

Systems Thinking and Measuring Organizational Performance

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The controlling function of management is concerned with the performance of an organization. Similar to planning, organizing, and leading, a manager's ability to assess the environment, make decisions, and take corrective action calls upon all of the functions in one way or another. However, planning may be the most important to consider because it lays the foundation for effective performance management and control. In particular, the identification and implementation of the measures by which performance is analyzed and controlled may be the most critical aspect of guiding an organization to success.

Indicators of Organizational Performance

Metrics are indicators of performance. They are the outcomes that managers assess to determine if goals and objectives are met. Think of metrics as variables, such as revenue, customer satisfaction, or market share, that change as a function of some activity, such as selling a service, answering customer calls, or delivering goods. Remembering this definition of metrics can help avoid a common mistake that managers make in the controlling role, and that is measuring *activity* instead of *outcome*. You've all heard the cliché "looking busy but getting nothing done". Time spent selling, the number of calls answered, or trucks out of the yard may not always add to the bottom line, quality, or acceptance of a product or service. Performance is not measured by activity, effort, or resource usage. It is measured in terms of *desired output achieved*.

When planning how to measure desired output, a manager needs to recall the purpose of the organization. No matter what level or responsibility, he or she must always stay focused on the objective or goal. Desired work output, such as production rate and services rendered per day, or desired outcome, such as cash flow, profit, and customer satisfaction are direct measures of organizational performance. Labour hours, supplies consumed, or other signs of activity are indirect measures, and may not guarantee that goals have been achieved.

It is equally important that the objective or goal be quantifiable, meaning it can be measured by timeliness, volume, quality, or accuracy. Effective, controllable performance measures always require that the outputs measured meet the following criteria:

- On schedule
- On budget (including human and physical resources in addition to money)
- At or above desired quality

Types of Metrics

When establishing organizational metrics, managers often consider measures that fall into the following categories:

- Business plan requirements

Business plan requirements usually describe the desired outcome of a new organization or new initiative within an existing organization. To be successful, specific goals such as number of new clients, the type and nature of partnerships or alliances, and the minimum amount of investment have been set.

- Management targets

Most managers have performance targets, assigned or chosen. A department manager at The Home Depot may have personal targets to 1) maintain a certain level of stock-on-hand, 2) increase employee participation in community volunteer programs, or 3) raise the level of customer satisfaction with contractor services. All of these targets are quantifiable and contribute to his or her purpose to the organization.

- Customer needs

Meeting customer needs is usually an organization-wide measure of performance. Consider The Home Depot example above. Each of the management targets contributes to customer needs. Customers expect to get what they come for when they make the trip to the store. Customers also prefer to buy from businesses that give back to their communities. And finally, they expect referred contractors to do quality work. Customer needs are sometimes more difficult to measure

- External or internal benchmarks

A benchmark is a measure by which others are measured or judged. Lowe's probably considers The Home Depot as the benchmark in the home improvement retail industry. The standards set might be markets served, sales per store, variety of product/service offerings, etc. The point is that the organization compares its performance to that of another. An example of internal benchmarks is best practices within an organization that are recognized and put forth as goals company-wide.

- Government and environmental regulations

Regulatory requirements require some form of outcome for every organization. Some managers will translate these standards as constraints and simply seek to comply. Others will turn them into performance measures that exceed expectations as a statement of social responsibility.

Performance Measurement and Organizational Design

Measures of performance correspond to organizational design. There are measures for the entire organization, for its functions (or divisions), as well as for the various jobs required to do the work. Thus far, this discussion has been about organizational measures, which are usually large in scope. For example, increased profit, percentage of market share, permits issued, and number of changed lives reflect broad mission statements. Because organizational goals are strategic, they require transformation into tactics and actions that are executed by functions and people to realize the envisioned outcomes.

Organizational performance measures make their first transformation from strategic to tactical at the functional level of an organization. For example, to contribute to an organization's bottom line, a strategic goal, the manufacturing group focuses on production rate, finance is concerned with cash flow, and technical support wants to improve customer satisfaction, all of which are process goals. Recalling the importance of balancing management by results (MBR) with management by means (MBM), it is at the functional level that managers integrate process goals with expected outcomes. Process goals seek to increase the effectiveness of how things get done, such as services rendered, targets achieved, and employees trained.

Underlying organizational and functional performance are people and their performance goals. People at the job level must perform the work using the functional processes that achieve the organization's desired outcome. Bottom-up or top-down, the relationship between an organization's strategic goals, its functional processes, and employee job performance is crucial to performance.

Managing Organization, Process, and Job Performance

To be effective in controlling outcomes, managers need to ensure that the *organization, process, and job performance* measures are in alignment. Senior managers are accountable for balancing results and process by ensuring that strategy transforms into tactics that result in the desired outcome. Middle and line managers need to ensure that personal, job-specific goals are aligned with functional process measures and are meaningful to the individual and valuable to the organization. Improving performance at all three levels requires a collaborative effort of senior, middle, line, and team management throughout the organization.

Here are some recommendations for turning desired outcomes into measurable actions (Brache, et al, 2002):

1. Identify the most significant outputs of the organization, process, or job.

Be confident that the output is the indicator of the desired outcome.

2. Identify the “critical dimensions” of performance for each of these outputs.

Critical dimensions should be derived from the needs of the internal and external customers who receive the outputs and from the financial needs of the business. For example, the critical dimensions of quality include accuracy, ease of use, novelty, reliability, ease of repair, and appearance. Critical dimensions of productivity include quantity, rate, and timeliness. Critical dimensions of cost include labor, materials, and overhead.

3. Develop the measures for each critical dimension.

For example, if “ease of use” has been identified as a critical dimension of quality for a given output, one or more measures should answer this question: “What indicators will tell us if our customers find our product or service (output) easy to use?”

4. Develop goals, or standards, for each measure.

A goal is a specific level of performance expectation. For example, if a measure for ease of use is “number of customer questions/complaints regarding product use,” a goal may be “no more than two questions/complaints per month.” As continuous improvement efforts bear fruit, goals should become more ambitious.

5. Implement a measurement system

A measurement system includes mechanisms for gathering actual performance information, comparing it to the goals, and communicating that information to those who can use it.

Systems Thinking and Organizational Performance

The four functions of management are an integrated set of concepts and practices. As put forth in the Week One lecture, this requires managers to think about and apply planning, organizing, leading, and controlling systemically and continuously. When a successful performance management system has been established, the effective manager continues to focus on performance management with

- Continuous Improvement of Core Processes

A core process is one that influences either a competitive disadvantage that must be overcome or a competitive advantage that senior management wants to establish, reinforce, or expand.

- Support for Performance Goals at all Levels

Managers leverage their leadership and relationships as tools for planning and implementing change, orienting new employees, evaluating strategic alternatives, and improving service to their internal and external customers.

- Avoid Conflicting Motivators and Other Disincentives

The needs of internal and external *customers* drive goal setting and decision-making. Functions are *collaborative instead of competitive*. No function or job succeeds at the expense of another.

- Gain Leverage through Constant Goal Setting

Managers routinely ask and receive answers to questions about the effectiveness and efficiency of processes within their departments and about cross-functional processes to which their departments contribute. *Opportunities for improvement become the new goals*.

Managing Organizations as Systems

Managing organizations as systems involves understanding and managing performance at the organization, process, and job/performer levels. At each of the three levels, the system requires clear and appropriate goals, logical design, and supportive management practices. Performance measures provide the latticework of the system. A three levels measurement system provides a window on more than just results. By monitoring and improving the factors that influence results, managers are able to cause more systemic improvement and to understand what's needed to implement change.

Managers become true leaders in the systems management culture by understanding their business, collaborating with other departments to get a job done, subordinating the optimization of their departments to the common good of the process, and creating performance systems that equip people to make their maximum contributions to the system and that reinforce them when they do.

References:

Brache, A. P., Chang, R. Y., Morgan, M. W., and Rummler, G. A. (2002). *Systems Thinking and Performance Management*. [University of Phoenix Custom Edition e-text]. New York: John Wiley and Sons. Retrieved November 26, 2003

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