledge and skills of employees, allocation of resources, policies, procedures, support systems, reward system and organizational culture. The greater the degree of this alignment, the greater are the chances of successfully achieving the organization's goals through the chosen strategy (assuming that the strategy is not wrongly chosen).

The efficiency and effectiveness of the strategy and its implementation must be constantly checked through the process of strategic control. Controlling includes the management function of measuring and evaluating achievements in relation to the standards of the strategic plan, for the purpose of correcting activities and realizing plans, i.e. achieving the goals of the organization. This process is called a reflexive system process, because it involves acquiring information about whether and to what extent the organization achieves its goals with planned activities, as well as taking additional and corrective actions that are necessary and/or sufficient to achieve those goals.

Different approaches to performance management

Until the mid-nineties of the last century, researchers of organizational performance and performance management approached the topic predominantly from the point of view of methodological reductionism, while approaches based on methodological holism were extremely rare. Methodological reductionism implies an approach in which the understanding of complex systems is achieved by analyzing the structure and behavior of their constituent parts. This approach starts from the assumption that the understanding of the system is best if its parts are observed, which allows for a detailed investigation of each individual part of the system. On the other hand, methodological holism is an approach that believes that complex systems cannot be fully understood by analyzing their parts. The holistic approach claims that it is best to study the system as a whole, because wholes have their own specific processes and laws that are impossible to understand if we focus only on the analysis of individual parts. According to this approach, understanding a complex system is best accomplished by studying the principles that govern the entire system, not just its individual components. The difference between these two approaches lies in the fact that reductionism goes "top-down", giving more detailed information about the parts, but ignoring key information about the whole structure. On the other hand, holism tends to clarify the behavior of the system as a whole, considering that such an understanding cannot be obtained only by analyzing its component parts. The following text will describe some of the concepts and approaches that left the deepest mark on the development and understanding of performance management.

Performance management approaches are often considered in the context of management by objectives (MBO). This concept, which is largely related to Peter Drucker (Drucker, 1954), represents a very effective approach to performance management, based on the idea that goals indicate the desired state, that is, what we want to achieve for individuals, groups or the organization as a whole. As such, goals serve as guidelines for all management decisions and set criteria against which results can be measured. The very process of formulating goals is complex, because their determination is one of the most important managerial tasks. When the goals are clearly defined, the manager's task becomes to direct the organization towards their achievement. In order to describe the desired state, organizations usually formulate a set of goals, which should be aligned, realistic and motivational. Goal management involves several key steps:

- recognizing the goals of the organization,
- abandoning goals that are no longer relevant,
- identifying and resolving conflicts between goals and
- prioritization of goals in a consistent manner.

Although the terminology of the classic MBO formulation is no longer used literally today, this approach has evolved into a broader framework for

performance management that includes a number of integrated managerial functions:

- setting clear and precise goals of the organization,
- formulation and coordination of individual goals aimed at achieving the general goals of the organization,
- systematic measurement and evaluation of performance with the use of corrective actions to achieve set goals.

This approach allows management to clearly define expected results, monitor progress toward those goals, and take appropriate actions to ensure that the organization achieves its strategic goals.

Rummler & Brache (1995) were instrumental in developing a holistic or systems approach to performance management. Their methodology focuses on several key questions that are of essential importance for organizations: how to design an organization and how to manage it, how to analyze and improve processes, how to design jobs and how to manage implemented processes. According to Rummler and Brache, the basic starting point for managing organizations in modern conditions is a systemic, horizontal view of the organization's operations. This approach differs from the traditional vertical view, which mainly focuses on the hierarchical structure of the organization, but ignores important aspects, such as: users and consumers, products or services delivered to users and the meaning of the workflow through which they are developed, produced and delivered products or services. In contrast to a vertical, horizontal systems approach, it allows to see all the key actors that are left out in the traditional view, including workflows, users and internal processes. Also, this approach allows understanding how work takes place through processes that cross the boundaries of business functions, as well as internal relations between users and suppliers in the production of services or products. Rummler and Brache distinguish three levels of performance management:

- performance management of the organization, at the level of the entire organization,
- performance management of business processes, which cross different functions within the organization,
- performance management of work, work teams and individuals, which is aimed at operational levels and employees.

For all three categories, the common characteristic is that the value of the organization is created through internal business processes, and success depends on the efficiency and effectiveness of those processes in achieving the organization's goals. According to Rummler and Brache, a fundamental element of systems theory applied to organizations is adaptation. In the modern world, changes have become deeper and more frequent, which requires that organizations

constantly adapt to changes in their environment, and those that do not, simply disappear. The key factor for the successful adaptation of the organization is management, which interprets internal and external feedback and reacts to them so that the organization maintains a balance with the external environment. Adaptation is considered a process, not a simple event, and in order to be successful, management must use a systemic approach that enables the anticipation of changes and proactive adaptation to those changes, rather than just reacting reactively to situations that have already arisen. This approach is significant because it offers a comprehensive systematic framework that shows how internal and external factors are linked in an organization's ecosystem and how each element affects the others.

In the mid-nineties, Kaplan & Norton (1996) in their work also advocated a holistic approach to the management of organizational performance, stressing that traditional financial models are not sufficient for adequate performance measurement. These models often only measure the past and do not consider future investment and value. In response to this disparity, they developed the Balanced Scorecard (BSC) system, which augments financial metrics of past performance with metrics that indicate an organization's future performance. The BSC approach considers the organization's performance from four key perspectives (Penjišević et al., 2024):

- customer/user perspective,
- the perspective of internal business processes,
- learning and development perspective,
- financial perspective.

These four components allow organizations to better understand their performance, to create a balance between current and future goals and enable a proactive strategy for growth and development.

The performance management process

Performance management is a continuous process that cannot be seen as a one-time activity. Different approaches and frameworks are used to interpret this process, but all focus on the key stages that enable the organization to achieve optimal results and improve its performance over time. One of the most well-known frameworks includes the following stages (Armstrong, 2006):

- planning – in this phase, it is decided what and how to do it, goals are set and a plan is developed to achieve those goals.
- action – here the activities foreseen in the plan are carried out in order to complete the tasks and achieve the goals.
- monitoring - continuous monitoring of what was done and measurement of results. This phase allows to evaluate the progress in the realization of the plan.

- intervention - analysis of achieved results, determination of possible differences between set goals and actual results, and taking corrective measures to bring performance in line with the plan.

Another framework used in simple businesses includes four key components (Dresner, 2008):

- vision and strategy - basic direction and long-term goals of the company.
- general and specific goals - elaboration of the strategy into concrete goals that can be achieved.
- execution – implementation and performance of tasks in order to achieve success.
- evaluation - evaluation of the results in order to assess the effectiveness of the set goals and execution.

Another example of a performance management model used is the approach of Pulakos (2004) which includes the following stages:

- performance planning – defining goals and expected performance.
- continuous feedback – providing regular feedback to employees to enable real-time correction.
- involving employees - involving employees in the process, which can increase their engagement and responsibility.
- evaluation, measurement and evaluation of performance - systematic evaluation of performance based on set goals.
- performance analysis – analysis of results and determination of what needs to be improved.

Defining the expected performance, be it results or behaviors related to the organization's goals, requires a prior understanding of the set goals. These goals must be well thought out and elaborated, in order to pinpoint the specific expected results and behaviors at the level of the organization, as well as in specific domains or sectors within it. This enables accurate monitoring and measurement of success in achieving those goals.

In order for the set goals to be successfully achieved, it is necessary to ensure that the desired results are in accordance with the goals of the organization, so that the contribution in a certain domain is a function of the overall goals of the organization. This enables effective alignment and synergy between different sectors within the organization. Through this process, it is possible to determine the relative importance of different results and, if necessary, determine their priorities, thus directing attention to the most critical aspects of the business. When setting goals, a number of factors are often implicitly understood that must function successfully in order for the goals to be achieved. These assumptions must be explicitly identified to ensure their successful operation. Critical success factors are key business areas that must be in place for the organization to achieve

its strategic goals and fulfill its mission. They include the key supporting activities, resources and processes that are necessary to achieve the goals. Without their successful functioning, the organization cannot effectively realize its strategic goals. The identification of critical success factors allows management to focus on key areas that have the greatest impact on the success of the organization, thereby minimizing risks and maximizing the chances of success.

For effective performance management, it is crucial to develop a set of indicators that clearly and accurately reflect the achievement of the organization's goals. These indicators allow management to measure how well the organization and its processes achieve the set goals.

According to Parmenter's classification, these indicators can be labeled as result indicators or simply performance results (Parmenter, 2007). These indicators directly correlate with plan sizes from business plans, enabling monitoring of progress and fulfillment of goals. In addition to the result indicators, it is necessary to identify performance indicators, which monitor the level of provision of critical success factors. These indicators refer to processes and activities that enable the organization to achieve its goals in the future, and include key aspects that affect the organization at a strategic level. Key performance indicators are a set of indicators that enable the monitoring of these critical performances, focusing on the results that ensure the current and future success of the organization. They enable management to identify which factors have the greatest impact on success and to focus resources and activities on them. In addition, performance standards represent normative values that define the minimum level of acceptable results in given conditions. They serve as reference points for measuring the effects needed to achieve the objectives, taking into account the sustainability of those effects over time. Performance standards help an organization clearly define what is "acceptable" in the context of its goals. Finally, the performance plan should include all the above-mentioned elements: set goals, desired results, certain relative importance of those results, compliance with broader organizational goals, methodology for measuring and evaluating results, as well as set standards. This plan is the basis for performance management, as it enables systematic monitoring and response to changes and challenges in achieving goals.

Performance measurement represents the process of systematically determining the value of previously defined performance indicators, which can be quantitative (numerical) or qualitative (descriptive). These indicators allow the organization to monitor progress in achieving goals and evaluate the results of its activities over time. Measurement is carried out through the continuous collection of data on relevant quantities, which enables management to identify the weaknesses and strengths of the organization in achieving the set goals. Performance appraisal refers to the process of comparing actual achievements with performance

standards, which means evaluating the extent to which the organization's goals have been achieved. This helps in identifying deviations from planned results and enables corrective actions to be taken to improve performance. Performance appraisal is key to effective management of an organization because it allows monitoring progress and directing resources to where they are most needed.

For proper performance management, feedback is essential, as it helps to provide employees with guidelines for further work, as well as motivation to achieve better results. The effectiveness of feedback depends on several factors:

- frequency and time schedule – regular provision of feedback enables timely correction and improvement of performance.
- positive or negative nature - although negative feedback can be useful for correcting mistakes, positive feedback can significantly improve employee motivation.
- specificity and significance - specific feedback, which describes in detail how the employee can improve his performance, is more effective than general and vague comments.
- source credibility – Feedback that comes from reputable and expert sources, such as managers or colleagues, has a greater impact on behavioral changes.

The feedback functions are:

- guidance function - feedback provides employees with clarity about what behavior is necessary to achieve success, which helps improve their performance.
- motivational function - feedback also serves as a reward for achieved results, motivating employees to continue to achieve goals, as they are clearly linked to possible rewards.

Conclusion

When the achieved result does not reach the set standard and when there is a significant deviation from the target performance, and assuming that the resources and circumstances were normal and that the standard was set realistically, the performance is considered inadequate. In this case, it is necessary to develop a performance improvement plan in order to achieve the desired levels. The improvement plan can be implemented at different levels: organization, business process or individual job positions. For effective management of performance improvement, the plan should be: documented (to ensure transparency and enable control of progress), systematically implemented (which implies undertaking defined actions aimed at improving performance) and constantly monitored (to monitor progress towards goals and evaluate effects of activities undertaken).

If the performance improvement goals are achieved in accordance with the plan, the implementation of the plan can be suspended. Otherwise, the plan continues and corrective actions are taken. If the corrective measures do not lead to the desired results, the plan is revised and adjusted to achieve the desired improvements. Constant monitoring and adjustment of the performance improvement plan is essential to ensure long-term success. Only through a continuous process of monitoring and quick reactions to unmet goals, can an organization successfully improve its performance and ensure sustainable progress.

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