

STRATEGIC CONTROL AND THE PERFORMANCE MEASUREMENT SYSTEMS

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Abstract: Performance measurement techniques historically developed as a means of monitoring and maintaining organisational control, which is the process of ensuring that an organization pursues strategies that lead to the achievement of overall goals and objectives. This paper compares two of the most widely adopted performance management frameworks – EQFM and Balanced Scorecard. These methods are used to explain how strategic control and performance measurement can aid in the implementation of strategy and the improvement of organizational performance.

Key words: Performance measurement, Strategic control, EQFM, Balanced Scorecard

Introduction

Competitive pressures from within the industry, as well as external political, economic and other considerations are forcing the industry to re-examine and improve its *modus operandi*. The Royal Society of Arts, Manufactures and Commerce (RSA) said about the role of tomorrow's company:

„To achieve sustainable business success in the demanding world marketplace, a company must use relevant performance measures .”

The weaknesses in the current practice and highlighted areas of further work necessary to ensure the use of performance measurement is sustained and adds value to the industry. Andy Neely gives seven reasons why performance measurement is now on the management agenda. All of the points are relevant to any industry: the changing nature of work; increasing competition; specific improvement initiatives; national and international quality awards; changing organisational roles; changing external demands; and the power of information technology.

Performance Measurement Systems(PMS) and Strategic Control

Traditionally businesses have measured their performance in financial terms, profit, turnover, etc. These financial measures of performance have been the sole measures of a company's success. Performance measurement that has been based around financial measures has been deemed to be out of step with recent changes in industry, particularly relating to new technologies and increased competition.

Performance measurement is furthermore criticized because it often focuses narrowly on easily quantifiable criteria such as cost and productivity, while neglecting other criteria important to competitive success .The traditional performance measures, developed from costing and accounting systems, have been criticized for encouraging short-termism; lacking strategic focus; encouraging local optimization; encouraging minimisation of variance rather than continuous improvement; not being externally focused.

The subject of performance measurement is vast and numerous authors continuously add to the body of literature on the subject. The amount of literature on the subject demonstrates the problems that exist with performance measurement and its importance within the business community. Most authors agree that managers measure for two main reasons. Either they want to know where there are and what they have to improve; or they want to influence their subordinate's behaviour. Strategic control includes both of these

reasons. Initially strategic control was seen as enabling managers to see if their chosen strategies were being successfully implemented. This view has since been extended. Humans can be seen as "calculative receptors", their behaviour can be influenced by a strategic control system. They receive a stimulus, interpret this, assessing the perceived costs and benefits of various responses and are likely to chose whichever course of action will maximise their gain. Control through measurement and feedback follows action. Rewards or sanctions are then used to reinforce or modify behaviour depending on the employee's performance and on the appropriateness of the action pursued. A broader view is that strategic control systems will: co-ordinate the efforts of employees; motivate individual managers; and alter direction dependent on circumstances. Another view is that strategic controls can be used as a means of:

- clarifying what good performance is;
- making explicit the trade-offs between profit and investment;
- introducing individual stretch targets; and
- ensuring that corporate management knows when to intervene because business performance is deteriorating.

Andy Neely and Mike Bourne summarise that strategic control systems have multiple roles to play and, given that many authors argue that performance measurement is part of the strategic control process, then it follows that performance measures also have different roles to play. The multiple reasons why organisations measure performance can fall into one of four distinct categories:

1. Checking position. Establishment of current status and monitoring of progress over time and against benchmarks.
2. Communicating position. This can be a requirement, quoted firms must release annual reports, safety statistics must be submitted in construction, they may be expected by customers or employees, and also as a means of marketing themselves.
3. Confirm priorities. Performance data provide insights into what is important to a business, exposing shortfalls allowing organisations to rationalise and focus on what the priorities should be.
4. Compel progress. The measures can help the organisation focus on specific issues and encourage people to search for ways to change and improve performance. The measures communicate the priorities and can form the basis for reward.

J. Smullen identified five attributes for any PMS: acceptable - they can be understood; suitable - they measure important things; feasible - they are easy to collect; effective – they concentrate on encouraging the right behaviour; and aligned -non financial measures must link to financial goals. Other key attributes include: it must be the subject of a learning process; must be balanced; cascading scorecards; embody strength; not over financial; and it must be able to be implemented.

Performance measurement models

There are many types of performance model, for the purposes of this paper we will briefly consider two of the better known: the EFQM Excellence Model and the Balanced Scorecard,

The EFQM Excellence Model

The EFQM Excellence Model is a non-prescriptive framework, designed to allow companies to assess where they are on "the path to excellence", understanding the gaps and stimulating solutions. It is a tool to help define and assess continuous improvement of an organisation, and is based on their eight fundamental concepts of excellence: results orientation; people development and involvement; customer focus; continuous learning, innovation and improvement; leadership and constancy of purpose; partnership development; management by process and facts; and public responsibility.

The Excellence Model has been developed to enable the assessment of excellence against the above fundamental concepts (see Figure 1).

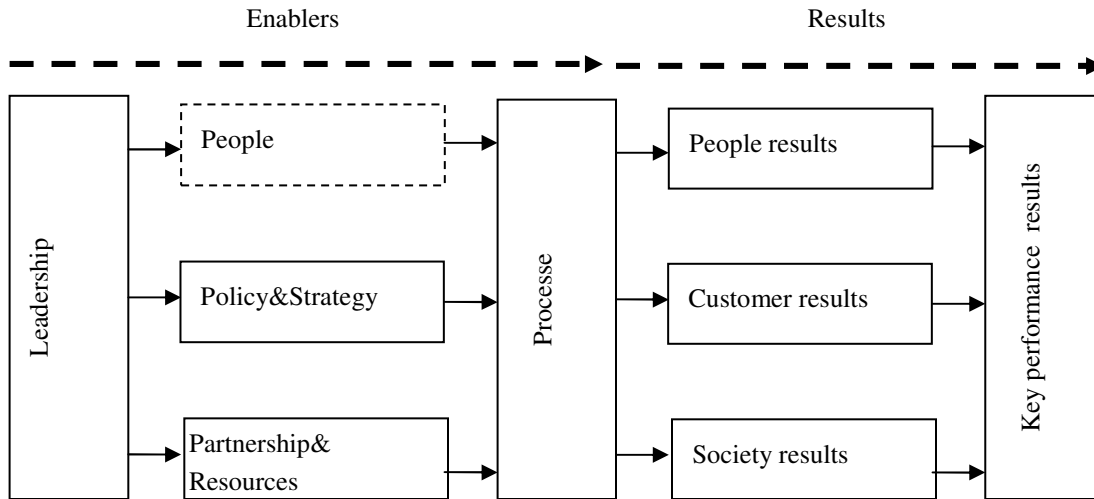


Figure 1. The structure of EQFM Excellence Model

The model has nine criteria and starts on the left-hand side with Leadership, This is one of the five enabling activities which drive the four sets of results. The model flows naturally from the left to the right. The analogy of an arrow going through the centre of the model starting on the left, can be used to explain how the model works and how the different criteria are intrinsically linked. Any decision or action of an organisation requires leadership. This leadership decides the company's policy and strategies, drawing on the capabilities of its people and its partnerships and resources. Having decided on its policy and strategy and ensured that its people, resources and partnerships are capable of supporting them, it then defines its processes which will deliver its customer results and its own key performance results. In delivering these results it also affects the employees (people results) and also the society in which it sits (society results). The model also requires continuous improvement through innovation and learning, so having achieved the results, the leadership must review them, alter the policy and strategy accordingly, develop the people and resources to implement the changes required and ensure that the processes are adapted to deliver the desired results. The cycle is continuously repeated,

The model is devised to be used as a self-assessment tool, which enables a comprehensive, systematic and regular review of an organisation's activities and results referenced against criteria within the model. There are five different approaches to self-assessment recommended by the EFQM. Dependent on the level of maturity with the excellence model, then the EFQM recommend the appropriate method of assessment. All the approaches deliver a score although only the more robust methods produce a score, which is comparable with those of the Quality Award Schemes.

The primary objective of the EFQM and their promotion of the use of the Excellence Model is to improve performance. The numeric score that is achieved is only used as a benchmark against which future performance is assessed. The primary objective of self-assessment is therefore the identification of strengths and of areas for improvement The hope of the EFQM is that this process that will create the energy to improve the organisations performance. The EFQM have developed the RADAR Scoring matrix. The RADAR logic is cyclical and continuous, forms the areas of assessment on the matrix and is at the core of the EFQM Excellence Model It can be applied to most business situations that involve a process (see Figure 2).

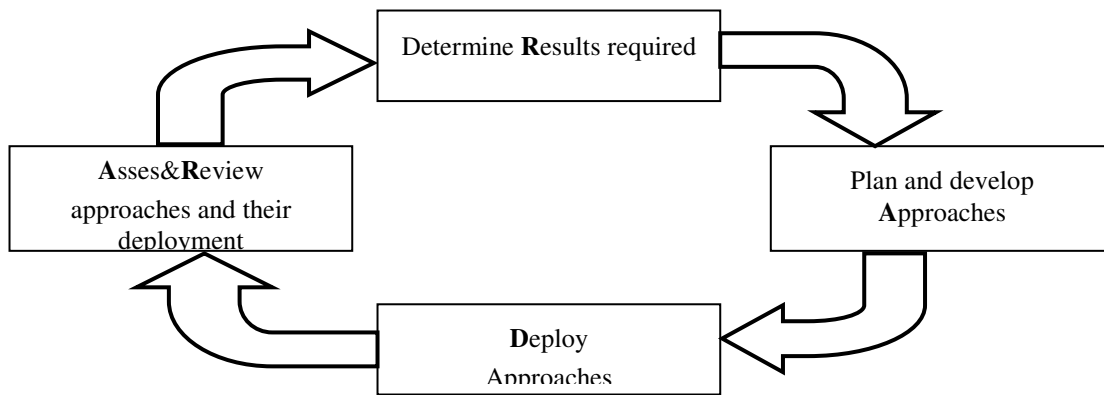


Figure 2. The RADAR logic

The Balanced Scorecard

The Balanced Scorecard is a framework in which to understand the relationship between objectives, activities and results and integrate the management process. It can aid precise articulation of the organisation's objectives, the formulation of strategy, the generation of plans and budgets, and the setting up of an information system for performance monitoring and management. It also leads to a cascading set of indicators which will enable the units within the organisation to co-ordinate their targets and behaviour with the overall strategy of the organisation. The Balanced Scorecard uses specific KPIs to assess the companies' performance. They must measure key strategic mechanisms for implementing and judging strategy for business. There are four areas where indicators are developed. These are:

- a) The financial perspective. How do we look to our shareholders?
- b) The customer perspective. How do our customers see us?
- c) The internal perspective. What must we excel at?
- d) The innovation and learning perspective. Can we continue to improve and create value?

There are key practical issues that are necessary for effective change within an organisation. These include top management support, and J. Smullen also recommends that a pilot project is used to develop the scorecard, suggesting that one is produced for a particular business unit and one for a critical business process. The other key issue is the development of and understanding of the strategy. The senior management must clearly identify the goals and how they are attempting to achieve these goals and also what are the constraints of the business in achieving these goals.

Types of performance measures

As mentioned previously, for KPIs to be used successfully, they need to be part of a PMS. When developing the measures for a PMS a clear understanding of the different types and applications of measures is required. The most significant problem with the KPIs, in their current format, was that they do not offer the opportunity to change. They are designed to be used as post result "lagging" KPIs. Lagging measures are used to assess completed performance results. They do offer the opportunity to change performance or alter the result of associated performance. They are used only as a historic review. Leading measures do offer the opportunity to change. They are measures of performance whose results are used either to predict future performance of the activity being measured and present the opportunity to change practice accordingly, or to enable future decisions to be made on future associated activities based on the outcome of previous activities.

The EFQM Excellence Model identifies three specific types of measures. They distinguish between KPIs, KPOs and perception measures.

KPIs. KPIs are measures that are indicative of performance of associated processes. An industrial measure of absenteeism within companies is also a KPI. A high level of absenteeism could be indicative of problems with morale, which may have been caused by a number of different reasons, poor leadership, lack of work, poor working conditions, etc. If this measure is used as a leading indicator, then it can be used to

give an early warning, identify a potential problem and highlight the need for further investigation. This provides an opportunity to change and to take appropriate corrective action. The "cause and effect" relationship between the result being measured and the associated cause may be difficult to establish in a business environment. This is why a KPI can only be indicative of future performance.

The KPI s can be divided on three levels (see Figure 3).

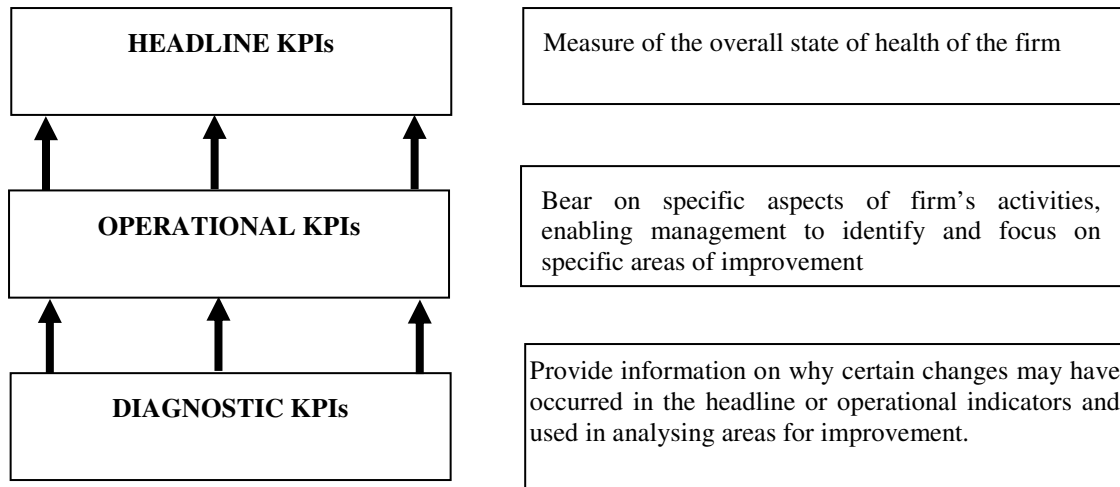


Figure 3. The levels of KPIs

For all types of measures benchmarking is very important. It is particularly important for KPIs because they are only indicative of associated performance. It is therefore the understanding that the KPI is indicative of predictable performance. For the performance to be predictable then benchmarked data through experience are required. If benchmarked data are not available then the decisions based KPI data, are based only on intuition. This level has been set based on benchmarked data either through experience of use or through testing. The user therefore knows that action needs to be taken to prevent the problem occurring.

A key part of a PMS is the use of results to aid the decision-making process. A strategic benchmarking initiative has most to contribute towards their change culture, process, improvement of performance and productivity. Benchmarking enables an organisation to identify its performance gaps and opportunities, and develop continuous improvement programs for all stages of their process.

KPOs are results of a completed action or process. They therefore do not offer the opportunity to change. Business KPOs include measures of profit, share price, market share etc They can also be used to measure the results of processes and sub processes, whose results in themselves cannot be altered. However the results could be used to make decisions to change how the next processes are carried out. For example, if one of the sub processes finished late by two days. The sub process KPO would indicate a two-day overrun. This sub process is complete and the result cannot be changed. However in order to achieve the overall result, additional resources could be utilised on the next processes to address this overrun. In this way the sub process KPO can be seen as a leading measure in the context of the overall result. The measure is of an enabling activity, a leading activity that will deliver a business result.

Perception measures can be used at any stage. They require direct feedback on past performance. They can be leading or lagging measures. For example, client satisfaction is measured after the completion of the project. This is therefore a lagging measure, which cannot be changed. However, if client satisfaction is measured at various stages during the project then these can be described as being leading indicators, ones which provide the opportunity to change future actions to affect the overall desired end result. Perception measures are usually carried out by direct question or survey. There is a danger that because employees and especially clients will become increasingly asked for feedback, the results could become negatively influenced. Some companies are starting to use employees to anticipate the perceptions of their clients.

Conclusion

It is clear from the research that performance measurement is only part of the business improvement process. Unless action is taken based on the results attained then the measures are meaningless, costing money to obtain and not adding value to business . Performance measurement must therefore be part of a system, which reviews performance, decides on actions and changes the way in which the business operates. It is the translation of the results into action that is crucial to achieving to improved performance.

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