Becoming World Class Through a Culture of Measurement

By

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Abstract

The notion of World Class is in many cases an ‘elusive concept’, unless there is clear emphasis on performance measurement. Indeed many surveys have noted big gaps between organisations’ perceptions on ‘where they think they are’ and the actual, impartial, objective assessment on ‘where they really are’ against World Class criteria.

The paper argues that the concept of performance measurement is the key trigger to achieving and retaining superior competitive positions. The paper starts off by teaching the origins, meanings and definitions of the concept of measurement and highlights the importance of performance measurement. Then the paper presents an integrated, comprehensive model which has been empirically tested, to argue that the practice of measurement is culturally-based and should focus on behavioural support rather than being efficiency-based and activity-focused.
1. Introduction

It is interesting to note that for as long as the TQM movement has continued to evolve the significance of performance measurement did not really get highlighted until recent years. Whether it is as a result of the need to ‘quantify’ the benefits of TQM or to clearly demonstrate its credibility as a concept, the field of performance measurement remained a neglected topic of research until the early 1990’s (Dale, 1992; Zairi, 1992).

It is perhaps relevant to point out at this stage that one of the basic problems associated with Performance Measurement is its lack of understanding and appreciation of its scope and pervasiveness. As Sink (1991a) argued that “[Performance measurement is a] mystery….complex, frustrating, difficult, challenging, important, abused and misused”.

The confusion found through scanning the literature related to this field is further exacerbated by the wide differences in the application of performance measurement terminologies. The latter is found in Strategic Management, Human Resources Management, Psychology, Accounting, Operations Management amongst other fields. In this regard, the American Productivity and Quality Centre (1999) have recently noted that “performance measurement has experienced great scepticism. The problem is that there is no single recipe or methodology that will ensure success in implementing a performance measurement system. Organisations have piloted and used a wide variety of systems, both informal and formal, but struggle with selecting the system that works just right for them. Much of what is currently known about measurement is based on individual case studies, practitioner recollections, and anecdotal evidence”.

2. Definitions and importance of Performance Measurement

Performance Measurement is the systematic assignment of numbers to entities (Zairi, 1994). It is concerned with the development of methods for generating classes of information that will be useful in a wide variety of situations and for solving a wide variety of problems (Churchman, 1959). "The ultimate purpose of the performance measurement system is to provide data from which decision makers can implement actions to improve business performance" (APQC, 1999).

Performance measurement is the process of obtaining symbols to represent the properties of objects, events, or states (Mason and Swanson, 1981). Others concentrate on explaining that the role of performance measurement is assessing the performance of individuals. Sharman (1993), for instance, explains that performance measurement efforts provide the organisation with a device through which to focus and enunciate accountability.

The clear importance of objectivity is highlighted by many authors such as Sloma (1980) who proposed that the key role of performance measurement is “to provide an objective, impersonal basis for performance evaluation”. Furthermore and according to most writers interested in this field, performance measurement is a process of evaluation and providing direct feedback against set parameters, targets and objectives (Glaser, 1991; Evangelidis, 1992).

Overall, many agree that poorly designed measurement systems can seriously inhibit the ability of organisations to adapt successfully to changes in the competitive environment (Zairi and Sinclair, 1995). This is summed up by the phrase “what gets measured gets done”. A recent benchmarking study by the American Productivity and Quality Centre (1999) highlighted that “eighty percent of study participants have demonstrated financial and/or non-financial business successes as a result of implementing the performance measurement system. Hewlett-Packard, for example, shows the cause-and-effect relationship of its measures to bottom-line results through its business model for measurement”.


3. Developing an Effective Culture of measurement: A Proposed Model

Organisations should now focus on the performance management system as a business management model on which to base business decisions. “Leading organisations view performance measurement as a task for which all employees are accountable. They influence employees to embrace measurement and become involved in the goals and results it yields” (American Productivity and Quality Centre, 1999).

The most effective way to make measurement part and parcel of routine, regular organisational activity is to address all the areas of business operations in a consistent and objective manner. Recent research (APQC, 1999) revealed that best-practice organisations link their performance measurement systems and results to their quality initiatives company-wide. This transforms each system from simply an "indicator of performance" to an "enabler of improvement." It is therefore extremely important to note that Performance Measurement should not be stressed as a separate activity but rather as an integrated approach to assessing and monitoring organisational and managerial processes.

The model presented by this paper is drawn from the best practices concluded from case study analysis. Cross-case analysis involved the comparison of data from multiple case studies in order to examine similarities and differences between cases which allowed the identification of best practices and thus the development of a model of best practice performance measurement. Our study involved the analysis of 15 case study organisations. The resulting proposed model was in turn validated by the results from a postal survey of the performance measurement systems in 115 companies. It is important to note that in most organisations there is no separate ‘performance measurement system’. The model therefore integrates measurement within the overall management process. The model consists of five levels (as shown below) that are meant to bring together in an encompassing approach all aspects of Business Excellence.

**Element 1.** Strategy development and goal deployment (including mission/vision, critical success factors and key performance indicators).

**Element 2.** Process management and measurement (including impact, in-process and output measures, management of internal and external customer-supplier relationship, and the use of management control systems).

**Element 3.** Performance appraisal and management (including performance appraisal and performance management).

**Element 4.** “Break-point” performance assessment (including internal and external benchmarking, self-assessment against business Excellence criteria, and quality costing).

**Element 5.** Reward and recognition (of individuals, teams and external suppliers).
The model is deployable at four distinct levels (Sinclair & Zairi, 1995a; 1995b; 1995c) as is demonstrated in the following figures.

While the management literature emphasises the need to link measurement systems to strategy, a recent study (O’Mara et al., 1998) concluded that at an industry level there was still a need to raise awareness of this link. The responsiveness of performance measurement systems to strategic decisions would appear to be a function of the level of sophistication of the current system, and it was much more likely that the focus on a new performance measure would occur if a more relevant measure was already in place.

Figure 1 illustrates the first “level” of the performance measurement system model, concerned with the development of organisational strategy and the consequent deployment of goals throughout the organisation. Strategy development and goal deployment is the responsibility of senior management within the organisation, although there should be as much in to the process as possible by experts in this area and employees.

![Figure 1: Strategy Development and Goal Deployment](image-url)
Figure 2 illustrates “level” two, concerned mainly with aspects of process management and measurement. This process should be managed by the process owner with inputs from sub-process owners. The process outlined should be used whether an organisation is organised and managed on a process of functional basis. If the organisation is functionally organised, the key task is to identify the customer-supplier relationships between functions, and for functions to see themselves as part of a customer-supplier chain.

![Figure 2 Process Management and Measurement](image)

Figure 3 shows the third “level” concerning the management of individuals and further explained by steps relating to performance appraisal and management. These activities should be undertaken by the individual whose performance is being managed, together with their immediate superior. The organisations examined in this study attempted to measure a combination of process/task performance (effort and achievement) and personal development. The frequency of formal performance appraisal is defined by the frequency of the appraisal process (generally within a minimum of six months). Most organisations recognised that this period was probably too long, but none suggested that they would increase the frequency. Between formal performance reviews, organisations rely on performance management techniques to manage individuals.
Figure 3 Individual Performance Measurement

Figure 4 indicates the fourth “level” concerned with gap analysis and internal/external performance assessment through Benchmarking. The techniques identified for break-point assessment at the organisations examined in this study include; quality costing, self-assessment (against MBNQA or EQA criteria), customer satisfaction surveys, quality function deployment, and activity based costing.

Figure 4 Benchmarking and Gap Analysis
Finally, the fifth “level” is concerned with reward and recognition form an output of performance measurement at the organisational process (including suppliers) and performance appraisal and management (including performance-related pay and performance management). The proposed model considers Reward and Recognition as an integral element rather than one that gets “bolted-on” as found in most literatures.

Overall, the performance measurement system can be shown as a series of complementary PDCA cycles as shown in Figure 5. It should be remembered that each cycle operates at a different frequency, and within each cycle there will be individual cycles for each measurement. The frequency of the cycle is dependent on organisational level, process cycle time and criticality of the measurement.

![Figure 5 Performance measurement system model](image)

To support the successful implementation of the proposed model, ‘best practices’ have been identified from recent surveys, case studies, and related literature (American Productivity and Quality centre, 1997, 1999)(Zairi, 1994)(Drtina, 1999). These include:

1. Top management’s full involvement (starting with initial system design meetings), and measurement training are key for successful implementation.
2. Performance management systems must be integrated and aligned with the annual strategic planning process. Organisations must ensure a close and direct correspondence between corporate performance measures and the vision/strategies/ plans of the organisation.
3. Performance management systems must describe cause and effect through clear and direct links to organisational assessment and compensation processes.
4. Ensuring buy-in and gaining commitment from the people who will eventually implement the system is vital. In this respect, communication and training and two of the most critical success factors for performance management.

5. The use of routinely generated, real-time, online performance information makes measures actionable and drives change throughout the organisation.

6. Continuous assessment and review of the measures and goals is essential to maintain them current and effective.

4. Becoming World Class Through Sustainable Performance Achievements

The proposed model discussed in the previous sections is culturally, behaviourally based rather than system, activity oriented. It is a closed loop system to demonstrate continuous improvement through PDSA cycles and based on continuous learning through break-point assessment.

The model ensures that positive changes in culture can result from its application, since:

- Cycles of deployment reach all levels within the organisation
- Cycles of measurement are relevant to process owners and thereby create better focus
- The model is a true reflection of effective empowerment since control is over processes and not people.
- People assessment is linked to value added, against corporate objectives and not distant and irrelevant criteria.
- Behavioural positive changes are deliberately driven by the proposed model through a clear emphasis on Reward and Recognition.
References


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