# BUSINESS OBJECTIVES AS AN INSTRUMENT FOR BUSINESS PERFORMANCE MANAGEMENT

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*Abstract:* A paper deals with aspects of business performance and its connection with a goal-setting. The authors use the preliminary results of research among selected Slovak companies. It is assumed that there is a significant and positive association between goal-setting and business success. The questionnaires were spread into a 100 Slovak companies, while 68 out of them were appropriate to be a part of the calculations. A logistic regression with two approaches was used to obtain the results. The first approach refers to a categorical binary dependent variable, the second one to a categorical binary all three variables (dependent and two independent). The research (according to a Nagelkerke statistic as well as Wald statistic) provides the authors with the results that neither any individual parameter (current situation regarding the goals and goal-setting in a particular company and the time aspect of a goal-setting) nor their interactions have statistically significant impact on the company´s success. However, the authors conclude that business objectives (goals) are an instrument for business performance management and, in case of individual´s performance; the relation between goal-setting and performance (even in the context of Slovak Republic) probably does exist.

*Keywords:* objectives, performance, business, goal-setting, success

*JEL Classification:* M15, M21

## 1. THEORETICAL FRAMEWORK (INCLUDING INTRODUCTION)

The performance has been an object of interest of successful (not only) companies, theorists and practitioners for the long time. A literature presents theories in this field of interest, however the terminology is inconsistent. It is still very difficult to find one stable and common definition or generally usable theory. The terms "performance", "competitiveness", "successfulness" have been bound, interchanged or used as the synonyms, what we consider as logical (we believe that the company which has a high performance is the one which is successful on the market). The purpose of this article is to provide the theoretical background on the term performance and to discover if there is any association between the goal-setting and business performance (in our situation it is a success). The performance is the amount of work performed within a specified time unit. Business process management is the scientific field which has been attracting attention of researchers for long time. More than a decade ago, performance management was defined as "the cyclical, year-round process in which managers and employees work together on setting expectations, coaching and feedback, reviewing results and rewarding performance" [5, p. 17]. C. E. J. Hartel et. al. [6, p. 18] are referring to performance management as "the management of organisational and employee performance or as an integration between the two. It can be seen as a collective range of activities conducted by an organisation aimed at enhancing individual group performance with the overarching purpose of improving organisational performance in the long term." E. Lawler and M. McDermott [17, p. 49] mentioned: "Establishing an effective performance management system is a major challenge for most organizations. It has been a key topic in the human resources management literature for

decades." Authors B. Andersen, B. Henriksen and W. Aarseth [1] argue that they have been active within the fields such as business strategy development, performance measurement and so on for several years, but they do not know of any generally agreed-upon definition of "performance management". In the literature, we can find some definitions as, e.g. the performance management is actively monitoring the organization´s performance levels to continuously improve. Authors then conclude that performance management, as a term, has not been well defined yet. We agree with that statement, as we mentioned, in this field of interest the terms (performance, successfullness, competitiveness and so on) have been bound, interchanged or used as the synonyms. The goal is a specific value, which someone strives to achieve. It is a specific output of certain activity, to which a person or a system is heading. "Goal setting is one of the most thoroughly researched areas in management and organizational environments. Findings have consistently demonstrated that specific, difficult, and self-generated goals have more beneficial effects on performance than do easy goals, no goals, or "do your best" goals" [19, p. 257]. In this article, we have to mention one significant theory that has been used to demonstrate the relationship between goal-setting and performance. E. A. Locke´s theory of goal-setting (first published in 1968) deals with the relationship between conscious goals or intentions and task performance. His work has been reviewed and updated by many theorists in order to verify the results not only in the strictly controlled environment (as it was in Locke´s experiments). "The basic premise of the theory is that individual´s conscious intentions regulate his actions. Goals that are assigned to a person have an effect on behaviour only to the degree that they are consciously accepted by the person. This theory was based on a series of well-controlled

laboratory experiments with college students who had performed relatively simple tasks for short periods of time. Locke although cited a large number of laboratory studies in support of his theory" [14, p. 824]. Authors reviewed 27 published and unpublished reports of field research in order to concerning with evaluating the practical feasibility of goal-setting as well as with evaluating Locke´s theory. The organizational research reviewed in the article provided strong support for Locke´s propositions that specific goals increase performance and, that difficult goals - if accepted - result in better performance than do easy goals. Many authors have been handling the issues related to performance and its connection with goals. Authors G. Latham and T. Steele [16, p. 406] studied the motivational effects of participation versus goal-setting on performance. The hypothesis was that goal-setting would result in higher performance than urging people to do their best and that participative decision making in work strategy would result in greater performance than telling people what to do. 72 college students participated in the study. Participation affects performance only to the extent that it affects goal difficulty [15]. Authors B. Medlin and K. Green [11] stated, that goal-setting had been explored in terms of both motivational impact toward improving performance and as being integral parts of management systems or processes designed to improve performance. Thez mentioned numerous studies which had pointed to the impact of goal-setting on employee performance. The results were not surprising, so all the stated hypotheses were supported. Organizational goal-setting is a significant, positive predictor of employee engagement, as well as employee engagement is a significant, positive predictor of employee optimism and then individual optimism is a significant, positive predictor of employee performance. According to B. Medlin and K. Green [11], improving individual performance of workers is a critical challenge for all managers. Research indicated that high levels of optimism can lead to an improved performance of employees. In another article, B. Medlin and K. Green [12] concluded that goal-setting had led to engaged employees, engaged employees had exhibited higher levels of workplace optimism and higher levels of workplace optimism had improved the individual performance of an organization´s employees. Authors O. F. Lee, J. A. Tan and R. Javalgi [18] posited goal orientation as an effective predictor of organizational commitment and they suggested such a relationship had a direct influence on employees´ attitude (job satisfaction) and behaviors (job performance). When individuals are aware of goal-oriented action and are committed to pursuing these actions, they are more likely to carry out these behaviors. E. A. Locke and G. P. Latham [20] recognized that if there was no commitment, goal by itself would have no motivational effect to carry out performance. Then P. A. Heslin, J. B. Carson, D. Vandewalle [7, p. 1] stated, that "specific challenging goals do not, however, necessarily lead to such desirable personal and organizational outcomes". Moreover, this statement is supported by J. A. Pearce, E. B. Freeman and R. B. Robinson [21]. They mentioned that the relationship between formal strategic planning and performance is controversial, problematic and unclarified topic. The authors dealt with the relationship between goal-setting and business performance. The research had not demonstrated the relations between planning process and financial performance of an enterprise. Even though, it is still unclear, if and how the goal-setting influences the performance. In the literature, there is a lot of other articles and studies dealing with performance and the factors which impact it: employees training and motivaton [10]; HR management in general or with emphasis on HR department [3]; employees engagement and commitment [9], [13]; aging and age diversity [2] etc. In addition, some other studies could be helpful to get into the topic: [8], [4], [22] and [23].

## 2. SCIENTIFIC AIM, METHODOLOGY/METHODS

The scientific aim of this paper is to describe the aspects of business success (as a synonym for company´s performance) and its connection with goal-setting. In the paper, we present the preliminary results of research, focusing on the goal-setting in terms of Slovak companies. We try to confirm the hypothesis that there is a significant dependency between business success and some selected variables (especially goals and goal-setting). The research "A goal-setting as a condition for business success" was been conducted from February to May 2013 and included 100 companies from the Slovak Republic. This activity should be presented as a preliminaries for the next research, which will help to look into the topic more complex and widely. Our questionnaire consisted of 8 questions in order to discover the present situation in the goal-setting in Slovak companies and the interconnection between goal-setting and business success. We used the classifying data such as industry, region, size and legal form. The responses, we received, expressed the subjective opinions of the respondents (a company or a person representing a company), where all those persons belonged to the middle or top-management of the company. Out of all 100 questionnaires, which were spread into companies in Slovakia, only 68 were appropriate to be a part of our calculations (the respondents had fulfilled all the answers which were needed). In the next part of the article, we offer only preliminary and partial results of the research, while the classification data were not taken into the consideration. Due to lack of space for presenting the overall results in the paper, we decided to show the partial results that could be considered, in our opinion, as the key results in looking for "goals-company´s success" relations.

We have used the input data of three types: one dependent variable and two independent variables.

The first type of data expresses a measure of a company´s success in the market environment and is considered as a dependent (explained) variable. It is classified as a nominal (categorical) binary variable, where the possible categories (category membership) of this variable are only "yes" (i.e. company is successful) or "no" (i.e. unsuccessful). Mathematically described, a letter "$S$" (Success) stands for this variable.

The second type of data, an independent variable, expresses the current situation regarding the goal-setting in a particular company (the level of company´s identification with a set of 8 statements). The variable is considered as a continuous variable, where its values are expressed in percentage and can range from 0 % to 100 %. The result value (the current situation in the field of goal-setting in a

particular company), has been calculated by averaging the several input percentages, which had been obtained as the responses for the questions (8 statements in order to uncover the current situation, including the goals´ attainability, understandability, feedback etc.). A letter "G" (Goals) stands for this variable.

The third type of data, independent variable, represents the time aspect in goal-setting. This variable is considered a continuous one and range between 1 and 3, where the value 1 represents short-term goal-setting, value 2 medium-term goal-setting and value 3 a long-term goal-setting. The values of this variable were calculated by averaging the primary data assigned separately for three levels of goals (top-management/strategic goals, goals of subordinate units/tactical goals and goals of individuals/operative goals). The letter "T" (Time) stands for this variable in mathematical expressions and formulas. By elaborating the data, we assume that the number of positive answers regarding the company´s success – S (the option "yes") depends on the measure of independent variable G and T and is directly proportional. The mathematical model of the association can be expressed as follows:

$$S = \beta_0 + \beta_1 G + \beta_2 T , \qquad (1)$$

where $\beta i$ stands for regression coefficients and G and T for independent variables.

This formula is a form of linear multiple regression. The traditional approach to linear regression is referred to as ordinary least squares (OLS) regression and this regression assumes that all the dependent and independent variables are countinuous. Because of the dependent variable S being considered as the binary categorical variable, we must modify the formula (1) into the logistic regression in this way:

$$\text{logit(odds)} = \text{logit}\left(p\right) = \ln\left(\frac{p}{1-p}\right) = \beta_0 + \beta_1 G + \beta_2 T , \qquad (2)$$

where probability $p$ and the odds are both measures of likelihood, they are exactly related and defined in the same context - an experiment of chance. The odds suffers from asymmetry of range: the probability value of 0.5 refers to the odds of 1, the probability values between 0 and 0.5 refer to the odds between 0 and 1 and for the probability values between 0.5 and 1, the odds values range between 1 and infinity.

In the next approach, we will consider all three variables - S, G and T - as binary categorical variables. The variable S is still a binary categorical variable. The values are divided into two categories: "successful company" and "unsuccessful company". We transformed variables G and T from continuous variable to binary categorical one just with two categories („low" and „high") in the following way: category „low" for G or T - value was assigned to all original continuous values lower than median, category „high" for G or T - value was assigned to all the original continuous values equal or greater than median. The median was chosen as a cut-off value because the continuous variables displayed neither normal/uniform nor symmetrical distribution of their values.

## 3. RESEARCH FINDINGS

The SPSS 19 statistical package provided us with the following results. Estimations had terminated at iteration number 3. From the iteration history at steps 0 and 1, the clear convergence for the value of „-2log likehood", and the constant value of coefficients can be concluded. It means, the results are suitable for usage in the model, as it is shown below.

The resulted model expressed in the logit equation had the following form:

$$\text{Logit (odds)} = 1.029 - 0.009G - 0.044T \qquad (3)$$

From comparison of (3) and (2) formulas we can see that the partial regression coefficients $\beta 1$ and $\beta 2$ have their values near to 0. The values expressed by exp($\beta i$) are: 0.991 and 0.957. For the 95 % confidence intervals, the values are as follows: for $\beta 1$ the values move from 0.960 (the lower value) to 1.023 (the upper value), for $\beta 2$ the values move from 0.298 (the lower value) to 3.070 (the upper value).

The Nagelkerke statistic, which is the counterpart of the determination coefficient $r^2$ in OLS multiple regression, equals 0.007. If a Nagelkerke statistic has a value of 0.5 or greater, the association is large. According to the results we have obtained (the statistic was lower than 0.5), there is almost no association (or is very low) between the measure of company´s success and the two independent variables (the goal-setting and time aspect).

The Wald statistic tests regression coefficients for significance and is distributed approximately as chi-square on one degree of freedom. The significance of the Wald statistic coefficient (p-values) for all usually accepted significance levels (0.01; 0.05; 0.1) is too high (vary from 0.465 up to 0.941) for all three regression coefficients (see the formula (3)). We conclude that the regression coefficients are not statistically significant, which means that neither goal (G) nor time (T) has affected the company´s success (S), i.e. there is no variable of these two considered ones which would significantly contribute to the business success.

Afterwards, we have applied the approach of all three binary variables, which provide us with very similar results. Moreover, in this approach, we were looking for an interaction between the independent variables (G and T). The application of the logistic regression model improved the classification accuracy from 59 only to 60 %, which is negligible.

The resulted modified formula for included interaction as seen below:

$$\text{Logit (odds)} = 0.134 - 0.740G - 0.827T + 1.210G.T \qquad (4)$$

According to the Wald statistic, for all 4 coefficients (see the formula (4)), while their p-values ranged from 0.251 to 0.796, we can conclude that neither any individual parameter nor their interactions have statistically significant impact on the company´s success.

## 4. DISCUSSION

In the previous part of the paper, we described the methodology we had used in the research and the findings we had obtained. According to the Nagelkerke statistic, as well as Wald statistic, we found out that there is no significant association between dependent and independent variables. In other words, there is no dependency between goal-setting level (current situation in the field of goals and goal-setting, expressed as "G") and company´s success, just as between time aspect (expressed as "T") and company´s

success, and moreover, there is no impact of their interactions together on the company´s success. The hypothesis we set in the beginning of the research has to be rejected. Afterwards, we discuss the theories and studies we have processed in the theoretical framework with the findings, so we can make the conclusions and preliminaries for the next research. The theoretical background showed, relatively consistently, that specific, difficult and accepted goals have the effects on the performance, rather than easy goals, no goals or "do your best" goals do. We identified the term performance with the term success, so we used the term success instead of the term performance in our research. We used the substitution of the terms because of the fact that in the literature the terms have been bound, interchanged or used as synonyms. We assumed that if the company has a high performance there is no doubt it is successful on the market (in the given conditions). In the questionnaire, we were looking for the answers (besides other things), if the companies set goals and what is the current situation in that field. According to the mentioned, the research participants were asked, if the goals of a particular company are specific and demanding enough. However, as it is obvious, the relation between "current situation regarding the goals and goal-setting" and "success" in our sample does not exist. We have to point out that the questions were not oriented on the employee performance (individual performance). We cannot compare the results of our research with the field studies which had discovered the connection between the goal-setting (for example as a significant and positive predictor of employee engagemement) and the employee performance (as a part of a company´s performance). We strongly agree with the statements of the studies, e.g. [18], that goal orientation is or could be the effective predictor of organizational commitment and directly influences the attitudes and behaviours of the employees, subsequently the performance. We have to mention, that the overall awareness of goal-orientation (and goals in general) can lead to an improved performance of employees and subsequently to improved company´s performance and success. This requires the right people in the company, who are not only aware, but motivated as well. As Locke and Latham [18] recognized, if there is no commitment in the

company, goal by itself would have no motivational effect on the performance.

We assume that there are many root causes for the results we had obtained (the causes of our calculations´ failing lay in or could be lying in the fact that):

- Many of the theories and studies, we found, are a series of well-controlled laboratory experiments with a number of college students who had performed relatively simple tasks for short periods of time (and including the fact, the students are probably not able to represent the current situation in the companies – the practice). However, the theory supported the experiments by a large amount of studies and there is still a space for discussions.

- The sample, we used, was too small and at the same time too heterogenous (regarding the different industries, legal forms, size and regions).

- The presented studies and theories were looking for the relations in some specific, surroundings context, e.g. there are many theories in that field of interest being conducted in the area of North America or other western countries.

- The performance is more complex and more difficult topic as we expected. We tried to verify the hypothesis based on the small amount of easy detectable, simple, subjective parameters. This could have been the problem and the successfulness of the company cannot be then concluded. Probably it is not appropriate to calculate the results in the form of binary variable ("successful" or "unsuccessful"). In the next research we have to focus on the successfulness of the company which could be expressed as follows (by many levels, degrees) – "successful", "sufficiently successful", "less successful", "unsuccessful", "surviving" or "going bankrupt".

## 5. CONCLUSION

Business goals (objectives), in our opinion, are still an instrument for business performance management. In case of individual´s performance, there is still an assumption that the relation between goal-setting and performance does exist, even in the context of our area, and the goal-setting could be the predictor of employee engagement and subsequently of his/her performance.

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