

# MODERN INSTRUMENTS FOR MEASURING ORGANIZATIONAL PERFORMANCE

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*Any significant management action can be assessed both in terms of success of immediate goals and as effect of the organization ability to embrace change.*

*Market competition intensifies with the development of Romanian society and its needs. Companies that offer different products and services need to impose certain advantages and to increase their performances.*

*The paper will present modern tools for measuring and evaluating organizational performance, namely: Balanced Scorecard, Deming model and Baldrige model. We also present an example for Balance Scorecard, of an organizations belonging to the cosmetics industry.*

*Key words: management, performance, balance scorecard, performance measurement*

*JEL Code: M10, L25, L66*

## **1. The concept of performance**

Performance can be defined as “a state of competitiveness of the organization, reached through a level of efficiency and productivity which ensures a sustainable market presence”<sup>658</sup>. In our opinion performance needs both effectiveness and productivity simultaneous. Hence we conclude that a performing organization is efficient, competitive and productive.

P. Druker considered that to be effective means “to do planned things well”; by efficiency he meant “the extent to which objectives were achieved”.

T. Katarbinski defined effectiveness as precision in achieving targets. He suggested that efficiency is the action by which an organization achieves its goals in terms of minimal cost.

Both management specialists come to reinforce the above statements on the concept of performance.

The purpose of the paper is to find indicators and instruments that reflect as closely as possible the subtleties of how an organization is functioning. We started with the following questions. What indicators reflect best organizational performance? Profit level? Different rates of efficiency? Achieve planned results? The answer must take into account the multiplicity and diversity of factors that influence both individual and organizational behaviors.

*Performance measurement represents results quantification of activities undertaken within an organization over a period of time.* For performance measurement we started from a series of questions: Is there a link between objectives, performance measurements and organization results? Are performance metrics relevant? To answer these questions we identified a series of modern management methods for measuring and assessing organizational performance.

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<sup>658</sup> M. Boulescu, M. Ghiță, V. Mareș, “Auditul performanței”, ed. Tribuna Economică, București, pg. 13, 2002.

## 2. The Balance Scorecard

In the early '90s two experts from the Harvard Business School introduced a new performance measurement tool they called The Balanced Scorecard<sup>659</sup>. The two experts Robert Kaplan and David Norton have started identifying the weaknesses of previous management approaches and through their approach of the balance scorecard provide a clear prescription of what companies should measure in order to balance the financial perspective.

The balance scorecard is a measuring instrument that offers to the organization the opportunity to clarify its vision and strategies and translate them into action. This provides feedback on both internal business processes and on external achievements in order to continuously improve strategic performance and business results.

The balance scorecard is a concept that allows performance evaluation and assessment by focusing on presentation of the results. This instrument is characterized by flexibility. Results areas should be specified depending on the interests involved:

1. Shareholders or financiers (financial results)
2. Clients (external results)
3. Staff (internal results)
4. Managers (results of improved processes)
5. Results of learning and innovation

Results in each area must be observed as a multitude of objectives, performance indicators and standards involving the relevant key-factors and authorities. Balance scorecard suggests that managers look at the organization from four perspectives: learning and growth perspective, business process perspective, customer perspective and financial perspective.

It is recommended to use this management method in all managerial situations. The balance scorecard can be used:

- When the managers want to track the degree of objectives achievement and the level of results to ensure improvement in the degree of substantiation of managerial decisions.
- When one area or another are checked, monitored by top management due to continuing poor results recorded in a previous period of time.
- When the time budget for managers, especially those from top management is busy, when they are assaulted by numerous information, some with a low relevance to the objectives.

## 3. The Deming model

In the traditional industrial activity “quality control” and “zero defects” were keywords. In order to defend the client from receiving poor quality products numerous efforts were undertaken to try to control the products at the end of the production line.

The problem with this approach - as Deming said, is that the true causes of defects will never be identified and there will always be inefficiencies due to the rejection of defects.

What Deming says refers to changes occurring at each step in the production process and causes of variation must be identified and fixed. If this is possible, then there is a way to reduce defects and improve product quality indefinitely. In order to establish this process, Deming also stresses that all business processes should be part of a feedback system with chains. The feedback should be examined to determine the causes of change, which is what presents significant problems (See figure below):

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<sup>659</sup> D. T. Corodeanu, “Management comportamentul și performanța întreprinzătorului român”, ed. Tehnopress, Iași, p. 248-250, 2008

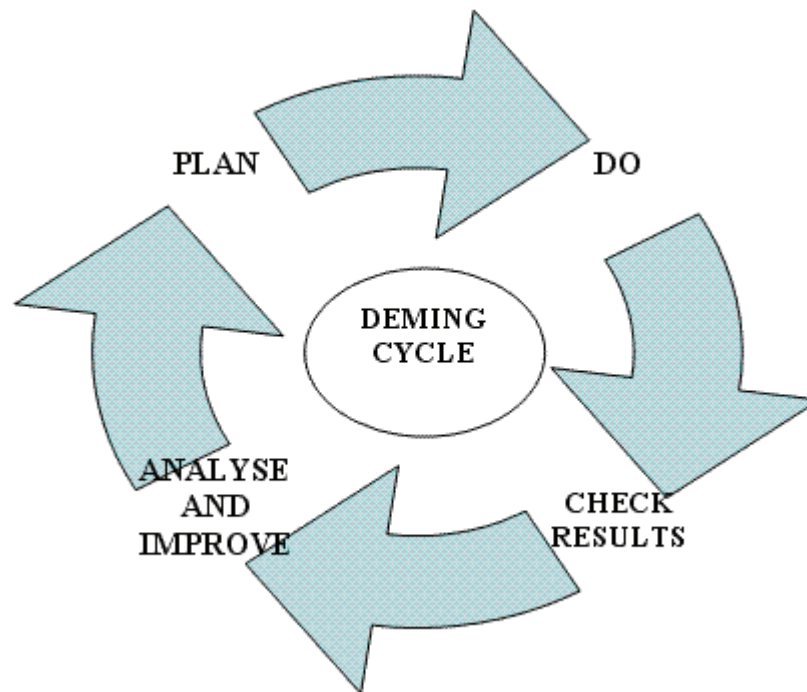


Figure 1: The DEMING cycle<sup>660</sup>

#### 4. The BALDRIGE model

The Baldrige method (1997) reiterates the concept built on facts-based management: **modern businesses depend on performance measurement and analysis**. The purpose of measurements is to obtain information that allows managers to know the company and to take responsible long-term decisions.

Measurement standards must derive from business strategy and provide critical data and information about key processes, productivity and results. There are many types of data and information necessary for performance measurement and improvement, including: consumer performance, performance products and services, operations, marketing, competitive comparison, suppliers, employees' performance related and financial cost.

Of major importance in performance improvement is the creation and use of performance measurement standards or indicators. Performance measurement standards or indicators are measurable characteristics of products, services, processes and operations that the company uses to track and improve performance. These measurement standards and indicators should be selected to represent the best performance factors.

Among the most important benchmarks for measuring performance, the Baldrige model (2005) identified: income from sale of products and service delivery, customer-based results, financial and market results, the evaluation results of human resources, organizational effectiveness results, social responsibility and organizational results.

#### 5. Example of Balance Scorecard at L'Oreal

##### 5.1 The cosmetic market

Cosmetics are important consumer products, with a key role in everyone's life: beside traditional cosmetics that include makeup and fragrance products, these include also personal hygiene products such as dental care products, shampoos and soaps.

<sup>660</sup>

Source: [http://www.valuebasedmanagement.net/methods\\_demingcycle.html](http://www.valuebasedmanagement.net/methods_demingcycle.html)

Current cosmetic market is oriented towards innovation, by including new color palettes, treatments directed to certain types of skin and unique formulas that focuses on different needs. Most cosmetics have a life expectancy of less than five years and 25% of producers reformulate its products each year. They must constantly improve their products to maintain its position on the highly competitive market. The consumer expects a more diverse range of options and greater effectiveness.

The current cosmetics market is dominated by several multinational corporations: L'Oreal, Colgate Palmolive, Beiersdorf, Kao Corporation and Avon Products.

### 5.2 Proposal for improving the activity at L'Oreal Company

Many companies need a model for measuring and evaluating performances that truly pulls together all parts of the organization. The balance scorecard model offers an optimum image on the key activities in the business. Keeping the points above in mind we developed an example of balance scorecard which can be used in the cosmetics companies. The model identifies the key success factors for financial, customers, internal processes and knowledge and learning activities. Also for each strategic objective we identified the performance indicators, targets and improvement actions.

**Table 1: Balance Scorecard at L'Oreal<sup>661</sup>**

<b>BALANCE SCORECARD</b>				
<i>FINANCIAL</i>				
<b>Key success factors</b>	<b>Strategic Objectives</b>	<b>Performance Indicators</b>	<b>Targets</b>	<b>Improvement actions</b>
<b>Good financial results and increasing profitability</b>	Maximizing shareholder value	Increase sales	5% in 3 years	– Penetrating young markets. - Increasing prices for the best quality products.
	Higher profits	Profit on equity consistently	Increase by 15% in 3 years	- Wider range of products. - Intensification of promotional campaigns.
<i>CUSTOMERS</i>				
<b>High global market share</b>	Greater market share	Market share	3% in 3 years	- Developing marketing programs focused on objectives - Communicate with customers using electronic instruments.
	Global market presence	Number of potential customers approached	5% increase in 5 years	-Developing a plan for penetrating untapped markets. egotiating a strategic partnership with other local firms.

<sup>661</sup> Adapted after the Balance Scorecard from Easy Jet: H. K. RAMPERSAD, “*Total Performance Scorecard*”, ed. Didactică și Pedagogică, București, p. 111-113, 145, 315-322, 2005

	Deeper knowledge of the global market for personal care products.	Revenue potential	10% increase in 5 years	Creating a database that includes characteristics of potential customers.
<b>High quality products</b>	Increased degree of loyalty on products purchased	The number of complaints from customers	Decrease by 10% per year	- Providing additional bonuses to employees who are customer oriented.
		Degree of customer loyalty towards brand	1.2.1 Increase by 5% per year	Design of procedures to resolve customer complaints Measuring the degree of customer loyalty.
<b>Image</b>	Improved awareness of audience target	Awareness of brand	At least 50% in 4 years	- Benchmarking in terms of customer loyalty.
<b>INTERNAL PROCESSES</b>				
<b>Team spirit and motivating work environment</b>	Managers act as mentors	Performance	At least 70% in 3 years	-Formulating a development plan for managers. - Provide guidance for training teams.
		Degree of satisfaction with the feedback	At least 70% in 3 years	- Study the employee satisfaction.
<b>Successful introduction of new products (innovative)</b>	New products developed	Survey score of employee satisfaction	Increase by 5% per year	- Offering products that meet customer needs.
		Percentage of sales from new products and services.	Increase 5% per year	- Develop a formula for extending the range of products for men.
		Time required to launch a new product on the market	Reduction by 10% in 3 years	- Better organization of research and development department. - Determining the criteria for developing new products
<b>KNOWLEDGE AND LEARNING</b>				
<b>Competitive advantage based on</b>	Improved managerial skills	Sales per month	Increase by 10% in 3 years	- Matching skills with the performance evaluation system.

<b>knowledge, abilities and skills of employees</b>		Percentage of managers trained in management skills essential.	80% in 3 years	- Learn effective leadership.
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## 6. Conclusions

Successful organizations depend critically on the ability to differentiate themselves from the competition through continuous and consistent concern in increasing prosperity of the organization. In this context change adaptation and progress have a vital role in creating a high degree of competitiveness of organizations.

This paper tried to offer a few examples of modern performance measurement and evaluating methods like the balance scorecard, the Deming and Baldrige models. Also we presented a simplified balance scorecard example used at L'Oreal.

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