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COMPARATIVE ANALYSIS OF THE MOST RELEVANT PERFORMANCE MANAGEMENT SYSTEMS

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Abstract

In order to be successful in a competitive environment and to meet strategic objectives is necessary to implement a suitable performance management system for a certain business sector or industry. The performance measurement system based only on financial aspects worked well in industrial era, but now the priorities have changed and the most important sector is the one based on services and information technology.

The main objective of the article is to present an analysis of the most relevant performance management systems. This analysis will contain a detailed review of the most used models of performance management, a SWOT analysis for selected models and suggestions for improving them.

1. INTRODUCTION

Performance is a concept often used in an organization; managers want to have productive and efficient employees, to use their resources in an optimal way and to obtain satisfactory results. There are many performance management systems which include various methodologies, methods and instruments for implementing and managing such a system.
Company performance is measured using a variety of tools and indicators such as strategic planning, budgeting, risk management, key performance indicators and so on. The next generation of performance management combines these tools in an integrated framework, unlike older generations.

2. PERFORMANCE MANAGEMENT SYSTEMS

According to the article published by Andy Neely, Bernard Marr, Göran Roos, Stephen Pike and Oliver Gupta entitled “Towards the Third Generation of Performance Measurement” there are three generations of performance management systems:

1) The first generation lies between 1980 and 1990. These management systems have emerged as a need for new methodologies and more efficient methods in business area which accurately reflect the company's performance. Traditional accounting methods were already obsolete because they were taking in account only the value created by labor but not also the value created by knowledge and technological applications. There were two different ways to approach this problem; some academics have tried to improve the existing accounting methods by creating new analysis based on cash flows or activity-based management. Other experts have found new management systems that involve besides financial indicators certain non-financial indicators. Thereby, were developed performance management systems used even today, such as Balanced Scorecard, Performance Prism and Skandia's Navigator. What brought new this first generation was the non-financial component which opened new horizons to create a complete picture of the state of the company.

2) The second generation of management systems is based on correlation of flows and transformations. In this category emerged concepts as strategic map, introduces by Norton and Kaplan, success and risk map or model IC – Navigator. Strategic maps were introduced as an extension of the concept of Balanced Scorecard to improve the performance of the model and to have a detailed picture of the company. Strategic map was made starting from the four perspectives of Balanced Scorecard model and contains certain limitations because now a company is more complex than is described in a Balanced Scorecard model. For that reason, in order to fill in these gaps explained earlier appeared another management system called Performance Prism. This latter system contains also a special perspective for stakeholders who highlight their requirements, their needs, the strategies needed for fulfilling stakeholders’ demands and also the expected feedback. Overcoming these problems companies will be able to create consistent success maps. IC – Navigator concept focuses on tangible and intangible resources of an organization and how these resources are transformed to meet strategic objectives. This performance management model focuses on the potential to create long – term value.

3) The third generation of performance management systems is based on a correlation between financial and non – financial resources and on the interaction with the cash flow and how they are affected. The most common methods for assessing the performance of companies are Balanced Scorecard, EFQM (European Foundation for Quality Management) also known as Excellence Model in entrepreneurship, Performance Prism and another excellence model called Malcolm Baldrige. These performance management systems are the latest research in the field and include methods which fit today's companies and meet all the requirements.

3. BALANCED SCORECARD

Scorecards based on indicators always report operational performances and offer less strategic information about how the organization creates added value for customers and other business partners. On the other hand, a system based solely on strategic performance is an integrated strategic planning, a company level management system. Scorecards based on strategy align employees with the vision and mission of the company and communicate strategic intentions across the company. In strategy – based scorecards, performance indicators represent only one component of the system and they are used to provide information necessary for decision making at all levels of an organization. In the Balanced Scorecard system the measurement of performance is the result of strategic thinking for measure the progress towards targets.

Robert S. Kaplan and David P. Norton's project was accomplished within a period of one year working with 12 companies that have a good performance measurement system in place. They created what they call the “Balanced Scorecard” - a set of measures that provide to top management a rapid and coherent overview of the business. This type of scorecard includes financial indicators showing the results of certain actions. But in addition, there are operational indicators that measure customer satisfaction, internal processes and innovation and improvement activities of the organization. The "Balanced Scorecard" allow managers to look at the company from four major perspectives:

1) The financial perspective ("How do we look to shareholders?").
2) The internal process perspective ("What must we excel at?").
3) The learning and growth perspective ("Can we improve and create value?").
4) The customer perspective ("How do customers see us?").

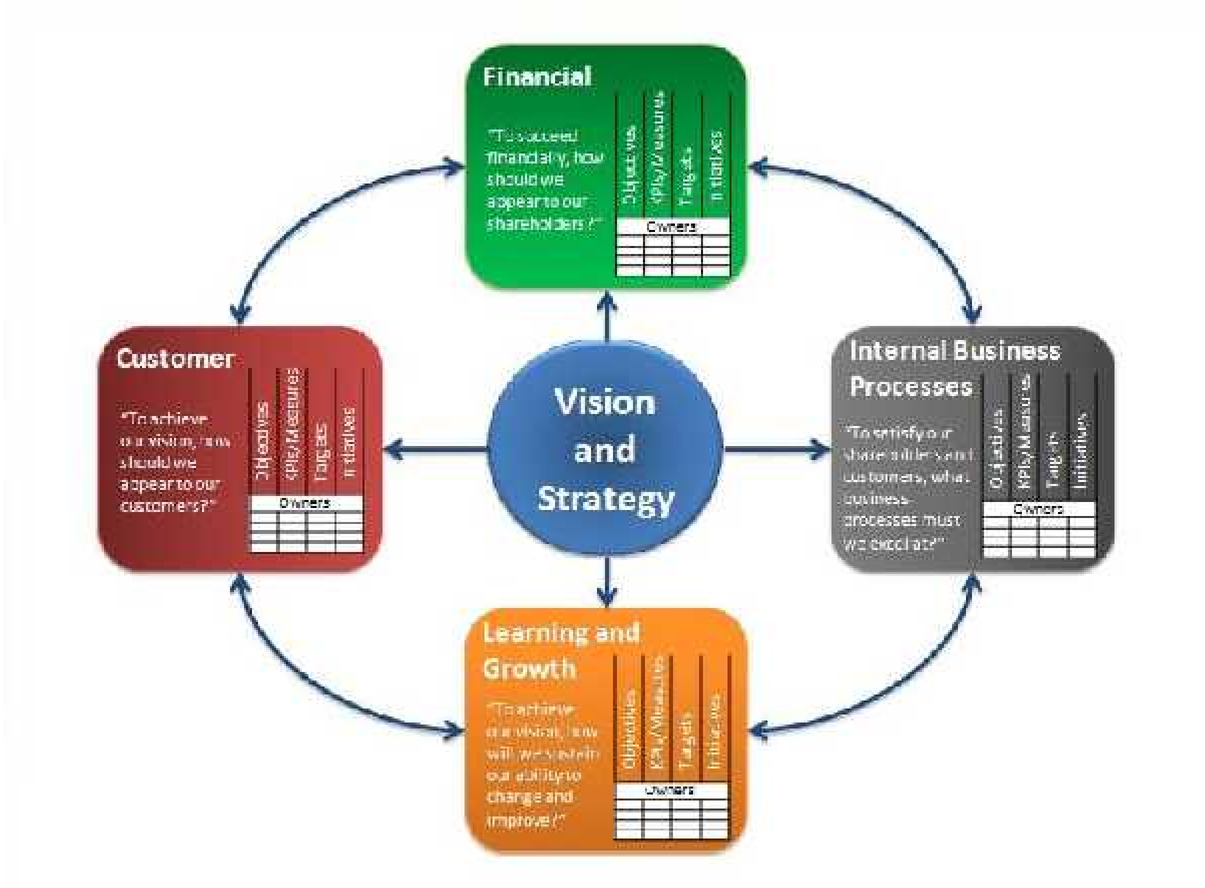

Figure 1: Balanced Scorecard. Source: www.meshekah.com

3.1. CUSTOMER PERSPECTIVE: HOW DO CUSTOMERS SEE US?

Nowadays, many companies have a mission based on customer satisfaction. The way a company fulfills its mission in this regard has become a top priority for management. The concept of Balanced Scorecard requires managers to translate mission on client specific indicators that quantify the factors that influence customer behaviour. Thus, customers' certitudes can be divided into four categories: time, quality, performance and service, and costs. The first category measures how long it takes for a company to align to customer requirements. For example, this period can be considered as the time between when the customer order a product until the product is received by the client. The second is quality, which measures the level of defective a product holds when is received by the customer. The quality can measure also the precision in the process of delivering the products. The combination of performance and services measures how the products or services offered by the company helps create added value for its customers.

3.2. INTERNAL BUSINESS PERSPECTIVE: WHAT MUST

WE EXCEL AT?

The internal indicators from the Balanced Scorecard must be chosen keeping in mind the business processes that impact customer satisfaction, factors affecting time, quality, and other categories. Companies should also identify and measure basic skills, technological needs to ensure in a continuously manner market competitiveness of the company. They must decide on the processes and the skills they want to improve and also they must choose their specific indicators. To achieve client objectives, time and quality objectives, managers need to conceive indicators that are influenced by employees' actions. Since most internal actions occur at lower levels of organizational branch, managers need to decompose customer based indicator to a local level. Thus, the specialized software has an essential role in assisting managers to discover the source of imbalances that occur at lower levels in the company. When an unexpected signal appears in the Balanced Scorecard, managers can query the system to find out the source of the imbalance.

3.3. INNOVATION AND LEARNING PERSPECTIVE: CAN WE CONTINUE TO IMPROVE AND CREATE VALUE?

The indicators which measure internal processes and those related to customers satisfaction that are contained in the Balanced Scorecard identify parameters which the company claims as being important to maintain a high level of competitiveness. But the goals for succeeding in a business environment change continuously during a business cycle. Global competition forces companies to achieve continuous improvements in terms of internal processes and existing products and have the strength to introduce new products that perfectly align customers' request.

3.4. FINANCIAL PERSPECTIVE: HOW DO WE LOOK TO SHAREHOLDERS?

The indicators which measure financial performance show whether the company's strategy, implementation and execution of the organization contribute to overall improvement of the company. Financial objectives relate to profitability, growth and shareholder's value. Currently, the following question arises: do managers need to take in account these short-term indicators, like quarterly sales? Many have criticized this type of indicators because it provides an inadequate vision of the evolution of the company, as it is based on historical data.

3.5. SWOT ANALYSIS

S	W
- The four perspectives reflect overall performance at the highest level in an organization. - Align KPIs with strategy at all levels of organization. - Solid monitoring of strategy. - Transform strategy measures into lower level measure to ensure the managers and employees both know what is needed to achieve strategic objectives.	- BSC does not provide recommendations on how to improve strategies in order to overcome discrepancies. - The traditional BSC does not pay attention to risk management or to direct financial analysis. - BSC is not considering the interests of stakeholders.
O	**T**
- A proactive approach helps top management to not only have a vision over the results of their company but also have a perspective regarding ongoing performance and factors that influence results. - BSC has usable results: you can	- BSC can incur resistance from employees because may be considered as an additional burden of administrative work, or some employees might consider the system an indicator that their performance is not appreciated. - BSC can mean different things to

transform strategy into actions and desired behaviours. - This approach has a unique competitive advantage.	different people, the concept of BSC is not clear for all employees.

4. EFQM EXCELLENCE MODEL

EFQM Excellence Model is a generic model for measuring quality management which is used in all business fields, regardless of sector, size or structure. The essence of this model consists in nine dimensions called criteria are: leadership, employees, policy and strategy, partnerships and resources, processes, employees' results, customers' results, society results in which the company operates, and the key performance results. This model of excellence does not provide information or suggestions on what strategies or action plans need to be adopted in order to achieve a high level of continuous performance. The model offers only support for company's actions regarding the performance management process.

The objective of this model of excellence is the ability to provide a perspective to understand performance management. The model does not contain detailed instructions on how to implement it and how to use these criteria, but it is necessary that all nine criteria must be considered when using this model. This model consists of eight fundamental concepts of performance measurement system that are listed below:

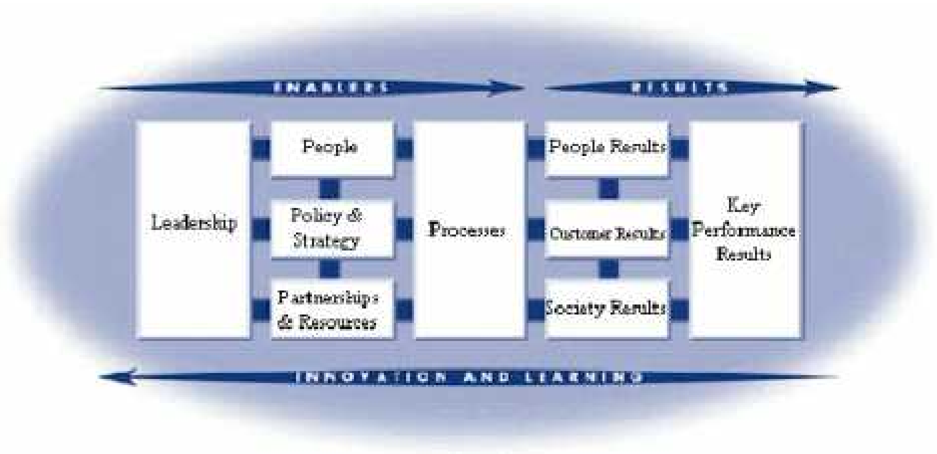

Figure 2 EFQM Excellence Model – source: www.eknowledgecenter.com

Leadership – refers to the behaviour of a company's top management and operational management.

People – reflects the way in which the company handles employees' potential and how the company invests in trainings and employees' development.

Policy & Strategy – this includes the vision, mission, values and strategic directions towards which it is heading. It is also targeted how these concepts are implemented and managed.

Partnership & Resources – how the company manages to use and handle external partnerships and internal resources in an optimal way to develop a high-performance business.

Processes – focuses on how a company develops, manages and improves its activities and processes in order to satisfy customers and suppliers with which they trade.

People results – measures how the organization builds its relationship with its employees.

Customer results – measures the degree of fulfillment of obligations in relation with the customers and how to attract new customers.

Society results – it refers to how a company manages to achieve an outstanding level in relationship with the local, national or international community. This relationship may refer to specific ways to impact and improve these communities.

Key performance results – they determine the degree of achievement of financial targets each year and the degree of meeting expectations of shareholders.

4.1. SWOT ANALYSIS

S	W
- Represents a hierarchy consisting of nine criteria. - Uses the self-assessment approach. - The feedback obtained from result-based criteria help improve enablers.	- The model does not contain detailed instructions on how to implement the nine criteria and how they are used. - The model does not offer information regarding what strategies or action plans must be adopted in order to achieve a high level of performance.
O	T
- This model can be customized using indicators based on the nine criteria.	- It is a generic model, so it may not be appropriate to certain sectors or industries. - Can be substitute with other models in some sectors or industries.

5. PERFORMANCE PRISM

The third significant model is called the Performance Prism. It was created in order to improve first generation models that are presumed to be used only for measuring certain indicators. This model comes with the idea that the measure should be a process of collecting managerial information, not just simply measuring everything in the company. The simplistic structure of the Balanced Scorecard brings into question the need for a different model, more complex, which can incorporate multiple perspectives, some as important as others in the progress of the organization.

The Performance Prism sets out to be a holistic performance measurement framework (Neely, Adams & Kennerley, 2002). It addresses the key business issues, asking critical questions for decision makers to think through the links between the indicators used (Neely, Adams & Crowe, 2001).

The Performance Prism manages the company from five interrelated perspectives:

1. Stakeholder satisfaction – who are our stakeholders and what do they want?
2. Strategies – what strategies do we need to put in place to satisfy the wants and needs of our stakeholders while satisfying our own requirements too?
3. Processes – What processes do we need to put in place to enable us to execute our strategies?
4. Capabilities – what capabilities do we need to put in place to allow us to operate our processes?
5. Stakeholder contribution – What do we want and need from our stakeholders?

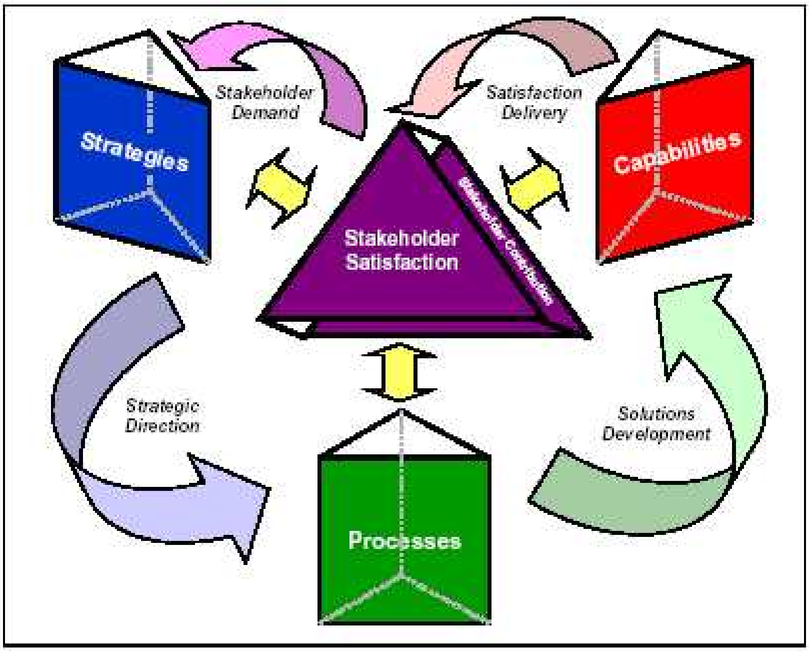

Figure 3. Performance Prism – source: www.valuebasedmanagement.net

Stakeholder satisfaction

This facet of the prism focuses on the importance of stakeholders, who they are, how much power they have and how important each of them is to the organization. The main objective is to keep the most influential stakeholders satisfied. The main stakeholder groups are: investors, customers, employees, suppliers and joint venture partners and regulators. The organization must deliver added value to their stakeholders. Value can be defined differently depending on the category of stakeholder, for example if we are referring to employees, value can be quantified in promotions, trainings and skills development.

Strategies

Since most of performance management models start with strategy, Performance Prism model uses this approach in a different manner. In other models the strategy perspective means to identify the strategic objectives and to express them. In Performance Prism model this strategy perspective means how the goal will be achieved, not the goal itself. The goal is defined in the stakeholder satisfaction and stakeholder contribution perspectives. Once the strategies have been identified, we need to identify ways for measuring the fulfilment of them.

Processes

After defining strategies it is essential to create cross-functional processes that have process owner who is responsible for the functioning of that process. Many organizations consider four categories of processes: development of product and services, generation of demand, fulfilment of demand and overall planning and management of the enterprise. These processes can be divided into sub – processes. Then will be developed measures to see if these processes are working and their evolution.

Capabilities

Capabilities represent a combination of procedures, policies, employees' skills, physical infrastructure and technology that collectively describe the company's ability to create value for its stakeholders. It is important to have the right capabilities in order to support the fulfilment of the processes identified in the previous facet. Benchmarking is the most used method to measure capabilities of an organization, to determine if the organization has the right skills to sustain the processes.

Stakeholder contribution

The relationship between organization and stakeholders is reciprocal and therefore stakeholders need to contribute to the development of the organization. This facet of the prism represents what the organization wants from those stakeholders and identify ways of measuring if stakeholders are providing it or not. Resuming the four major stakeholder groups, we can identify some requests: investors – the willingness to take on more risk and capital for growth; employees –

flexibility, multiple skills; regulators – better understanding of the business sector.

5.1. SWOT ANALYSIS

S	W
- A detailed view of stakeholders. - Distinguish between stakeholder satisfaction and stakeholder contribution. - A solid foundation of the performance measures.	- Offers vague implementation details about the performance measures. - Insufficient link between the results and the actions.
O	T
- Because is often considered as an enhancement of Balanced Scorecard model, it presents solutions to the limitations of the BSC.	- Don't take in consideration actual performance measurement systems owned by an organization.

6. CONCLUSIONS

The presented models each transmit an image of companies and how they have changed in time. Each model aims to bring something new and necessary for business environment. If the Balanced Scorecard was one of the most successful models of performance management, companies have reached a certain maturity. Therefore, this model has become insufficient to capture all aspects of the company. Thus, a new model appeared named Performance Prism and will appear other models that will encapsulate future needs of the companies.

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Biography

Alexandra RUSĂNEANU has graduated the Faculty of Economics in 2010 and Economic Informatics Master in 2012. Is a PhD student at Faculty of Cybernetics, Statistics and Economic Informatics. She works as Application Developer at a multinational company. Her research interests include Business Intelligence solutions, strategic management models and software.