

Chapter 72

The Role of Performance Management Practices on Organizational Performance: A Functional Framework

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ABSTRACT

This chapter introduces the framework and causal model of leadership style, organizational culture, performance management practices, and organizational performance. It argues that dimensions of leadership style, organizational culture, and performance management practices have mediated positive effect on organizational performance. Performance management practices positively mediate the relationships between leadership style and organizational performance and between organizational culture and organizational performance. Leadership style is positively correlated with organizational culture. Understanding the theoretical learning is positively beneficial for organizations aiming to increase organizational performance and achieve business goals.

INTRODUCTION

A global business environment is constantly dynamic and evolving (Shirokova et al., 2013). Hence, knowing how to adapt a changing environment has become the critical challenges for organizations (Shirokova et al., 2013). Organizations quickly move to create new leadership environments in which people are learning, growing, innovating and finding themselves engaged in their organization's mission, vision, and

values (Graen & Schiemann, 2013). In addition, organizations operate in a competitive global environment along with the focus on employing knowledge workers as the valuable assets (Drucker, 1993). Performance management is achieved by each individual being accountable for his or her own actions contributing to the objectives, tasks, standards, and performance measures, monitoring progress and developing organizational performance (Armstrong, 2000). Leadership has a major influence on the performance of organizations,

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managers, and employees (Wang et al., 2005). The leader must develop an organizational culture that enables individuals to coalesce around the shared purpose of the enterprise (Allio, 2013). Early theories tried to define effective leadership styles (i.e., democratic, autocratic, socially oriented, and target oriented) and to relate them with various aspects of organizational outcomes (Blake & Mouton, 1964). Lester (2007) indicated that leadership style plays a key role in the level of success of any endeavor especially for activities involving emergency response. Organizations strive for improving organizational performance; an organizational culture has recognized as one of the important drivers of better organizational performance (Morone, 1989; Porter, 1985; Stace & Ashton, 1990). Organizational culture refers to a set of shared values, belief, assumptions, and practices that shape and guide employees' attitude and behavior in the organization (O'Reilly & Chatman, 1996; Wilson, 2001). Managing performance involves a cycle of clarifying business goals and agreeing individual objectives and standards of performance (Macaulay & Cook, 1994). Research objective was to construct a functional framework and a causal model of leadership style, organizational culture, performance management practices, and organizational performance of plastic plant employees in Thailand.

BACKGROUND

The details of constructs such as leadership style, organizational culture, performance management practices, and organizational performance related to this chapter are shown as follows

Leadership Style

Northouse (2007) stated that leadership is a process related to the interaction between leaders and followers in order to achieve a common goal. Leaders need to evaluate their practices, asking

questions of themselves and look at making more long-term plans (Denton, 2013). Perceived leadership effectiveness depends upon fit to followers' expectations (Bildstein et al., 2013). Accordingly, being able to step back and to reflect on the appropriateness of one's leadership behavior is the key element of a globally successful leader (Bildstein et al., 2013). Schein (2009) stated that organizational culture and leadership are two sides of the same coin and one cannot understand one without the others. Furthermore, Schein (2010) stated that leadership is gaining ground as a distributed function. Landy and Conte (2013) indicated that every employee in the twenty-first century will be called upon to display leadership behavior at some point in time. Leadership in organization increases innovation and response to changes, thus sustaining high performance (Amagoh, 2009). Leadership involving inspiration, support, empowerment, and positive role modeling has linked to need satisfaction (Hetland et al., 2011). Managers should have a set of guidelines and questions that help them scrutinize their leadership performance in accordance with published leadership literature (Armandi et al., 2003).

Hassan et al. (2013) stated that managers can learn to use the ethical leadership behaviors (i.e., communicating relevant values and ethical guidelines, modeling ethical behavior, encouraging ethical practices, holding subordinates accountable for ethical practices, and opposing unethical practices). Leadership in a formal organization is not about possessing special traits, but rather it is about acting (Andersen, 2006). In a competitive and changing business environment, the effective leadership becomes one of the most critical needs and requirements (Bass, 1985; Pierce & Newstrom, 1995). When the unpredictable change occurs in an environment, it requires much more innovation, creativity, and individual thought and initiative. Kotter (1990) suggested that the leaders may need to hold visions, values, assumptions and paradigms that are in agreement with having a team-oriented, empowered workforce in order to

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