Performance Measurement: A System Approach for Excellence

Prof. Gopal K Kanji
Kanji quality Culture Ltd,
Sheffield Technology Parks
Arundel Street, Sheffield, S1 2NS, UK.
E-mail:quality@gopal-kanji.com

Abstract
Performance measurement traditionally focuses on financial measures, such as sales turnover, profit, debt and return on investment. However, traditional financial measures do not match entirely with the competencies and skills companies required to face today’s business environment. The complexity of managing an organisation today requires that managers be able to view performance in several areas simultaneously. Rather than analysing performance from an historical perspective, it is important to understand organisational Excellence, which potentially leads to success of a business in the future.

The first condition to improve, and ultimately to achieve Organisational Excellence, is to develop and implement a system of Performance Measurement Criteria that goes beyond the presentation of financial figures and incorporates other non-financial success factors.

This paper provides performance measurement systems built upon what many researchers and practitioners believe are the Critical Success Factors for Organisational Excellence. By developing a sound methodology, based on structural equation modelling and the system for performance measurement this paper also provides the impact of different performance dimensions on the organisation. Such performance measurement system goes beyond simple internal measurements and provides assessment of performance from external stakeholders.

Introduction
Effective management depends on the effective measurement of performance and results. However, performance measurement traditionally focuses on the reasons that explain success or failure from an historical perspective, which is clearly not enough to understand Organisational Excellence.

Excellence is definitely associated with outstanding performance. It was Peters and Waterman in their book “In search of excellence” has introduced the term ‘Excellence’. Focusing on the attributes of performance excellence, Peters and Waterman described 42 of the best-run companies in the USA and tried to provide some general principles that could be applied to any organisation. The eight factors, which they believe contribute to organisational excellence.

If we define Organisational Excellence (OE) as a means of measuring customer’s, employer’s and shareholder’s (stakeholders) satisfaction simultaneously within an organisation in order to obtain a comprehensive evaluation of the organisational performance, it becomes clear that knowing what drives the satisfaction of the key organisational stakeholders is the path that leads to success of a business in the future.

The above definition calls attention to the measurement aspects of Organisational Excellence from the different stakeholders’ point of view. In this sense, the first condition to improve, and ultimately to achieve OE, is to develop and implement a system for Performance Measurement.

Kanji defines TQM as “a management philosophy that fosters an organisational culture committed to customer satisfaction through continuous improvement” and suggests that its principles are (Kanji and Asher,):

- Leadership (the prime);
- Delight the customer;
- Management by fact;
- People-based management; and
• Continuous improvement.

To depict the relationships among these elements and the core concepts associated with them, Kanji proposed a modified Pyramid Model.

There is a wide support for this proposition in the literature, in spite of the fact that evidence essentially comes from anecdotal evidence and that the statistical link is in practice extremely difficult to establish. Moreover, most business excellence models are built upon the same assumption. In our case, however, by using an appropriate approach, based on Structural Equation Modelling (see Kanji & Sa), we are able to go a step further and statistically measuring the association between the key TQM principles and core concepts and an aggregated measure of Organisational Excellence.

It is our understanding that Excellence refers to organisational outcomes and achievements, whereas TQM is a set of principles and practices that guide the organisation. Viewed through this lens, quality enables or drives organisational excellence and organisational excellence results – at least in part – from quality.

**Purpose of Performance Measurement**

Although the immediate role of any performance measurement system is to check progress towards the established goals, such system fulfils several other purposes in the organisation. Performance indicators not only have accountability purposes, but also intend to drive future resource allocation decisions.

Performance measurement also has an important communication role to play by making people aware of what is important to the organisation’s success and the areas they need to improve. Accordingly, performance measurement can induce success by encouraging and rewarding the appropriate attitudes and behaviours and by making progress prominent. Thus, it is important to build a measurement system where measures are used as a management and motivational tool. In order to fulfil this role, the performance measurement system must be deployed in a way that makes clear to each individual how he can contribute to the overall strategy.

The main purposes of a performance measurement system can be synthesised as follows to check progress towards the established goals;

- to identify major improvement opportunities;
- to achieve goal congruence and organisational alignment;
- to enhance accountability;
- to drive future resource allocation decisions; and
- to communicate to each individual how he/she can contribute to the overall strategy and thus to encourage and reinforce certain behaviours and attitudes

**Systems Approach**

It is fruitless to discuss how to measure an organization unless you define what an organization is. In my opinion any organization is best described and viewed as a system. In other words, we are about to measure a system, or more precisely, the performance of the system. A basic principle of measuring Business Excellence is to view the organization as a system, then model the organization and finally define the kind of information needed and how to collect it.

The first argument to use a systems approach as the prime foundation of the new approach to performance measurement comes from the tendency to regard organisations as organisms (Jackson, 1991), which in order to operate effectively need to have a purpose. Accordingly, organisations are made of highly interdependent parts that must work together to achieve the system’s overall aim.

Broadly, a system is “a set of objects together with relationships between the objects and their attributes related to each other and to their environment so as to form a whole.

Similarly, TQM conceives the organisation as a system that interacts with its customers, suppliers and to some extent also with society (Kanji.).

As social systems, organisations are complex. More than technology people individually and collectively play the major roles. Given that individuals and groups have their own purposes, social systems’ alignment and aim congruency is more difficult to achieve.
Thus, the holistic view of TQM is an important consequence of adopting a systems perspective. It calls attention to the importance of implementing TQM on an organisation-wide basis and to the need of establishing coordination mechanisms. This view is strongly emphasised in Deming’s works when he argues that:

“A system is a network of interdependent components that work together to try to accomplish the aim of a system. A system must have an aim. Without an aim, there is no system”

(Deming, 1994)

Senge emphasises, “the art of systems thinking lies in seeing through complexity to the underlying structures generating change. System thinking does not mean ignoring complexity. Rather, it means organizing complexity into a coherent story that illuminates the causes of problems and how they can be remedied in enduring ways”.

Adopting a systems’ approach is also regarded as essential to pursue the best solutions to most organisational problems. In fact, traditional performance measurement systems promote local optimisation at the expense of a systemic view of the organisation. As Jackson highlights, “focusing upon the maximisation of a performance target at the expense of others can result in the sub optimization of the system as a whole”.

Stakeholders Approach

Measuring OE according to the key stakeholders’ perceptions not only contributes to a more accurate and realistic picture of organisational performance, but also gives important indications of the key areas where improvement is vital. By combining the assessment of key organisational stakeholders, the new system is expected to provide an integrated view of performance.

As Jackson argues, different stakeholders require different performance indicators. That inevitably places important pressures on the new performance system, calling for synthesis and integration. For KBEMS, such integration essentially comes from the use of a Critical Success Factors approach, as explained next.

A New Approach

The main purpose of this work is to present a new system to measure Organisational Excellence that is, as much as possible, multidimensional, comprehensive, integrated and reliable. Such system is based on the Critical Success Factors (CSFs), which, according to Leidecker and Bruno the limited number of areas in which results, if satisfactory, will ensure successful performance for the organisation. CSFs can also be described as “those variables that management can influence through its decisions that can affect significantly the overall competitive positions of the various firms in an industry” (Kanji,).

KANJI’S BUSINESS EXCELLENCE MODEL (KBEM) AND KANJI’S BUSINESS SCORECARD (KBS)

Kanji Business Excellence Measurement System (KBEMS) is based on Kanji’s Business Excellence Model (KBEM) and Kanji’s Business Scorecard (KBS) (See Kanji & Muora E SA 2006). These are made up of a several criteria that correspond to the Critical Success Factors, i.e. the areas that must perform well if an organisation is to succeed. They form respectively Part A and Part B of the Performance Measurement System and should be applied simultaneously, since they form a single and complementary view of organisational performance.

Leadership is the prime of Part A, meaning that leaders are the most important driving force for quality improvement and Business Excellence. Their attitude must promote four principles: Delight the Customer, Management by Fact, People Based Management and Continuous Improvement. Each principle operates in two core concepts, namely External Customer Satisfaction, Internal Customer Satisfaction, Measurement; All Work is Process, Teamwork, People Make Quality, Continuous Improvement and Prevention.

In Part B, Organisational Values are the prime for Process Excellence, Organisational Learning and Stakeholders’ Delight. Effective management of these critical success factors will lead to a high Performance Excellence in Part B.
As described in this paper, Part A is essentially directed towards the measurement of performance internally, according to the views of managers and employees. Part B requires performance measurement to be assessed from the perspective of external stakeholders, such as customers, suppliers, government, financial institutions and the society in general.

Empirical Evidence in Health care

The study uses Kanji’s Business Excellence Measurement System (KBEMS) model as measuring performance for a 400 bed hospital in U.A.E (Hassan& Kanji 2007). KBEMS was developed from two structural models: Kanji’s Business Excellence Model (KBEM), which is dedicated to the measurement of performance from internal stakeholders’ perspective, and Kanji’s Business Scorecard (KBS), which assesses performance from external stakeholders’ point of view. Both KBEM and KBS measures are based on critical success factors. They form a complementary view of organizational performance. The model has the ability to measure each of the components of the system and their relationships to each other.

Conclusion

The findings of the study supported Kanji’s business excellence model for measuring performance. His model embraces a holistic approach including as many stakeholders as possible and not focusing on one stakeholder alone. His model actively involves internal and external stakeholders in the assessment process. It measures performance from a multi- and interrelated perspective. KBEMS permits all of a system’s parameters to be measured simultaneously. The findings showed that this holistic approach used for a complex system such as a hospital provides a better understanding of organizational change. Kanji’s use of CSFs to measure a wide variety of quality concepts enabled a comprehensive and detailed assessment of the critical areas to be performed, comparisons to be made, and progress to be monitored. It highlighted performance gaps and problems and pinpointed areas where improvement is required, while providing a methodology to evaluate progress toward organizational excellence.

In the health care field, it is difficult to isolate business excellence matters from health care outcomes. Kanji’s model isolates specific kinds of benefits by focusing on TQM’s effect. In a sense they are management benefits in general, either directly or indirectly linked with patient care, patient safety, the effective treatment of patients, and the requirements of services by health care organizations.

References