A FRAMEWORK FOR ACHIEVING ORGANISATIONAL OBJECTIVES THROUGH INTEGRATED PERFORMANCE MANAGEMENT

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OPSOMMING

Om in enige organisasie suksesvol te wees veral in die kompeterende en dinamiese besigheidswêreld waarin ons leef, is dit noodsaaklik om resultate van strategieë te bekom. Dit is ongelukkig so dat baie ondernemings nie daarin slaag, om hulle planne suksesvol te implimenteer nie.

Vanuit hierdie oogpunt poog die studie dan om 'n raamwerk te bied, van hoe 'n organisasie te werk moet gaan om doeltreffende resultate te verseker. Hierdie studie is dan 'n literatuurstudie van die beginsels wat betrekking het op 'n geëintegreede prestasiestelsel.

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CHAPTER 1

INTRODUCTION, GOAL AND MOTIVATION OF THE STUDY

1.1 Introduction

Today's firms exist in an uncertain and rapidly changing environment in terms of industry, raw materials, human resources, financial resources, market, technology, economic conditions, government and culture (Yoo & Digman, 1987:114). Yoo and Digman (1987:114) add that strategic management is the single most important controllable factor determining the success or failure of the organization in the long run. However, according to Marx (1991:21), strategic business planning is in considerable disarray today. He reports that many companies at the forefront of strategic business planning only a few years ago have now substantially reduced the scope of their planning activity or abandoned it altogether. Strategic business planning frequently has not delivered the promised benefits because it has failed to overcome the numerous bureaucratic obstacles which lie in its path. Marx (1991:23) points out that strategic planning becomes most vulnerable to its natural enemies, namely, inertia, entrenched interests and risk adversity. According to Kaufman (1992:107), strategic thinking and strategic planning require more than just good intentions. Mindsets, approaches and systems must be aligned for the success of the organization and its members. Kaufman (1992:108) points to six barriers or enemies that can impede successful planning and implementation. These are:

- focusing on means rather than ends - the how rather than the what;
- failure to recognize the three different levels of results: micro (individual), macro (organizational) and mega (societal); These levels need to be linked together;
- written objectives that give a destination without supplying precise criteria for knowing when you have arrived. Objectives must include measures for success;
- needs defined as gaps in resources or methods (means) rather than gaps in results (ends);

- a mission that is practical and achievable but which is not focused on the vision (lack of direction); and
- reliance on plans that are comfortable and acceptable (keeping in comfort zones).

Carr (1993:51) explains that most in business work towards a similar goal: improving performance. He states that incentives are needed to support excellent performance which include:

- clear, worthwhile and challenging goals;
- practical standards and useful feedback;
- sufficient autonomy combined with appropriate support;
- recognition;
- time; and
- money (Carr, 1993:53).

Performance management can be defined as: "...a systematic approach to managing people, goals, measurement, feedback and recognition as a way of motivating employees to achieve their full potential, in line with the organizations objectives". (Bussin, 1992:24.) Thus performance management is critical in overcoming the obstacles towards strategic planning and implementation and needs to be examined across an integrated network of goals and objectives in an organization.

1.2 Statement of the problem

In an article in the Business Day on the 16 June 1994, it was reported that according to studies by the National Productivity Institute (NPI) the majority of local businesses fail because of incorrect decisions made by managers (Anon., 1994:11). This report noted that liquidations in South Africa increased from 2400 in 1992 to 2730 in 1993 while a total of 464 companies and 14200 close corporations deregistered in 1993. In total more than 21500 business made a loss in 1993 in South Africa. Poor strategic planning and goal setting along with ineffective implementation and control can be attributed to the cause of these business failures (Anon, 1994:11).

Marx (1991:24) states the following: "Strategic plans often lack the essential business intelligence which is needed to make major business decisions. Instead one finds pages and pages of numbers and facts which are often of very limited value to strategic decision making." Peters & Waterman (1982:41) state that: "...the problem is not that companies aught not to plan but that planning becomes an end in itself... Gamesmanship replaces pragmatic action". Marx (1991:25) suggests that one of the problems which hinders successful implementation of the business plan, lies with the ineffective monitoring of performance. Furthermore, he draws attention to the fact that if rewards are not tied directly to the business plan performance, the plans will not be implemented and the objectives will not be achieved.

Thus the successful implementation of the business plans requires that the reward system and business planning system be inextricably linked. What is needed, therefore, for effective planning is a set of specific strategic actions which are integrated into a cohesive overall plan for gaining competitive supremacy (Marx, 1991:25). According to Weihrich (1986:67), every part of an organization and each individual in it should contribute toward its purpose. Objectives are the ends toward which other plans and group efforts are directed. He says, that in order to select the appropriate means, it is essential that the ends are clear. The aims have to be structured in some orderly way, starting with the broad purpose and mission at the apex of the organizational hierarchy and continuing to set objectives further down to each member of the enterprise. In a comprehensive survey of nine leading South African organisations conducted by Spangenberg (1993:31), it was discovered that in the area of performance planning a number of issues were viewed as significant problems. These were formulating goals and performance standards; linking of individual, group and performance goals and complex goals not being supported by appropriate action plans. The importance of this study, therefore, lies in the fact that it examines an integrated performance management system which is necessary for the achievement of organisational objectives.

1.3 Objectives of the study

Many businesses fail to achieve competitiveness because of inadequate performance planning. Strategic goals and actions are not linked into an integrative overall plan which is coupled to the performance of each individual. The goal of this research, therefore, is to establish a framework for an effective and integrative managerial performance system.

From the above goal, the following objectives of this study can be formulated:

- to understand the concept and nature of management in business performance;

- to recognize the necessity of management by objectives as a system required to integrate organizational objectives and aims and so enhance business performance;

- to realize the importance of performance measurement and evaluation for the successful implementation of management by objectives; and

- to discuss the role of management information in decision making and business performance;

1.4 Methodology

The study is comprised from secondary research in the form of a literature study. Textbooks, research reports and publications relevant to integrated performance management are researched, compared and view points related to the subject selected and discussed.

1.5 Definition of terms

The following terms will be defined in order to gain a conventional understanding of their use in this report.

- Management: The process of planning, organizing, leading and controlling the efforts of organization members and of using all other organizational resources to achieve stated organizational goals (Stoner & Wankel, 1986:4).

- Strategic management: That set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives (Pearce & Robinson, 1991:3).

- Effectiveness: The ability to choose appropriate objectives. An effective manager is one who selects the right things to be done (Stoner & Wankel, 1986:9).

- Efficiency: The ability to get things done correctly which is an input-output relationship. Managers who are able to minimize the cost of resources they use to attain their goals are acting efficiently (Stoner & Wankel, 1986:9).

- Management planning and control: Management Planning and control in this study refers to the process of ensuring that resources are obtained and used effectively in the accomplishment of an organisations objectives (Schutte, 1988:6).

- Operational and technical control: For the purpose of this study, operational and technical control is the process of ensuring the specific tasks are carried out efficiently (Schutte, 1988:6).

1.6 Plan of the study

Chapter two will examine the nature of managerial work, managerial roles and systems as well as the contribution of management to effective performance.

In chapter three, a management by objectives system will be discussed as the foundation for a performance management system. This will highlight the benefits and weaknesses of such a system as well as requirements for effective implementation.

Chapter four investigates the importance of performance measurement and evaluation in guiding and directing individuals toward organisational goals and objectives. This chapter will also discuss the identification of critical success factors and key performance areas which are necessary for performance evaluation.

Chapter five will discuss the importance of a strategic performance measurement system that is needed for management decision making.

Chapter six will conclude the study with recommendations given to managing business performance.

CHAPTER 2
THE NATURE OF MANAGEMENT PERFORMANCE

2.1 Introduction

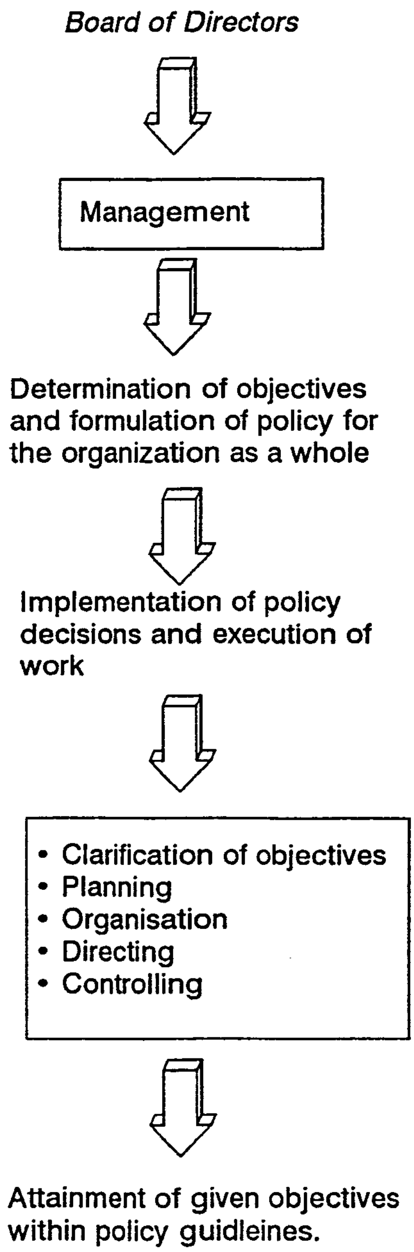
One of the most important human activities is managing. According to Weihrich & Koontz (1993:4), ever since people began forming groups to accomplish aims they could not achieve as individuals, managing has been essential to ensure the coordination of individual objectives. Stoner & Freeman (1992:6) state that the success of an organization achieving its objectives and satisfying its social responsibility, depends to a large extent on its managers. They add that if a nation's major organizations continue to achieve their goals, the nation as a whole will prosper. A manager's job is to achieve high performance relative to the organization's objectives. (Bateman & Zeithaml, 1993:12). Managerial performance is the measure of how efficient and effective a manager is (Stoner & Freeman, 1992:6). Drucker (1982:44) states that a manager's performance can be measured in terms of two concepts: efficiency and effectiveness. As he puts it, efficiency means "doing things right" and effectiveness, "doing the right things". Stoner & Wankel (1986:9) state that efficiency is an "input-output" concept . They add that an efficient manager is one who achieves outputs, or results that measure up to inputs (labour, materials, time) used to achieve them. Furthermore, they say, managers who are able minimize the cost of resources used to attain their goals are acting efficiently while effectiveness, on the other hand, is the ability to choose the appropriate objectives. Drucker (1982:44) states that effectiveness is the foundation of success. He continues to add that although efficiency is extremely important for the success of an organization, the most efficient organization can not survive, if it efficiently does the wrong things, that is, it lacks effectiveness. A managers performance, therefore, requires performance that is both efficient and effective, but although efficiency is important effectiveness is critical for the success of the organization (Stoner & Wankel, 1986:9).

The emphasis of this chapter will be on the nature of management and the effect it has on the performance within an organization.

2.2 The nature of management

Management is the clarifying of objectives and the planning of work, organising the distribution of activities and tasks to other people, direction of subordinate staff and controlling the performance of other peoples work. (Mullins, 1993:373.) Mullins (1993:373) summarizes managerial work as: clarification of objectives, planning, organizing, directing and controlling. This is depicted in Diagram 2.1. below.

Diagram 2.1. The Nature of Managerial Work



Source: Mullins (1993:373).

Mullins (1993:374) states that the setting of objectives and formulation of policy takes place at different levels in the organization, but as part of the same process. He adds that the board of directors are responsible for establishing objectives and formulating policy (direction) for the organization as a whole while management is responsible for the implementation of policy decisions and the execution of work designed to meet these objectives.

2.3 The functions of a manager

The major management activities are planning, organizing, leading and controlling (Stoner & Freeman, 1992:8). These activities are briefly described as follows:

- Planning: Managers think through their goals and actions in advance, that their actions are based on some method, plan or logic. Plans give the organizations its objectives and set up the best procedure for reaching them. Plans are guides by which (1) the organization obtains and commits resources required to reach its objectives; (2) members of the organization carry on activities consistent with the chosen objectives and procedures; and (3) progress toward the objectives is monitored and measured so that corrective action can be taken if progress is unsatisfactory.

- Organizing: This is the process of arranging and allocating work, authority and resources among an organizations members so they can achieve an organizations goals efficiently. Managers must therefore match the organizations structure to its goals and resources.

- Leading: Leading involves directing, influencing and motivating employees to perform essential tasks. It involves working with people, establishing the proper atmosphere in order for their employees to do their best.

- Controlling: The manager must make sure the actions of the organization's members move toward the stated goals. This is the controlling function of the organization which involves three main elements: (1) establishing standards of performance (2) measuring current performance (3) comparing this performance to the established standards and (4) if deviations are correct taking corrective action. Through the controlling function, the manager keeps the organization on its chosen track.

Drucker (1982:20) states that there are five basic operations in the work of a manager and that overall performance can be improved by improving these activities.

A manager:

(1) Sets objectives and makes the objectives effective by communicating them to the people whose performance is needed to attain them.

(2) Organizes by classifying the work, dividing it into manageable activities and further dividing the activities into manageable jobs. These jobs are grouped into an organizational structure and people are selected for the management of these units and for the jobs to be done.

(3) Motivates and communicates to a team of people that are responsible for jobs and forms an integration function by constant two-way communication with them.

(4) Measures by establishing targets and yardsticks which are focused on the whole organization and which at the same time focuses on the work of the individual. The manager thus analyses, appraises and interprets performance.

(5) Develops people by improving skill and performance of himself/herself and subordinates in all categories of work.

Bateman & Zeithaml (1993:14) maintain that in order to establish and operate an effective organization, all managers must perform these major functions and activities. According to Koontz & Weihrich (1993:5) the concepts, principals, theory and techniques of management can be grouped into these functions.

2.4 Management Skills

The management functions which are the cornerstones of a managers job do not ensure success. (Bateman & Zeithaml, 1993:16.) They add that managers need a variety of skills to execute these functions successfully. They are grouped into three general categories: (Bateman & Zeithaml, 1993:16.)

- *Technical Skills*

A technical skill is the ability to perform a specialized task that involves a certain method or process.

- *Interpersonal and communication*

Interpersonal and communication skills influences the managers ability to work well with people. Managers need to develop their abilities to lead, motivate and communicate effectively with those around them.

- *Conceptual and Decision skills*

This involves the managers ability to recognize complex and dynamic issues, to examine the numerous conflicting factors that influence these problems and to resolve such situations for the benefit of the organization and everyone concerned.

2.5 Managerial roles

Stoner & Freeman (1992:12) define a *role* as the behavioral pattern expected of someone within a functional unit and are thus inherent in functions. Mintzberg (1975:49-61) made an extensive survey of existing research on the subject of managerial roles. These findings are summarized as follows:

- *Interpersonal roles*
    - Figurehead - performing ceremonial and social duties as head of the unit.
    - Leader - responsible and accountable for their subordinates actions as well as their own.
    - Liaison - communicating particularly with outsiders
- *Informational roles*
    - Recipient - receiving information about the operation of the enterprise.
    - Disseminator - passing information to subordinates.
    - Spokesperson - transmitting information to those outside the organization.
- *Decision making roles*
    - Entrepreneur - try to improve their work units.
    - Disturbance handler - managers are expected to come up to solutions to difficult problems that may occur even on unpopular decisions.
    - Resource allocator - managers must balance limited resources between various goals and needs.
    - Negotiator - take on the role of mediator and negotiate compromises as disputes occur.

Mintzberg (1975) emphasizes the fact that managers are *doers* with the ability to recognize the appropriate role to play in each situation and the flexibility to change roles readily are characteristics of the effective manager.

2.6 Effective management performance

According to Stoner & Freeman (1992:15), being an effective manager is demanding and faces many challenges - particularly that of international competition. Managers and workers alike are scrambling to find new ways of productivity. Drucker (1982:377) emphasizes the importance of successful management when he states, "*The responsability of management in our society is decisive not only for the enterprise itself but for management's public standing, its success and status, for the very future of our economic and social system and the survival of the enterprise as an autonomous institution.*" However there are some general problems of management which need to be identified and overcome.

2.6.1 Obstacles to effective management

In Steiner's survey of several hundred mostly large companies he listed ten main pitfalls to planning. Table 2.1 below lists these pitfalls.

TABLE 2.1: THE PITFALLS OF CORPORATE PLANNING

1. Top management's assumption that it can delegate the planning function to a planner.
2. Top management becomes so engrossed in current problems that it spends insufficient time on long range planning, and the process becomes discredited among other managers and staff.
3. Failure to develop company goals suitable as a basis for formulating long-range plans.
4. Failure to assume the necessary involvement in the planning process of major line personnel.

5. Failure to use plans as standards for measuring managerial performance.
6. Failure to create a climate in the company which is congenial and not resistant to planning.
7. Assuming that corporate comprehensive planning is something separate from the entire management process.
8. Injecting so much formality into the system that it lacks flexibility, looseness and simplicity and restrains creativity.
9. Failure of top management to review with departmental and divisional heads the long-range plans they have developed.
10. Top management's consistently rejecting the formal planning mechanism by making intuitive decisions which conflict with the formal plans.

Source: Steiner (1979:294).

2.6.2 Criteria for effective management performance

The overall responsibility of management can be seen as the attainment of the given objectives of the organisation (Mullins, 1993:424). Upon the attainment of its aims and objectives will rest the success and ultimate survival of the organisation. Mullins adds that there is thus a clear and important need for effective management. The following criteria will be discussed in this regard:

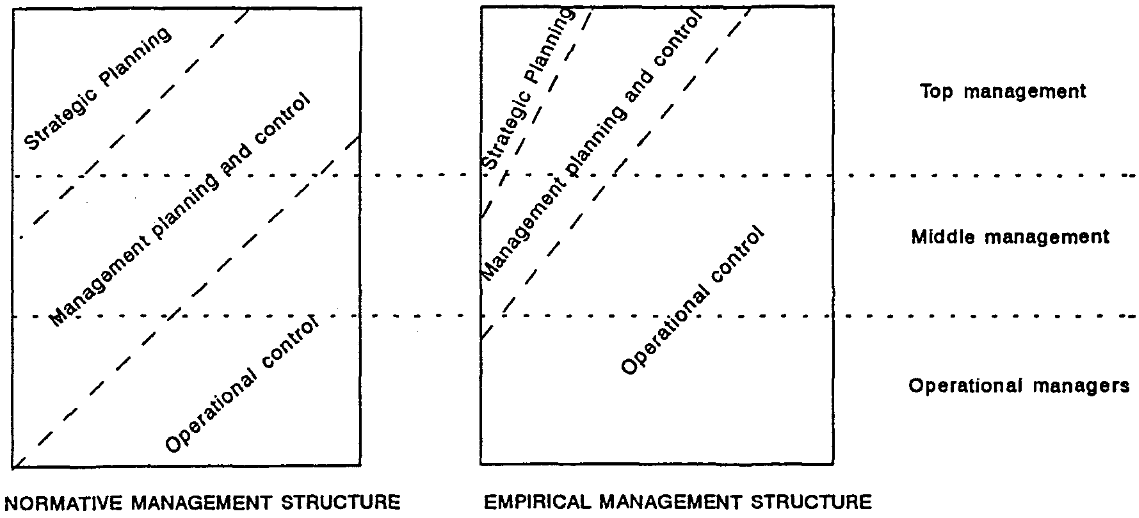
- *Management accountability*

  Jaques (1992:42) defines leadership as 'That **accountability** of a manager to set the context and direction for his/ her subordinates, and to get them to move along together with him/ her and with each other in that direction with full competence and commitment.' He adds that managers must be held accountable for continuous improvement priorities and projects. This, he says, requires a personal conviction that the action being considered is worthwhile and will be beneficial to those affected. Establishing standards to measure management performance is an important step in making them accountable for business results. Kaydos (1991:85) states that only one person should be assigned responsibility for each measure. That person should be the one who is most directly responsible for the variable or who has the largest share of the problem.

- *Planning and goal focus*

Research and key performance area analysis indicate a very high degree of involvement on the part of both top and middle management in operational control in the real life situation (Schutte, 1988:12). In Diagram 2.2 the management structure reflecting the real life situation, which has been termed the empirical management structure, is illustrated abstractly and compared with the normative management structure.

Diagram 2.2. The Normative and Empirical Management Structure



Source: Schutte (1988:13).

Schutte (1988:13) states that because of the extremely high degree of uncertainty which exists amongst individual managers as to what their role is the organization are. The result is that he/she tends to become heavily involved in the management of responsibilities that have been delegated to subordinates, dealing therefore more with operational control. This obstacle however can be overcome by efficient and effective planning with well defined goals and making individual managers accountable for the different goals. (Schutte, 1988:13.) Managers who do practice efficient planning end up with substantially better use of their time as a result (Below *et al.*, 1987:18).

- *Well defined goals*

A system is an integrated whole, made up of diverse but interdependent parts that work together in unison under the influence of an overall logic (Allen, 1982:15). Conflicting goals arise when planning is poorly defined, contradictory, overlapping and incomplete. The 'grey areas' can lead to different and conflicting goals which inhibit the organization from functioning as a system and moving in the desired direction e.g. the production manager may have a goal to increase productivity and lower the unit costs by increasing output while the forward sales position is poor. Objectives need therefore to be clearly defined supporting the mission and long term goals of the organization. Precise criteria must be given for knowing when you have arrived at your objective (Kaufman, 1992:108).

- *Creating the right environment*

Bateman & Zeithaml (1993:9) maintain that creating a winning environment incorporates the following two major features in the definition of an effective manager:

- o Creates the **opportunity** for high performance: This means that managers and employees must have a thorough understanding of their jobs in terms of **what** they are doing and **how** they are supposed to do it. Managers must include workers in the development and refinement of their jobs they perform. There is thus worker participation in discussing their jobs and focusing on ways of improving the quality and quantity of their output.

Furthermore, managers should ensure that employees have all the resources they need to complete their tasks successfully.

- Creates the **incentive** for high performance: Managers must identify the factors that motivate employees and build those factors into the work environment. These incentives may be part of the work process itself such as an interesting, challenging job or good relationships with co-workers or rewards such as pay rises and promotions that come from high performance. Therefore, in order to achieve high performance, managers need to plan effectively by linking the factors that motivate employees to clear objectives. They need to identify, pursue, and monitor progress toward the goals of their work units, their employees, and their organization.

Therefore, effective management starts with managers being made accountable for goals and objectives, focusing on the right goals which are well defined and unambiguous and by creating a winning environment. The right environment is created through a thorough understanding of what the job is and how it needs to be done and by motivating employees by linking incentives to these goals.

2.7 Summary

Therefore, in order to improve performance managers need to set the right objectives, organizing the work and make people accountable for achieving the objectives and activities, motivate employees and develop them by improving their skills. There may be problems and obstacles in the way of effective planning which hinder business and managerial performance. These problems, however, will only be effectively dealt with if they are first addressed at the top of the management structure. A productive top-down process of establishing objectives therefore needs to be implemented. It must lead to a clear definition of what results are expected and who is responsible for achieving them, providing unity and cohesion to the decisions and actions taken in different parts of the organisation (Thompson & Strickland, 1990, p.34).

An effective management by objectives system once integrated into the organizational structure will ensure the clear definition of goals and standards in pursuit of improving business performance.

CHAPTER 3
AN INTEGRATIVE MANAGEMENT BY OBJECTIVES SYSTEM

3.1 Introduction

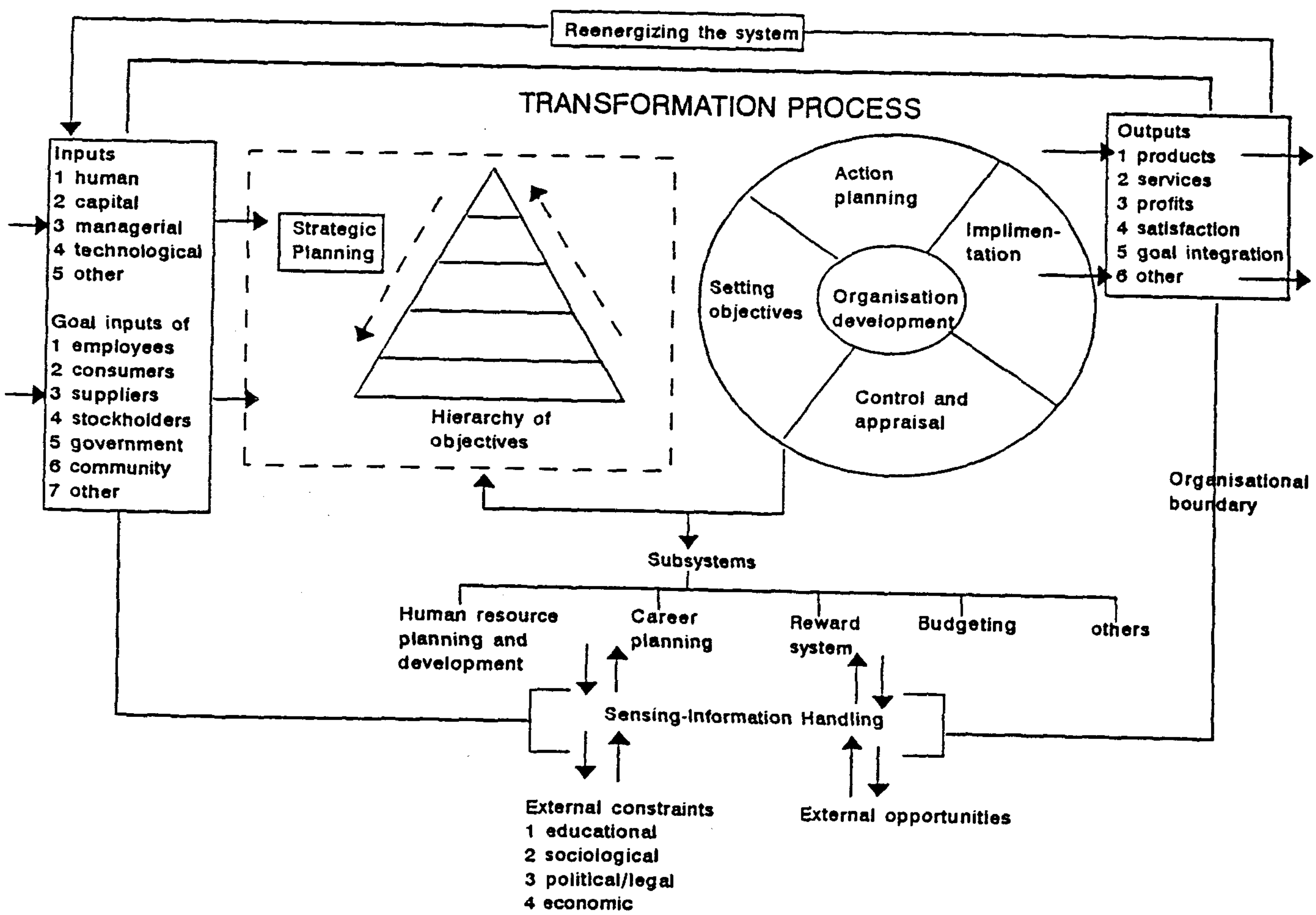
Management must lead the enterprise to success, taking into consideration the continual changes in the external environment, and the dynamics of the internal environment. (Kroon, 1993:147). In order to make this possible all the managers and workers must know exactly what their efforts and enterprise resources are aimed at. Therefore goals are necessary for every employee and for all activities in the enterprise. Thus each workers performance can be determined and remunerated accordingly. However, according to a survey done by Steiner, one of the pitfalls of corporate planning is that planning is sometimes separate from the entire management process. There is thus no integration of goals and objectives in the manager's daily schedule and also no incentive to achieve them. The planned corporate objectives become of little use and value in the management process. This problem can be dealt with through a systems approach to management through integrating objectives in the organisational hierarchy.

3.2 An integrative systems approach

Thompson & Strickland (1990:32) state that unless an organization's mission and direction are translated into measurable performance targets, and until real pressure is put on managers to show progress in reaching those targets, the organisation's mission statement will likely end up as nice words, good intentions and unrealized dreams of accomplishment. Humble (1968:45) remarks that a perceptive company's forward plan, rich with potential profit growth, is useless until all managers put it into action. While each level of management needs a strategic plan to achieve the objectives set at that level, vertical linkages in both objectives and strategy unify the objective-setting and strategic making activities of many managers into a coherent and coordinated pattern. (Thompson & Strickland, 1990: 41). They add that corporate and business missions need to be established first, so they can drive the objective-setting and strategy-making of lower-level organizational units An organisations strategic plan is the sum total of the directional actions and decisions it must make in trying to accomplish its objectives i.e. a strategic plan is a collection of strategies.

The network of missions, objectives and strategies which provides the framework in which the company's managers perform is encapsulated in the following model.

Diagram 3.1 A Model for the systems approach to managing by objectives.



Source: Weihrich (1986:18).

According to Weihrich (1986:19), the enterprise is mutually dependent on its external environment as it receives inputs from it, transforms them and exports the outputs to the environment. He further describes this process as follows:

- *Inputs*

The inputs received by the external environment typically include employees (higher pay, more benefits), consumers (reliable products at acceptable price), stockholders (high return on investment and security for money), government (taxes, compliance with laws), community (environment friendly, provision of jobs) and others (Union, competitors). It is the manager's job to integrate these divergent needs and goals in order to improve productivity. (Weihrich, 1986:19).

- *The transformation process*

Management by objectives is a process that involves the transformation of inputs in an effective and efficient manner to produce outputs. The following steps provide a logical framework for the transformation process: (Weihrich, 1986:20).

  - *Improving productivity through strategic planning and the hierarchy of objectives.*

  The purpose, mission, overall and specific objectives is determined by top management with inputs from lower level managers. These objectives are then further broken down into divisional, departmental, unit, and individual objectives. Communication takes place in both directions (up and down) in this hierarchy of aims.

- *Setting objectives which helps the measurement of productivity.*

Objectives should be measurable (although not always possible), should contribute to the objectives of the next higher organizational unit, focus on results rather than on activities, indicate performance and personal development, be challenging, yet reasonable and emphasize results, but not neglect other aspects of the job that can't be quantified.

- *Planning action for individual and organizational productivity.*

Action planning determines *what* functions, tasks, and activities must be carried out to accomplish the objectives most effectively and efficiently; *how* to achieve them and when the tasks and activities must be done; and *who* will do them. Action planning is concerned with identifying and grouping activities; coordinating the efforts of groups and individuals; scheduling the activities; and determining the need for human financial, and other resources required to achieve the objectives.

- *Implementing plans and programs.*

Objectives and action plans give direction for organizational efforts. Both, however, must be implemented and to be effective a number of conditions must be met:

(i) Top managers must be personally involved in the process, showing true commitment, (ii) objectives must not exist in isolation but in an interrelated network (iii) objectives are based on the premise of change as they are reviewed from time to time.

- *Measuring productivity through control and appraisal.*

Control refers to the measurement of organizational performance whereas appraisal emphasizes the evaluation of individual performance. With control verifiable objectives set in the planning process become the standards against which performance and productivity are measured. Based on the analysis of the performance positive steps can be taken to correct deviations from standards and to prevent them from occurring in the future. Performance appraisal should not be seen as a fault finding session but rather that it is positive, constructive and orientated toward the future.

- *Subsystems*

Several managerial subsystems are integrated in the MBO process for greater productivity. These may include:
(i) Human resource planning and management development (recruitment, selection, promotion) (ii) Career planning (individual aspirations matched with the needs of the organization) (iii) Compensation (often linked to the performance appraisal against verifiable objectives) (iv) Budgeting (expression of plans in numerical terms) (v) Organizational development (systematic, planned, long range efforts designed to make the organization more productive e.g. problem solving, work team development)

- ***Communication system and External factors***

According to Weihrich (1986:24), communication is essential in that it permeates the total management process, integrating the management functions and linking the enterprise with its environment. The objectives set in planning are communicated so that an appropriate organization structure can be devised. To fill the organization roles, communication is essential in selection appraisal and the training of managers. Similarly, effective leadership and the creation of an environment conducive to motivation depends on communication. Also, very importantly, it is through communication that one determines whether events and performance conform to plans. Communication therefore, makes managing possible.

Effective managers need to scan the external environment in order to respond to external forces. External factors that need to be considered include the economic environment (capital and labour markets as well as economic growth rates); technological developments (computer technology which may affect productivity); social attitudes, beliefs and values; political environment (laws, taxes) and ethics. An enterprise that hopes for long-term survival must be an open system through active communication and interaction with it's environment.

- *Outputs*

According to Weihrich (1986:25), it is the task of managers to secure and utilize inputs to the enterprise and transform them through managerial and other processes to produce outputs. Although the outputs will vary with a specific enterprise, they usually include the following: products, services, profits, satisfaction and goal integration of claimants (e.g. to avoid strikes and disputes).

- *Reenergizing the System*

Some of the outputs become inputs again e.g. profits may be reinvested in capital goods such as machinary and equipment. (Weihrich, 1986:25).

Humble (1968:47) points out that there are a number of essential features of improving management performance. These are:

> (1) Clarifying with each manager the key results and performance standards he must achieve, in line with unit and company objectives, and gaining his commitment to these.

(2) Agreeing with each manager a job enrichment plan which makes a measurable and realistic contribution to the unit and company's improvement plans.

(3) Providing conditions in which it is possible to achieve the key results and improvement plans, notably:
- an organisation structure which gives managers maximum freedom and flexibility in operation;
- management control information in a form and frequency which makes for more effective self-control and better and quicker decision making; and
- a sense of team spirit and corporate purpose.

(4) Using a systematic performance review to measure and discuss progress towards results and potential review to identify those with potential for advancement.

(5) Developing management training plans to help each manager to overcome his weaknesses, to build on his strengths and to accept a responsibility for self-development.

(6) Strengthening a managers motivation by effective selection, salary and motivation plans.

Effective business performance is critical for the survival and growth of a corporation in today's globaly competitive environment. Managers must therefore set the right objectives which support the corporate mission aiming to use the minimum resources in achieving them thus improving productivity. Objectives, which are the heart of management by objectives (MBO) spell out the individual actions needed to fulfill the units functional strategy and annual objectives (Stoner & Freeman, 1992:232). They add that MBO provides a way to integrate and focus the efforts of all organization members on the goals of higher management and overall organizational strategy.

3.3 Management by Objectives.

In a rapidly changing environment the modern enterprise is no longer able to survive if the planning function is neglected. (Kroon, 1993:151). Drucker (1975:59) became one of the first to emphasise the important role of goal-orientation in the management process. Kroon (1993:151) states that from this train of thought the concept of management by objectives came into being as an alternative to the traditional management approach.

3.3.1 Management by Objectives defined

There are many ways by which management by objectives (MBO) has been defined. Odiorne (1965:55), describes MBO as follows:

"...a process whereby the superior and subordinate managers of an organization jointly identify its common goals , define each individuals major area of responsibility in terms of results expected of him (her), and use these measures as guides for operating the unit and assessing the contribution of each of its members."

Weihrich (1986:16) defines MBO as:

"...a comprehensive managerial system that integrates many key managerial activities in a systematic manner consciously directed toward the effective and efficient (that is, being productive) achievement of organizational and individual objectives."

3.3.2 The benefits and weaknesses of management by objectives.

Koontz & Weihrich (1990:78) lists the benefits and weaknesses of MBO as follows:

3.3.2.1 *The benefits of MBO*

- *Improvement of managing*

MBO forces managers to think about planning for results, rather than merely planning activities or work. To ensure that objectives are realistic, MBO also requires that managers think of the way they will accomplish results, the organisation and personnel they will need to do so, and the resources and assistance they will require.

- *Clarification of organization*

Another benefit of MBO is that it forces managers to clarify organizational roles and structures, which should be built around key results.

- *Encouragement of personnel commitment*

MBO encourages people to commit themselves to their goals as they are now individuals with clearly defined purposes.

- *Development of effective controls*

Since MBO aids more effective planning, so it also aids in developing effective controls for measuring results and taking action.

3.3.2.2 *The weaknesses of MBO*

- *Lack of understanding*

If management does not understand and appreciate the philosophy of MBO, they will not be able to explain to subordinates what it is, how it works, why it is being done, what part it will play in appraising performance and how participants can benefit.

- *Failure to give guidelines to goal setting*

Managers must know what the corporate goals are and how their own activity fits in with them. If corporation goals are vague, unreal, or inconsistent, it is virtually impossible for managers to tune in with them.

- *Difficulty of setting goals*

Participants in MBO programs report at times that the excessive concern with economic results puts pressure on individuals that may encourage questionable behaviour (Pringle & Longenecker, 1982:305). To reduce the probability of selecting unethical means for achieving results, top management must agree to reasonable objectives, clearly state behavioral expectations and give high priority to ethical behaviour, rewarding it as well as punishing unethical activities.

- *Emphasis on short-run goals*

Managers often set goals for the short term, seldom for more than a year and often for a quarter or less. Managers must assure themselves that current objectives are designed to serve longer term goals

- *Dangers of inflexibility*

Managers often hesitate to change objectives. Although goals may cease to be meaningful if they are changed to often and do not represent a well-thought out and well-planned result, it is nonetheless pointless to expect a manager to strive for a goal that has been made obsolete by revised corporate objectives, changed premises, or modified policies.

- *Overuse of quantifiable goals*

People may overuse quantifiable goals and attempt to use numbers in areas where they are not applicable, or they may downgrade important goals that are difficult to state in end results.

3.3.3 Elements of an effective MBO system

There are different methods and approaches to applying MBO, nevertheless the most effectve MBO programs share the following six elements (Stoner & Freeman, 1992:232):

- *Commitment to the program*

Managers must teach subordinates first to set objectives and then to review the progress toward these objectives.

- *Top-level goal setting*

Effective MBO programs start with the top management who determine the organisations strategy.

- *Individual goals*

Each manager and subordinate has clearly defined job responsibilties and objectives. These are set in consulatation between the individual and his or her supervisor.

- *Participation*

The greater the participation of both managers and subordinates in setting goals, the more likley the goals will be achieved.

- *Autonomy in the implimentation of plans*

Managers should be free, within the normal constraints of organisational policies, to develop and implement programs to achieve their goals without being overruled by their superiors.

- *Performance review*

Managers and subordinates periodically meet to review progress toward the objectives. Review should be based on measurable performance results rather than on subjective criteria such as attitude or ability.

Carroll & Tosi (Stoner & Freeman, 1992:233) in their review of the literature on MBO research focused on three key concepts - specific goal setting, feedback on performance, and participation - to determine how effective MBO was. They concluded that individuals who are successful in acheiving the goals they have set tend to aim for increased performance. Employees who received specific and timley feedback performed better, and those who particiapted in goal setting show higher performance levels. Finally Carroll & Tosi concluded that the very process of particpation leads to increased communication and understanding between managers and subordinates.

3.4 The management by objectives model

The management by objectives model consists of four important elements which in turn consist of a number of steps. These elements and steps are set out in table 3.1 below.

TABLE 3.1 A COMPREHENSIVE MANAGEMENT BY OBJECTIVES MODEL

Important Elements	Steps
I. Formulation of goals and objectives for:	1.1 The enterprise 1.2 Departments 1.3 Subsections 1.4 Individuals
II. Planning of activities and implementation	2.1 Setting up plans 2.2 Implementation of plans
III. Continuous evaluation of performance	3.1 Measurement of performance 3.2 Comparison of the performance with standards 3.3 Personal corrective actions
IV. Periodic corrective actions	4.2 Performance appraisal

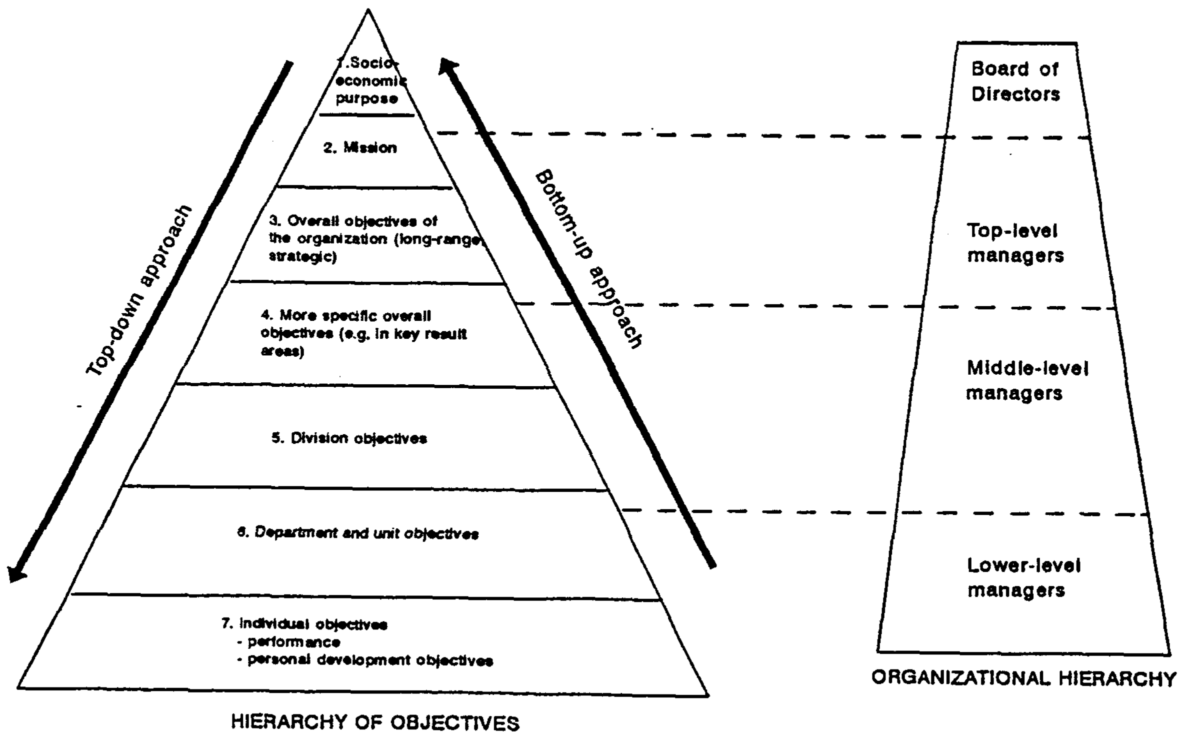
Source: Kroon (1993:153).

The above elements are expanded upon in the discussion below.

3.4.1 The Formulation of goals and objectives

Diagram 3.2. below shows how objectives form a hierarchy, ranging from the broad aim to specific individual objectives.

Diagram 3.2. The hierarchy of objectives



Source: Koontz & Weihrich (1990:66).

According to Koontz & Weihrich (1990:66), the socio-economic purpose of the organization is to contribute to the welfare of the people by providing goods and services at a reasonable cost. Furthermore it sets broad limits in which the enterprise's business activities can take place. Within these limits each enterprise has a unique mission, formulated by the top management, which furnishes the reason for the existence by the enterprise. The mission identifies the scope of a company's operations and describes the company's product, market, and technological areas of emphasis in a way that reflects the values and priorities of strategic decision makers (Pearce & Robinson, 1990:13). These aims are translated into general objectives and strategies which are of a long term nature, normally referred to as goals. Goals are necessary in every area where performance or results are desired. They attempt to direct groups and individuals to achieve the greatest output with the smallest input (Kroon, 1993:149). The next level of the hierarchy contains more specific objectives, such as those in **key result areas.** Although there is no complete agreement on what the key result areas of a business should be (they may differ for various enterprises), Drucker (1982:91) suggests the following: market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude and public responsibility. These are the areas in which performance is essential for the success of the enterprise. The objectives have to be further translated into division, department and individual objects.

Managers at different levels in the organizational hierarchy are concerned with different kinds of objectives (Koontz & Weihrich, 1990:65). The board of directors and top management are very much involved in determining the purpose, the mission and the overall objectives of the firm as well as the more specific overall objectives in the key result areas. Middle management are involved in setting key-result-area objectives, division objectives and department objectives. The primary concern of lower-level management is setting objectives of departments and units as well as of their subordinates. This process of determining and setting objectives in an organization is most often referred to as managing by objectives. Objectives and planning programs form a network of desired results and events.

If goals are not interconnected and do not support one another, people very often pursue paths that may seem good for there own department but may be detrimental to the company as a whole. (Koontz & Weihrich, 1990:67).

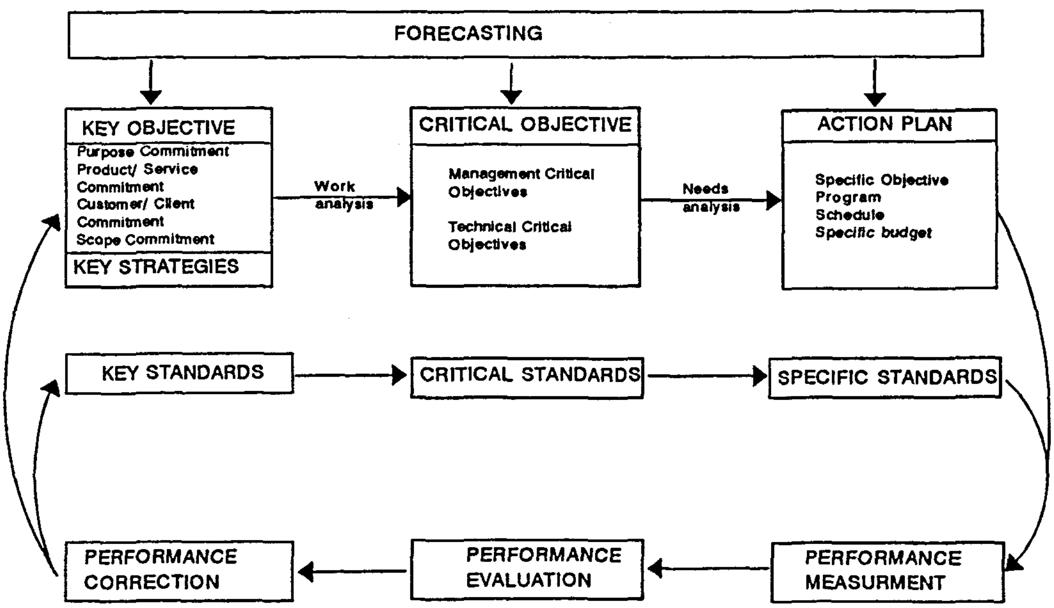
3.4.2 The planning of activities and implimentation

Allen (1982:226) defines an action plan as "*...a plan that is intended to be completed within a definite time period.*" Action plans are part of our total approach to managing and provide the basis for effective controls. They help to delegate and to develop good working relationships. They must be communicated and people must be motivated to carry them out effectively. Specific standards must be developed to accompany the objectives in order to measure both progress and results. These objectives and standards are used in performance appraisals which serves to motivate performance as well provide an assessment of where training and career development needs to take place. Action plans therefore are useful in encouraging people to take more interest in their jobs and to work harder and more productively.

Controls are necessary to monitor and realize the plans and are an integral part of the management process. The specific standards necessary to initiate the control function are developed to accompany the specific objectives.

The activities of performance measurement, evaluation and correction complete the process. This is shown in Diagram 3.3.

Diagram 3.3. Management Control Sequence



Source: Allen (1982:231).

In spite of its common use in MBO programs, action planning often dies of neglect. One reason is that objectives are developed without reference to an overall system and hence cannot be coordinated and controlled. Another reason is failure to recognize that action planning demands constant effort and attention.

Allen (1982:232) points to the following factors that are important in developing action plans:

- *Formalizing the Action-planning process*

Much planning is done informally, but if you want to be sure of predictable results, all those involved should know what is happening, and what part they are to play. It is critical that each person involved in this process knows exactly what they are supposed to do i.e. their responsibility areas must be clearly stated and understood.

- *Contract action plans*

A contract is an agreement between two or more people. Team members must agree on the need and feasibility of what is to be done and the means of measurement - the standards. A climate of trust and confidence should be created, securing real commitment and feedback. Contract action plans give an opportunity for suggestions from those people who will be accountable for carrying out the plans. Contract action plans should be embraced within the performance appraisal.

- *Review progress regularly*

Situations change and plans must change with them. In order to stay on top of potential problems and making sure that those responsible are taking preventive rather than emergency actions means that action plans need to be reviewed with each person and the progress carefully evaluated. Errors and deficiencies can be identified promptly and good work can be recognized. Changes must be anticipated and any modification to programs made.

- *Make action plans measurable*

One of the greatest problems in action planning lies in developing quantified, measurable objectives. Plans set the course of action that will be followed; controls indicate how well plans are being accomplished. Measurability is vital if the plans are going to be used as a basis for control, however Measurability may not always require quantification. Nevertheless an action plan properly developed will furnish a complete array of measurable points in the form of specific standards, the program, schedule and specific budget.

- *Provide both long and short range action plans*

Action plans can extend for whatever time period will be required to complete them. While top management will have long range plans, focusing over a number of years, operational management may have plans encompassing a few months.

Action plans are tactical or operational programs and decisions that take place in various parts of the organisation (Koontz & Weihrich, 1990:101). If they do not reflect desired objectives and strategies, the result will be vague hopes and useless intentions and strategic planning is not likely to have a bottom- line impact, having an important effect on company profits. A strategy has to be supported by short-term objectives and action plans, which ahouls be utilized for the performance appraisal process (Koontz & Weihrich, 1990:265).

3.4.3 Continuous evaluation of performance and corrective action

To be effective, control systems need to:

- set standards of performance
- measure actual performance
- identify deviations from standards set
- initiate corrective action (Pearce & Robinson, 1990:372).

Weihrich (1986:124) explains that the **setting of objectives** is essential for effective control. Verifiable objectives become the standards against which performance is monitored. In order to facilitate measurement, verifiable objectives should state at least the quantity (how much) of output or a desired situation and the time when performance should be achieved. It is important to remember, however, that the quality (how well) is vital in many instances. Standards should, if possible, also indicate the costs involved (resources needed) to achieve the objectives. This draws attention to the fact that whatever is done is done at a cost. The concern for productivity requires attention to inputs, such as the cost of resources. After setting standards, the **actual work is carried out**. An environment should be created in which the potential of people is utilized and in which they can contribute to the aims of the enterprise. At predetermined times, performance is **measured** against preestablished standards. Although performance is formally reviewed at specified times, the control process involves a continuous monitoring of performance. Measuring of performance provides the signal for **corrective action.** Deviations from plans may require corrective action and/ or the resetting of objectives and redrawing of plans.

Rewards and incentives contribute to strategy implimenation by shaping individual and group behaviour (Stoner & Freeman, 1992:233). They add that well-designed incentive plans are consistent with an organisations objectives and structure. Organisations may use three- to five-year performance evaluation periods and deferred stock option plans to encourage long term planning.

3.5 Summary

Too often strategic plans and budgets are in conflict and too often budgets are based on last year's budget rather than on the strategic plan (Koontz & Weihrich, 1990:100). Budgets are often prepared without a specific action plan to implement the strategy. Furthermore, strategic plans can be thwarted by a compensation system that rewards short-term results at the expense of the long term health of the organisation. Strategic planning, therefore needs to be integrated with the total managerial process, such as the organisational structure, the appraisal, reward and motivational system, and the controls used to measure performance against objectives.

CHAPTER 4
IMPROVING PERFORMANCE THROUGH CONTROL

4.1 Introduction

Cohen (1988:128) states that no plan is complete unless a system has been incorporated which enables the manager to monitor progress. He defines control as: "*The comparison of actual results with expectation and the taking of corrective action*". Work is a process and any process needs to be controlled (Drucker, 1982:206). Furthermore, to make work productive, it requires building the appropriate controls into the process of work. Drucker(1982:400) suggests that synonyms for controls are measurement and information. According to Weihrich (1986:123) measurement is a key to productivity. He states that decades ago, the concern was largely on productivity measurement at the worker level in their organization. Today, it is realized that productivity requires a more comprehensive view that includes the measurement of organizational and managerial performance. According to Spangenberg (1994:23) improvement orientation by its nature involves improvement in *systems and processes* e.g. quality, customer service etc.; improvement in *structure* in order to implement organisational strategy and improvement in *management practices.* For organisational and managerial performance to be effective it requires (1) setting the right objectives (2) planning for action (3) implementing MBO and action plans and (4) **controlling organizational performance and appraising individual contributions.** (Weihrich, 1986:123). Control systems guide, monitor, and evaluate progress in meeting annual objectives (Pearce & Robinson, 1990:372). Organisations use control procedures to ensure that they are making satisfactory progress toward their goals and using their resources efficiently. (Stoner & Freeman, 1992:600).

4.2 The Control process

Control can be defined as the dynamic process of managing towards the achievement of organisational objectives. (Schutte, 1988:106). The process of control therefore relates to (i) strategic and management control aimed at achieving the purpose objectives; and (ii) operational control aimed at performing according to standards. Kroon (1993:181) states that strategic control is done by top management in that it determines the progress of enterprise goals. This is done through critical success factors, such as higher productivity, bigger market share and better quality product/service. Tactical control monitors the progress of the enterprise, functional and individual objectives.

While planning is an analytic and decision-making process that ends when a specific plan is developed, controlling is the process of ensuring that actions conform to plan (Stoner & Wankel, 1986:92) There is thus a close relationship between planning and controlling. Controlling cannot take place unless a plan exists, and a plan has little chance of success unless some efforts are made to monitor its progress. The following steps in the control process show how planning and control are linked:

- *Establish standards and methods for measuring performance*

Goals and objectives established during the planning process must be stated in clear, **measurable** terms that include specific deadlines. Precisely worded goals are easier to evaluate for accuracy and usefulness than empty slogans. Also precisely worded, measurable goals are easy to communicate and to translate into standards and methods that can be used to measure performance. (Stoner & Freeman, 1992:600). Weihrich (1986:124) states that the setting of objectives is essential for effective control. He adds that verifiable objectives become the standards against which performance is monitored. These standards should state the quantity (how much) of the output and the time when the performance should be achieved. In many cases the quality (how well) of performance is vital.

- *Measure the performance*

Performance is measured against preestablished standards. (Weihrich, 1986:125). This is an ongoing repetitive process, with the actual frequency of measurements being dependant on the type of activity being measured. (Stoner & Freeman, 1992:600).

- *Determine whether performance matches the standard*

Measured results are compared with established targets or standards previously set. (Stoner & Freeman, 1992:600).

- *Take corrective action*

Weihrich (1986:125) states that measuring of performance is not done for its own sake but rather it provides the signal for corrective action. This step is called for if performance falls short of standards and the analysis indicates action is required. (Stoner & Freeman, 1992:600).

Control is a dynamic process and managers should see the control process through to its conclusion, devising constructive ways to bring performance up to standard. (Stoner & Freeman, 1992:601).

4.3 Designing control systems

According to Stoner & Freeman (1992:606) managers face a number of challenges in designing control systems that provide accurate feedback in a timely, economical fashion that is acceptable to organisation members. They add that this can be achieved by an analysis that identifies **key performance areas**. Schneier *et al* (1991:279) described a useful framework for the implementation of strategy. For effective execution of strategy all three of the following activities need to be carried out:

- Indicating what to measure (key performance areas or critical success factors);

- Determining appropriate ways to measure (performance measures); and

- Fixing accountability for performance on the measures (performance evaluation and appraisal).

4.3.1 Indicating what to measure

While key performance areas relate to a managerial activity that is essential for the performance of the organisation (Schutte, 1988:19), a critical success factor (CSF) are those limited number of areas in which results if they are satisfactory, will ensure competitive performance for the organisation (Daniel, 1961:63). While key performance areas provide insight into the roles and objectives of managers at various levels (Schutte, 1988), critical success factors are strategy driven and are specific operational representations of what it takes to win (Schneier *et al,* 1991:279).

4.3.1.1 Critical Success Factors

Critical Success Factors (CSFs) are for any business, the limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organisation (Rockart, 1979:81). He adds that they are the few key areas where "things must go right" for the business to flourish. The current status of performance in each area should be continually measured, and that information should be made available. Anthony *et al* (1972:148) emphasized three musts in the design of any management control system. They state that the control system

- must be tailored to the specific industry in which the company operates and to the specific strategies that it has adopted;
- must identify the critical success factors that should receive careful and continuous management attention if the company is to be successful; and
- must highlight performance with respect to these key variables in reports to all levels of management.

They thus placed additional emphasis on the need to tailor management planning and control systems to both a company's particular strategic objectives and its particular managers. The control system must report on those success factors that are perceived by the managers as appropriate to a particular job in a particular company.

Rockart (1979:81) proposed four primary sources of CSFs. These are:

- The characteristics of the industry;
- The organisation's competitive strategy and industry positioning;
- Environmental factors i.e. economical and political; and
- Temporal factors i.e. unusual situations with regard to internal organisational situations.

He furthermore summarised the importance of identifying CSFs as follows:

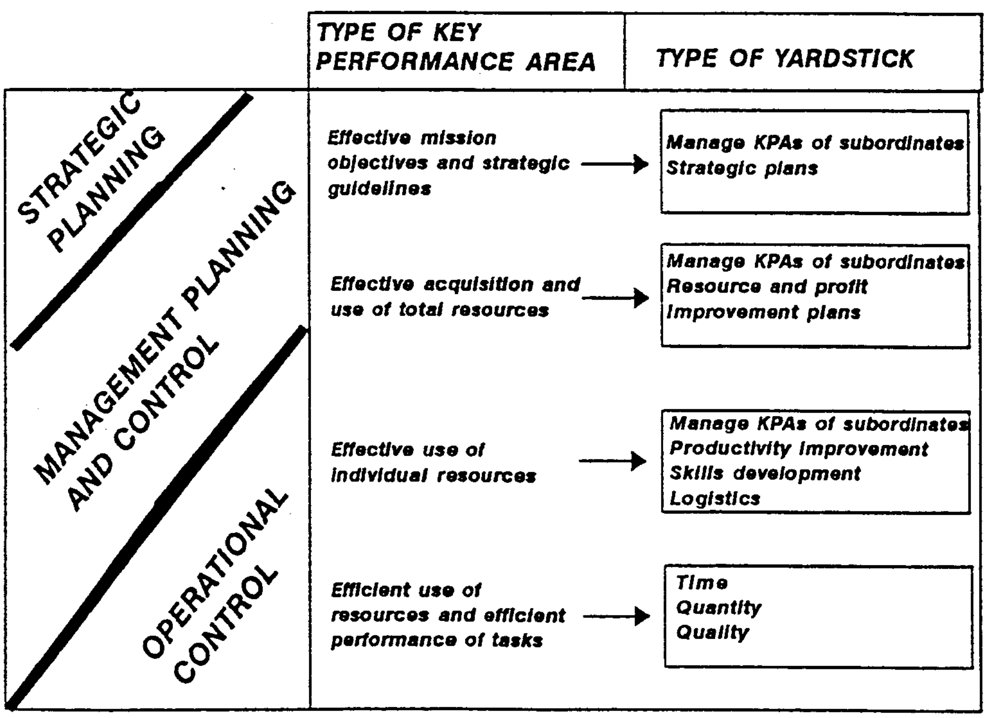
- The process helps the manager to determine those factors on which he/ she should focus management attention;
- The process forces the manager to develop good measures for those factors and to seek reports on each of the measures;
- The identification of CSFs allows a clear definition of the amount of information that must be collected by the organisation and limits the costly collection of more data than necessary;
- The identification of CSFs moves an organisation away from the trap of building its reporting and information system primarily around data that are easy to collect. Rather, it focuses attention on those data that might otherwise not be collected but are significant for the success of the particular management level involved;
- The process acknowledges that some factors are temporal and this suggests that the management information system should be in constant flux with new reports being developed as needed to accommodate changes in the organisations strategy, environment or organisation structure; and
- The planning process can be improved through the use of CSFs which are used as an important vehicle of communication for management.

The CSF method centres on information needs for management control where data needed to monitor and improve existing areas of business can be more readily defined.

4.3.1.2 Key performance areas

According to Schutte (1988:19), a key performance area (KPA) is a managerial activity that is essential to the performance of an organisation. Although each organisation is unique, a hierarchy of key performance areas can be specified. This is illustrated in diagram 4.1. and linked to the normative management structure. Schutte emphasizes that at each level except the lowest, the management of key performance areas of subordinates' is included.

Diagram 4.1. HIERARCHY OF KEY PERFOERMANCE AREAS



Source: Schutte (1988:46).

Schutte maintains that there are two type of KPAs, a 'unique' performance area and a 'common' performance area. He describes these areas as follows:

- **The 'common' performance area**

This type relates to the manager's accountability and thus reflects his responsibility to see that subordinates are performing satisfactorily in accordance with their particular responsibilities or unique KPAs. Each manager therefore firstly have a KPA called 'the management of the key performance areas of subordinates'

- **The 'unique' performance area**

The 'unique' KPAs are those activities for which the manager and he alone is responsible. This type of KPA has the following characteristics:

  - It is unique to a position and can never be duplicated in the hierarchy i.e. more than one person can never be held responsible for managing the same activity or process.

  - It is expressed in terms of end results to be achieved and not as inputs or activities and should guide effort and serve as a measure of performance.

  - It must be measurable - preferably objectively e.g. a report can be objectively measured in terms of time but is subjectively measured in terms of readability and layout.

  - A managerial position normally has between three and five key performance areas. If more than five KPAs have been identified they should be evaluated critically and the question to be answered is whether or not they in fact represent a job description. This may be done by evaluating each KPA by means of a profit impact criterion. If the profit impact is marginal or zero, it can generally be assumed that the particular responsibility is merely a routine function. With respect to the staff functions, each and every activity to be performed by the incumbent of the position could be vital and of equal importance. This is an inherent characteristic of a non-managerial position.

- It is not necessarily the most time-consuming activity. The sole criterion for the definition of a KPA is the extent to which the activity contributes towards the achievement of the organisational objectives and more specifically the effect it has on the profitability of the organisation.

- It is aligned with and supports the key performance areas of the other positions in the organisations. This follows along the line of MBO and recognizes the interrelationships and interdependence that exists in an organisation. The KPAs of a particular position must therefore support the KPAs of subordinates, peers and superiors.

- It reflects top management's strategy on how the organisation is to be managed. Each organisation has its own unique structure, systems and style, culture and personality. Furthermore, current problems and opportunities, pressures from competitors and pressures from the environment as perceived by top management, and there strategy for coping with them, have a vital influence on the identification of KPAs.

Each managerial position is therefore characterised by a 'common' key performance area relating to the management of KPAs of subordinates and by between three to five 'unique' KPAs that are expressed in terms of end results and are measurable.

4.3.2 Determining appropriate ways to measure

Achieving lasting or sustainable competitive advantage is synonymous with achieving superior performance (Shaw, 1990:144). Shaw adds that superior performance is linked to superior strategy through the management-control process. The formation of strategy, he says, includes as an integral part of the process the selection of performance measures. That is, what are the indicators that may be used to plan and monitor performance at all levels of the organisation to assure managers that they are "pulling the right levers" and that such actions are having the desired impact? An information based approach to strategy development and control is an important aid to managers in turning their strategies into actions. Jenster (1987:102) states that successful strategy development and implementation relies on the quality of the available information. He adds that this information is a vital resource which can make or break a firm's chance of success. The availability of information to senior managers is usually not the problem. On the contrary they are generally inundated with data. Thus in this increasingly complex and information-orientated world, the main challenge confronting managers is the identification, selection and monitoring of information which is related to the strategic performance of the company. The right information requested and communicated by the managers helps shape the way in which other members of the organisation define their tasks, interpret the firm's strategy, and determine what is important and what is not. Performance measures can be grouped into either financial measures or non-financial measures

- **Financial Measures**

Traditionally, financial measures were used to measure organisational performance but the approach of using these measures alone has come under increasing criticism from several authors. Duff & Toal (1993: 12) state that although a necessary measure of results, financial reports cannot explain the causes of current results or anticipate future performance and results. They are, by design, backward -looking indicators and emphasize short-term performance. They add that financial measures do not place value on non-financial dynamics, such as innovation, learning and change, nor do they provide information as to why results have occurred, apart from clear financial causes such as interest rates. Financial reports they continue fail to measure "value" factors, that is the value of human resources, customer confidence, distribution systems, acquired knowledge and brand loyalty. It has become clear that the traditional financial accounting measures like return-on-investment and earnings-per-share are inadequate when it comes to measuring organisational performance. (Kaplan & Norton, 1992:71). They state that although the traditional financial performance measures worked well for the industrial era they are out of step with the skills and competencies companies are trying to master today. Allen (1991:19) summarises the concerns as follows:

"*Perhaps there was a time when people thought that ratios like earnings per share or return on assets were good indicators of performance, but this is no longer the case.*" He identifies a number of reasons for this. These are listed as:

- the fact that their popularity of measures encouraged manipulation - the creative accounting syndrome;
- the fact that they take the narrow viewpoint of the equity shareholder, whereas, increasingly, the claims of various stakeholders are being recognised;
- the fact that the accounting model sets out to measure not how much wealth has been created, but how much has been realised (in the form of tangible assets).

Kaplan & Norton (1992:71) state that no single measure can provide a clear performance target or focus attention on the critical areas of the business. Managers therefore need a balanced presentation of both financial and operational measures.

- **Non-Financial measures**

Duff and Toal (1993:12) state that new performance measures are required that will determine the progress along the strategic path and accurately measure team performance, work processes, customer attrition, retention and intentions and other factors critical to success. Most non-financial measures can be classified as either

- Diagnostic measures: used when looking for a cause or where there is a need

to know more about something such as identifying the cause of customer attrition;
- Performance measures: used when input, throughput or output needs are monitored, such as supplier quality or work unit production; or
- Strategic measures: these measures contain both diagnostic and performance measures obtained from internal and external sources and contain causative and leading elements. (Duff & Toal, 1993:13).

It is not possible to define specific performance measures that should be included in every performance measurement system (Glad & Dilton-Hill, 1992:233). The specific measures depend on the strategies that the organisation is pursuing. They add that companies should focus on the following broad areas:

- quality e.g. cost of quality, defect level of products;
- productivity e.g. cost per ton;
- time e.g. delivery time, throughput time;
- flexibility & adaptability e.g. surplus capacity; and
- resource management e.g. spending on resources

Kaplan & Norton (1992:71) undertook a research project with 12 companies at the leading edge of performance measurement and devised what they call a "balanced scorecard" - a set of measures that gives top managers a fast but comprehensive view of the business. This balanced scorecard links performance measures in the following areas:

o *Customer perspective i.e. How do customers see us.*

These fall into four categories, namely:
- time;
- quality;
- performance and service; and
- cost.

The balanced scorecard should articulate goals for time, quality, performance and service and cost and then translate these goals into specific measures.

- *Internal Business Perspective*

These internal business processes should stem from the business processes that have the greatest impact on customer satisfaction e.g. turnaround time of products, quality, employee skills and productivity.

- *Innovative and Learning Perspective*

Intense global competition requires that companies make continual improvements to their existing products and processes. Only through a company's ability to launch new products, create more value for customers and improve operating efficiencies continually can a company penetrate new markets and increase revenues and margins.

- *Financial Perspective*

Typical financial goals include profitability, growth and shareholder value. Other measures include operating income by division, increased market share and return on equity.

These measures are strategy driven and are designed to pull people toward the overall vision (Kaplan & Norton, 1992:79).

4.3.3 Fixing accountability for performance

For planning to be effective in moving the organisation forward, plans must be implemented and evaluated. To ensure that employees take ownership of the vision and corporate goals their performance needs to be appraised and rewarded accordingly.

4.3.3.1 Performance appraisal

Measuring managerial performance provides corporate management with information necessary for the success of the organisation. This attempts to determine the relationships between results and the attainment of organisational objectives. For an organisation to be successful, responsibilities have to be delegated and controlled at all levels within the organisation and in order to do this there must be a method to measure performance. Kroon (1993:158) states that the management information system should be able to provide timeous information about subordinates achievement. Management can accordingly determine progress towards objectives and use this information for performance appraisal. He adds that performance appraisal is done to measure employees' performance for salary increases, promotion, training programs, method improvement and discipline. The main aim of a positive performance appraisal system is to place the manager in a position to develop the initiative, creativity and personal responsibility of subordinates in such a way that each one will be motivated to realise the objectives and eventually the goals of the enterprise. The evaluation interview is a task-orientated interview and is not based on the interviewees personality. During the evaluation interview the progress towards each objective applicable to the specific subordinate is discussed. It emphasises positive aspects such as knowledge of the employees progress, encouragement, recommendations, appeals for help, recognition of good work when the objectives have been achieved and encouragement to achieve personal objectives. If it appears from the reports and discussion that the subordinate cannot perform his objective, the cause for the failure should be traced. Various factors, such as poor training, demotivation and personnel problems, can cause the subordinate not to perform as desired. The manager must then suggest corrective action to reduce or eliminate the cause. If it seams that objectives were unrealistic under the circumstances, the objectives and plans must be revised. Achievement is in many cases rewarded with a financial bonus while failure to perform may result in a total or partial cut of a financial bonus. The disciplinary process may also be applied in certain cases but must be applied with wisdom and caution. The disciplinary process may take place as follows: an oral warning; a written warning; demotion and dismissal.

Drucker (1982:411) maintains that no matter how authoritarian the institution, it has to satisfy the ambitions and needs of its members, and do so in their capacity as individuals, through institutional rewards and punishments, incentives and deterrents. This may be quantifiable such as a bonus cheque or a rise in salary. This control is the ground of behaviour and the cause of action since people tend to act as they are being rewarded or punished. Drucker furthermore emphasizes that the ultimate control of an organization which is effective lies in its people decisions. Poor decisions leads to poor performance. Schutte (1986:161) points out that poor performance by an individual manager can nearly always be attributed to one of the following five causes:

- Uncertainty as to exactly what is expected of him/her. If an individual is to perform, he/she needs to know in very specific terms what the job entails, what the key performance areas of the job are, and what the standards of measuring the performance is going to be.

- A lack of guidance or training in the area of responsibility. This guidance is important in particular when an individual is promoted to a new managerial position. It involves a discussion of the problems associated with the position of the position, the characteristics of subordinates, and the management style of the organisation.

- A lack of resources required to do the job effectively. This involves adequate physical, financial and human resources of the required quality.

- A lack of communication regarding the actual level of performance. This may be due to the absence of adequate measures of performance or an undisciplined manner in which performance measurement is undertaken.

- A poor manager in the particular position. This is a result of poor selection, poor placement or a promotion to the individual's level of incompetence.

Schutte (1988:161) adds that most causes of poor managerial performance can be traced to one of the above five causes. Poor performance of a manager's subordinate managers is an indication of poor management and leadership on the part of the superior. Leadership has many dimensions and facets, but one the major prerequisites for successful leadership is a clear cut means of measuring the performance of subordinate managers and communicating that performance to them. This measurement and communication should be undertaken in respect of each and every key performance area of an individual manager. If the performance of individual managers and, as a result thereof, the performance of the organisation is to improve, the measurement of performance has to be disciplined, unambiguous, and formal (Schutte, 1988:162).

4.3.3.2 Reward Systems

Control is always necessary because managers are responsible for the actions of their subordinates and therefore need to involve the staff in the decision making and objective setting process. (Cohen, 1988:137). He adds that a persons reward can be related to his or her performance and terms this *'control by motivation'*. Pearce & Robinson (1991:352) report that the execution of strategy ultimately depends on individual organizational members, particularly key managers. Motivating and rewarding good performance by individuals and organisational units are key ingredients in effective strategy implementation. The reward system must be clearly and tightly linked to strategic performance. A firms reward system should align the actions and objectives of individuals and units with the objectives and needs of the firm's strategy. They furthermore emphasize the importance of integrating the reward system in both long- and short-term concerns. An effective reward system should provide pay-offs that control and evaluate the creation of potential future performances as well as last year's results. Incentives should be set up based on annual (1 year) and long-term (5 year) objectives. Long term performance criteria may include personnel development, new product development and sales growth rate while short term criteria may include cash flow, cost reduction programs, return on investment and operating profits. Review and evaluation in a specific year include both an assessment of performance during that year and an evaluation of progress toward the five-year strategic objectives. Thus there must be incentives based on the cumulative progress towards strategic objectives.

Green & Flentov (1990) contend that "*the purpose of an effective set of performance measures in a continuous-improvement environment is to motivate positive behaviour and to measure progress toward the attainment of goals and objectives*". Shaw (1990:145) states that superior performance results, monitored and tracked by the management-control process, will only be realised when the key performance areas are directly related to compensation at all levels. The degree to which individuals perceive that their compensation is related to attaining the units results of profitable growth is directly related to the actual achievement of such results. This will ensure responsibility and accountability for results. The reward system is a key ingredient in motivating managers to execute a firms strategy and therefore incentive systems should be emphasized that ensure adequate attention to strategic thrusts.

4.4 Summary

The hierarchy of goals is meant to guide the enterprise to the achievement of results that the different levels of management are to achieve for the successful survival and growth of the organization. Progress toward these goals and objectives needs to be controlled and where deviations take place, corrective action needs to be taken. This needs to be measured by establishing adequate standards and comparing them with actual performance to determine whether the goals are going to be reached or not. Each individual is responsible for specific objectives and therefore the performance of each employee and notably each manager needs to be appraised. Key performance areas need to be identified for each person which serve to clarify their areas of responsibility. Incentives can be used to motivate employees toward achieving goals. Improving performance however needs to be supported by an effective performance measurement system. Rigid financial measures such as earnings per share are no longer considered sufficient to measure the performance of organisations or to give an indication of possible future performance. It is imperative that the PMS links with the organisational goals and strategies. Performance measures need to be developed for each significant activity. This information is used in communicating and monitoring the strategic progress, and to measure key personnel on vital aspects of the firms strategy, providing powerful motivators for the firm as a whole. Reward systems based on strategies and quantitative measures can be developed to improve company performance and modify employee behaviour (Duff & Toal, 1993:14). Measurement drives the reward system, which motivates the teams, which contributes to the organisation's performance, which produces the desired performance results. The performance measurement system thus keeps companies looking- and moving- forward instead of backward.

CHAPTER 5

IMPLEMENTING A STRATEGIC PERFORMANCE MEASUREMENT SYSTEM

5.1 Introduction

An information based approach to strategy development and control is an important aid to managers in turning their strategies into actions. According to Jenster (1987:102) successful strategy development and implementation relies on the quality of the available information. He adds that this information is a vital resource which can make or break a firm's chance of success. The availability of information to senior managers is usually not the problem. On the contrary they are generally inundated with data. Thus in this increasingly complex and information-orientated world, the main challenge confronting managers is the identification, selection and monitoring of information which is related to the strategic performance of the company. The right information requested and communicated by the managers helps shape the way in which other members of the organization define their tasks, interpret the firm's strategy, and determine what is important and what is not. A strategic planning and strategic control process that is tightly integrated with the firms information system therefore needs to be implemented.

Glad & Dilton-Hill (1992:79) report that very little research seems to be focused on the reporting of how the implementation of strategies is progressing. They further add that even in the best managed companies there is a gap between the selection of critical success factors (CSFs) and the reporting of progress in the management accounts e.g. few companies regularly measure or report the progress on customer satisfaction strategies. It is therefore essential when developing a performance measurement system (PMS) to understand the various strategies being pursued by an organisation. The PMS needs to measure and report on how effectively the strategies are being implemented. The PMS should use the CSFs or key performance areas as building blocks for its development.

The design of the PMS should start with an understanding of the processes which encompass what the business does. (Glad & Dilton-Hill, 1992:280). Flowing from these processes, CSFs and the main objectives of the organisation should be determined. These must be cascaded down the organisation to define the relative responsibilities at all levels. At the same time as the performance objectives are cascaded down the organisation, consideration should be given to the best way of evaluating and measuring the individual's or group performance. It is therefore essential when developing a PMS to understand the various strategies being pursued by the organisation (Glad & Dilton-Hill, 1992:279).

5.2 Designing a Strategic Information System

Jenster (1987:102) describes a method for developing, monitoring and integrating critical information into strategic management decision support. This design method incorporates nine steps:

- Provide design structure for design process.
- Determine general forces influencing strategy.
- Develop a strategic plan
- Identify a selected number of Critical Success Factors (CSFs)
- Determine who is responsible for which critical areas.
- Select the strategic performance indicators
- Develop and integrate appropriate reporting procedures
- Implement and initiate a system used by senior personnel
- Establish evaluating process and procedures.

This approach creates an integrated strategic context within which top management and key personnel can execute the strategy and maintain a competitive advantage for their firm.

Step 1: Structure the design process

Before engaging in the planning design process and the actual planning, it is important to determine who is responsible for overseeing the specific steps and the planning outcome. A steering committee comprised of the Managing Director and other top management personnel articulate the firms objectives and in turn oversee, and receive reports from secondary committees consisting of lower level employees. The secondary committees will be selected to tackle the specific steps and issues in the design process outlined below (Jenster, 1987:104).

Step 2: Determine the elements influencing success

This requires an audit of the forces which are relevant to the firm's present and future position. These strategic areas include:

- general environment e.g. interest rates, exchange rate fluctuations and general socio demographic trends.
- industry characteristics e.g. banking industry has a set of dynamic factors which differ from supermarket chains.
- competitive forces e.g. competitors, customers, potential new entrants exerting pressure on quality standards, product mix and cost control.
- company-specific characteristics e.g. traits of management team.
- personal values of stake holders e.g. preferences of stockholders, unions and employees.
- resource availability e.g. financial, physical and human resources.

These strategic factors form the basis for defining the firm's sensitivity to the influences or changes along various dimensions (Jenster, 1987:104).

Step 3: Develop or review the strategic plan

This is concerned with the evaluation of the firm's strategic ends and means. This step must address the organizations mission by asking questions such as:

"What type of firm do we want the organization to be?"
"What type of activities do we want to engage in?"
"What markets do we want to pursue?"

The associated objectives must be clearly defined, the goals relevant and attainable, and the set of alternatives must be identified. The firms current plans must also be reviewed to insure consistency among the anticipated environmental threats and opportunities and the firms internal capabilities (Jenster, 1987:105).

Step 4: Identify Critical Success Factors

Critical Success Factors (CFSs) are those limited number of factors important to strategic success. They are the limited number of areas which must be monitored to ensure successful execution of the firm's strategic programs. These factors can be used to guide and motivate key employees to perform in the desired manner, and in a way which will ensure successful performance throughout the strategy. The CSFs direct the attention of key managers to focus on the basic premises of the firm's strategy. CSFs must:

- reflect success of the defined strategy;
- represent the foundation of this strategy;
- be able to motivate and align the managers as well as other employees; and
- be very specific and/ or measurable (Jenster, 1987:105).

Step 5: Determine who is responsible

It is important once CSFs have been determined that key individuals are identified and properly motivated to achieve the strategic ends. Key personnel include those employees who are ultimately responsible for achieving the particular strategic dimension or goal and other individuals designated to undertake specific major steps to deal with the critical dimension. Each individual has appropriate key performance areas or responsibilities assigned so that his performance can be monitored separately. The individuals selected to fulfil the certain responsibilities must have the authority, which matches accountability, and the resources to take the necessary steps required for successful implementation of the strategy (Jenster, 1987:106) .

Step 6: Select Strategic Performance Indicators

Duff & Toal (1993:13) state that the selection of strategic indicators is determined by the companies strategies which must identify the cause of performance as well as look ahead to provide leading indicators of future performance. CSFs are the basis for identifying the strategic performance indicators (SPIs) used in measuring short term progress toward the long term objectives. SPIs provide motivational information which must be explicit enough to allow managers to understand how their actions influence strategic success. SPIs must strive to satisfy six specifications. They should be:

- operational - they must be focused on action and provide information which can be used for control;
- Indicative of desired performance - they must be measured against a desired level of performance;
- Acceptable to subordinates - subordinates should have input into the determination of the indicators;
- Reliable - the kind of measurement must be appropriate to the factor it is meant to measure;
- Timely - the time dimension of the controls should correspond to the time span of the event; and
- Simple - should be focused on the targeted performance results and simple enough for the organizations members to understand (Jenster, 1987:107).

After being selected the indicators should be analysed in terms of the information required to measure their achievement. SPIs will generally require information from a wide variety of sources, both internal and external, in order to enable management to monitor progress in the different functional areas of the organization.

Step 7: Development of reporting procedures

There are three basic steps for translating the information requirements of a business into a formalized planning system.

- *Strategic information planning.*

This task addresses the development of an information plan for the management team. The objective of the plan is to assess the gap between available and required information to monitor the CSFs and measure actual performance. The plan must establish sources and procedures in developing an approach for obtaining the information.

- *Preliminary system design plan.*

The functional and technical requirements of the reporting system and the necessary hardware/ software are identified during the preliminary design phase.

- *Procedure/ systems installation*

This phase involves the detailed design, installation and testing of procedures and systems. The technical part of the process for computerized systems includes developing program specifications; developing logically structured programs and required procedures; training user personnel and fully testing and converting the system.

In order for CFSs and SPIs to be of motivational as well as control value, they must be explicitly utilised by senior managers. This makes subordinates aware that the measures are being used by management to track progress and performance (Jenster, 1987:108).

Step 8: Implement system and initiate system use

Top management support and involvement is essential to successful implementation of plans and procedures. It is important that top management actively guide and participate in the implementation and that they create commitment and team spirit which will pull participants together. It is vital that members of the organization have a good understanding of the different steps. Thus it is necessary to have the right people as early as possible in the process and to provide the necessary training and education. Adequate input of time and resources must be used in both plan development and execution (Jenster, 1987:108).

Step 9: Establish evaluation procedures

As the competitive and organizational conditions change, it is important to establish a review schedule for the strategic plan, strategy performance indicators, the procedures and systems which generate the needed information (Jenster, 1987:108).

5.3 Considerations in performance measurement design

Duff & Toal (1993:13) suggest the following seven principals for a good performance measurement system.

- All measures must be directly linked to company strategies.
- All measures must address the cause of current results or forecast future results.
- All measures must be custom-designed by the user.
- Measurement reports must be brief, clear, graphic, quickly interpretable, widely distributed and thoroughly digested.
- Measurement reports must provide more than just current results: competitive, comparative base line and trends should be included.
- The frequency of measures and reports must consider the cycle time for meaningful changes or results to occur.
- The distribution of reports must consider the need for teamwork and the opportunity for the entire organisation to participate in the performance improvement process.

Additionally Duff & Toal (1993:13) add, that such measures should be valid, reliable, actionable and be integrated with other measures. Glad & Dilton-Hill (1992:281) point to the following criteria that need to be considered when designing a PMS:

- *Number of measures*

Three to six CSFs are normally relevant at any point in time. Slater (1991:32) suggests that the following criteria should be taken into account in determining the number of measures: relevance, availability, comparability and ease of interpretation. The organisation should continually evaluate the applicability of the measures used.

- *Bases of comparison*

Continuous improvement is measured best against historical trends or targets which are tightened continuously. If proactive intervention is required then the measurement and reporting needs to be real-time.

- *Time Horizon*

Concern has been expressed about the short term focus of Western businesses. It is essential that an organisation allows itself sufficient time to reach its goals and objectives and defines a PMS that reflects this reality.

- *Reporting frequency*

Attention should be given to how often the various measures will be reported. The timing of the reports should relate to the time that may be required to affect change within the organisation. Changes in strategic direction may take years to complete and may thus be reported less frequently than operational information which is more or less continuously on the floor.

- *Presentation methods*

The presentation methods need to be effective of a PMS. Graphs and charts should be used with trend graphs to bring continuous improvement alive.

5.4 Summary

Getting the right information on developments in critical issues and the firms strategic progress is essential to the directors and managers of any business. This information is used in communicating and monitoring the strategic progress and to measure key personnel on vital aspects of the firms strategy thus providing powerful motivators for the firm as a whole. A strategic information system will allow managers to correct the causes of poor performance, identify and reward superior performance, and monitor those trends which will forecast future organisational performance. Careful consideration should however be given in the design of such a system taking into account the number of measures to be used, the basis for comparison, the time horizon, reporting frequency and presentation methods of the information. It is however clear that without a strategic information system the reason for inadequate performance cannot be identified and thus corrective action is subsequently misdirected or not taken at all. The organisations quest to look ahead and adapt to the business environment will require implementing a strategic performance measurement system which is based on strategies and linked to rewards, thus ensuring competitiveness and survival.

CHAPTER 6
SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1 Summary

With the world of business constantly changing in an ever more competitive environment, the challenge of business today is how well the organisation as a system of integrated subsystems will perform. Management today need to understand the importance of effective planning and control in ensuring that their company is successful. Planning for organisational effectiveness begins with top management who identify strategies for the company to follow. Important in the companies drive towards performance excellence is the effectiveness of the strategy of that organisation. The root meaning of 'strategy' is the art of war, and notably the practice of generalship. (Band & Scanlan, 1995: 102). Strategy suggests calculations and decisions by leaders who position their organisation for the greatest competitive advantage. Strategic plans need to be developed by top management to guide the general directions and chart the course of the organisation (Van Fleet, 1988:164). Keen (1994:85) describes strategic planning as a process for articulating an organisations values and long-range goals and developing strategies necessary to achieve those goals. Objectives need to be cascaded down from the goal-setting by the top management to the bottom ranks of the firm.

Management-by-objectives (MBO) is a technique that has been specifically developed to facilitate the goal-setting process in organisations. Through this integrated process of goal-setting, employees who are rewarded in relation to their success in reaching the goals, are committed to the process. (Van Fleet, 1988: 122). In order to ensure that the objectives are reached, control systems need to be put into place which monitors the performance of the organisation as well as the individual employee. Performance needs to be measured and where deviations occur corrective action must be taken. Organisational performance is measured by means of critical success factors while key performance areas measure individual performance. Performance measures need to be both financial and non-financial in nature and need to drive the strategy toward the company's vision. These measures, linked to the strategy, must be incorporated into a performance measurement system. This strategic information system is critical to the success of the organisation. Measuring an event draws attention to that event, and tying rewards to the process both magnifies the event and sharpens the attention. A strategic information system, with the use of strategic performance indicators, identifies not only the cause of performance but looks ahead to future performance.

Developing a performance-driven organisation is thus associated with the approach of creating a shared vision of the purpose and aims of the organisation, helping each individual employee understand and recognize their part in contributing to them, and in so doing managing and enhancing the performance of both individuals and the organisation.

6.2 Conclusion

The main building blocks for an integrated performance management system are summarized as follows:

- the development of the organisation's mission statement and objectives;
- the development of a business plan;
- enhancing communications within the organisation, so that employees are not only aware of the objectives and the business plan, but can also contribute to their formulation through the technique of Management-By-Objectives.
- clarifying individual responsibilities and accountabilities
- defining and measuring performance
- implementing appropriate reward strategies
- developing staff to further improve performance.

Maguire (1993:64) states that business concepts like strategy, operations, and performance measures must be connected but remain flexible for custom design. Thus an integrated performance management system will address the barriers to successful planning and implementation pointed out by Kaufman (1992:108), namely:

- focusing on means rather than ends - the how rather than the what;
- failure to recognize the three different levels of results: micro (individual), macro (organisational) and mega (societal) - these levels need to be linked together;
- written objectives that give a destination without supplying precise criteria for knowing when you have arrived - objectives must include measures for success;
- needs defined as gaps in resources or methods (means) rather than gaps in results (ends);
- a mission that is practicle and achievable but which is not focused on the vision (lack of direction) and
- reliance on plans that are comfortable and acceptable (keeping in comfort zones).

In order for an organisation to function effectively and efficiently from top management to the bottom ranks of the company a framework for integrated performance management needs to be designed and implemented.

6.3 Recommendations

The following recommendations can be made with regards to the implementation of an integrated managerial performance system.

- Link the organisation strategy to a Management-by-objectives program.
- Implement a performance appraisal system, holding individuals accountable for the achievement of certain objectives
- Motivate individuals by attaching rewards to the achievement of goals and objectives.
- Design and implement a strategic measurement system to control organisational performance.

There are many problems that organisations face with regard to the planning and implementation of strategy. However, building organisational performance around an integrated management process will enable an organisation to harness all its necessary resources in a productive manner, which will ensure survival and success in today's dynamic and challenging business world.

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