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PROCESS ESTABLISHING OF PERFORMANCE MANAGEMENT

Abstract: *In this paper we have presented a proposal of process establishing of performance management with the aim to ensure the survival and development of organization. The idea has originated from the fact that organizations from our territories mostly do not show readiness to establish the performance management system both for financial reasons and lack of readiness for big changes and for the knowledge on the existence of many systems that are actually only a set of unusable or unused data. For that reason, and aware of the fact the performance measurement is a precondition of organization's flexibility on market changes, the establishing of management by performances "step by step" is suggested in the paper, i.e. "process by process" modeled on Kaizen's approach of constant improvements. The idea of establishing the performance management on one process and to gradually apply the same approach on other processes in organization after achieving the desired results until the final establishment of efficient system of performance management. Special attention is oriented on the selection of the first, i.e. pilot process where it was started from recommendations of standards for providing the continuity of business. Both these standards orient the attention on determining the appearances that can prevent the meeting of set organization's goals which is main threat to survival and development of organization. Having in mind that fact, the need to choose the pilot process the one whose instability can jeopardize the accomplishment of goals defined is imposed. Therefore, pilot process is the most critical one in the system. This approach which is not a financial burden for organization and which does not introduce abrupt and big changes actually provides gradual improvement of business through modernization of working process by providing specific measurable results of achievements, as well as accurate and timely information on the level of meeting the goals set, which is a condition for survival and development of organization.*

Keywords: *performance management, process approach, continual improvement, Balanced Scorecard*

1. INTRODUCTION

Providing the continuity of business is a goal of each organization, as well as a kind of challenge having in mind the increasing turbulences in the market. Namely, economic crisis on one hand and increasingly stronger breakthrough of organizations with cheap labour from the countries of the Third World creates more difficult conditions for survival and development of organizations. In such business environment, the organizations are forced to continuously and devotedly work on achieving the improvements in all fields of work in order to raise the level of competitiveness. However, each improvement is not sufficient for itself. Actually, high level of the improvement achieved which is not timely accomplished does not create desired benefits for an organization either. If the goal is not defined, and then performed the measurements of the achieved in relation to goal defined, then any improvement can be characterized as success which it does not have to be in essence.

Therefore, organization that wants to survive and develop itself, i.e. which is aimed at improvements needs to have the answer to the following questions at any moment.

1. Whether right things are done?
2. Are they done in the right way?

Answer to the first question should always be obtained from defined strategic goals of organization. However, although each even slightly serious organization has a defined strategy, main problema is precisely in non-existence of so-called strategic control. Actually, systemic and continuous implementation of strategic control provides timely recognition of the momento in which we should change the strategy which provides the effectiveness of organization and answer to the first question asked. Answer to the second

question should be looked for in performances management. Namely, in order to achieve the improvement it is necessary to establish and follow indicators of organizational performances which should provide measurable data on the state of the system. By their measurement and comparison to defined goals originated from the strategy in particular time intervals, we observe the progress on the path of achieving desired improvements which gives an answer to the question whether it is worked properly. Figure 1 shows the role of strategy and performance management in the achievement of business success.

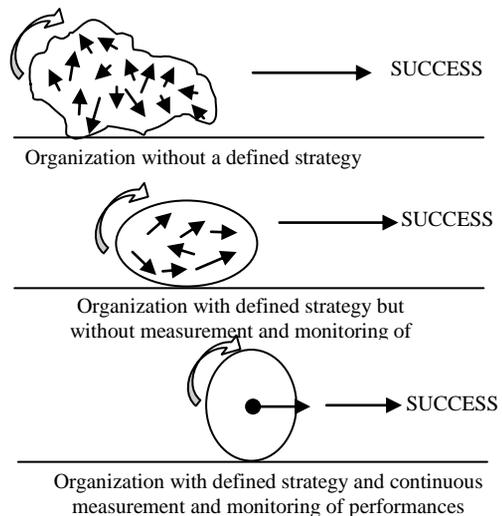


Figure 1. Role of measuring the indicator of performances in the achievement of goals set

Organizations are prone to define every measurement as measurement of performance indicators which provides them to determine the success of defined strategy implementation. However, it is not simple to develop the efficient performance management system, which is maybe one of the reasons for its insufficient presence in organizations from

our territories.

2.PERFORMANCES MANAGEMENT

In literature, the following main characteristics of performance measurement are mentioned:

- Helps in explaining the strategic goals by providing their simpler translation into goals on lower hierarchical levels;
- Provides regular communication on strategy and progress in achievement of goals defined;
- Creates common understanding of what is necessary for strategic management of an organization;
- Encourages self-management and monitoring of individual performances;
- Requires the management style that is opened and honest and thus encourages two-way communication between superiors and subordinates;
- Systematically measures and evaluates all performances in relation to strategic goals;
- It is about a process that constantly evolves and in which performance is improved over the time.

Characteristics mentioned provide an insight into possible benefits that organizations have a chance to achieve if they manage their system on the basis of performance management system.

For measurement and monitoring of values of organizational performances, as well as their comparison with target values, values from the previous period, even competition performances, the indicators are used. Defining the indicators in a way that their monitoring provides planing and defining the future goals as well as timely information on status of performances that are monitored is not at all simple. In practice, very often we

encounter not so usable measurement and monitoring of performance indicators precisely for the reason that they are defined in such a manner to actually evaluate the consequences so timely initiation without any kind of activities is disabled. In addition to these problems, in practice there are also the problems that refer to the selection of those key indicators of performances which can be managed by organization and which are critical for its sustainable success.

Selection of wrong indicator can significantly disturb entire approach and process of managing organizational performances.

In standard ISO 9004:2009, we mention that key performance indicators should provide the information in relation to:

- Meeting the needs and expectations of users and other interested parties
- Significance of organization's products, now and in the future
- Effectiveness and efficiency of the process
- Achievement of profitability and financial results
- Losses

When defining KPI, it is necessary to pay attention to the manner of their formulation in order to provide the following characteristics.

- be direct
- be objective
- be adequate, i.e. sufficient
- be quantitative
- be practical
- be reliable

On example of KPI which is directly related to users' satisfaction is the number of complaints whose measurement is shown in Figure 2.

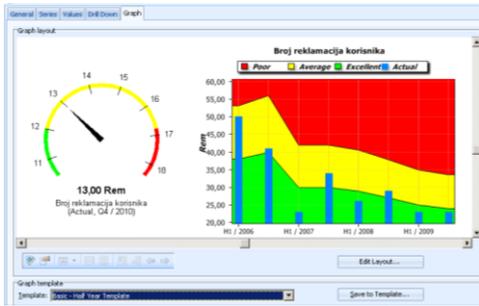


Figure 2. Monitoring of the indicator „number of users' complaints”

Measurement of performance indicator, in addition to current value implies the determination of at least the following values:

- Target value – is a quantified goal related to performances in business process.
- Alarm value – is used for setting the threshold of warning. Each value between alarm and target value is acceptable.

It is also possible to define some other values, such as:

- The worst value – bottom limit, the most critical state that can be expected.

Therefore, performance management should be established in such a way to provide a more rapid insight into the state of the system which provides significantly more efficient decision making, on the basis of measurable indicators.

However, goals defined by management in relation to which certain organizational performances are monitored, need to be transferred on all levels in organization, i.e. each employee. Defining and monitoring of indicators has a significant impact on stimulation as well as behaviour of employees. If the effect on behaviour is not visible, there is a possibility that employees have found a way to accomplish the goals, but

simultaneous prevention of organization to achieve planned benefits. Therefore, selection of indicators should be such that they need to serve for encouraging the improvements, rather than punishing the failure because the aim of this system's implementation is not monitoring but improvement. Further, the overview of strategic system of performance management is provided, such as Balanced Scorecard which provides the transfer of defined strategic goals up to the level in organization with mandatory feedback informing on the level of meeting the goals set on the basis of measurements and monitoring of performances.

3. ROLE OF BALANCED SCORECARD IN PERFORMANCE MANAGEMENT

"Balanced Scorecard is a system of related and balanced goals, indicators, target quantities and actions which provides the definition of consistent planning activities through entire organization and thus implementation of its vision and strategy".

Cascade lowering of BSC system implies its transfer through organization's hierarchy and providing the possibility for all the employees to show in which way their daily activities contribute the implementation of the set strategy of organization (figure 3).

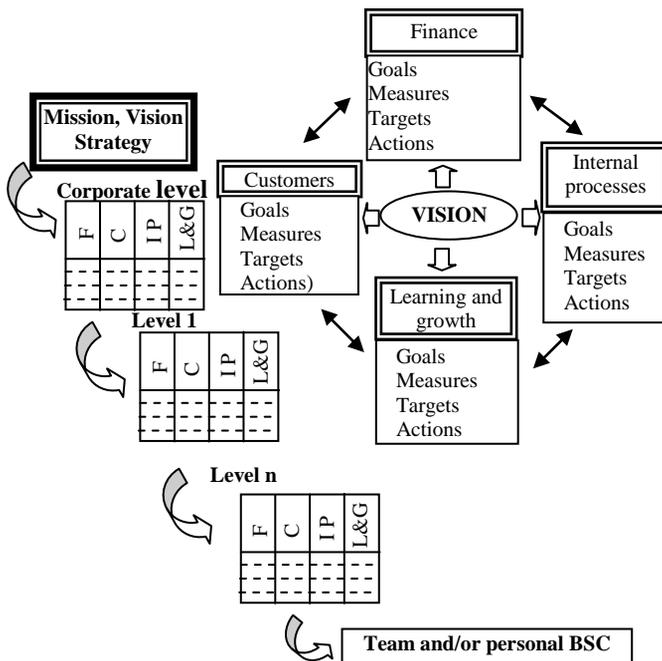


Figure 3 Process of BSC cascading

Small organizations or business units within a bigger subject can develop one BSC map of goals that is sufficient for management of the activities of all employees. However, medium and large organizations need to descend BSC cascadelly from the top to bottom of hierarchy if they hope to achieve the advantages offered by this system. Non-existence of cascading, i.e. »breaking« of goals from higher level of management towards lower levels creates the problem in big organizations because it leads to discrepancy in activities of employees and strategic goals of an organization. In case of goals cascading, it is good to use a principle which testifies on the extent of meeting the goals of lower level, goal at a higher level is met – although very often goals from lower level do not have a common indicator with compatible goals of higher level.

Cascade lowering of BSC system has a special impact on the increase of inner motivation of employees in order to improve their innovative abilities on process improvement. Goals in corporate BSC map are chosen in a way in which they represent the essence of the strategy of organization. Challenge before which organization levels are lower is determination of goals which can be influenced within the processes, and then definition of own goals and specific measures of success.

This procedure of cascading can go to the level of creating a personal BSC card whose goals and measures are extracted from BSC organizational whole which they belong to. It is observed that process of cascading is directly related to the communication process which is particularly stressed in theory of Balanced Scorecard because if there is no two-way communication between all levels in organization, this model cannot function.

4. SUGGESTION OF THE APPROACH OF PROCESS ESTABLISHING OF PERFORMANCE MANAGEMENT

Establishment of performance management system by the implementation of Balanced Scorecard or on the basis of some other methodology requires certain (usually not small) financial investments, procurement of development of a necessary software, possible upgrade of the existing information system, time required for adaptation and evaluation of the efficiency of the system established, additional engagement of all employees...

Therefore, the introduction of this system actually represents a big step for organization because it leads to re-examination of entire system and introduction of changes in all work processes with the aim of achieving

desired improvements.

Generally observed, improvement of the state of the system is possible to achieve in two ways:

- through innovations or
- by applying *Kaizen* approach.

Innovation is one-time event and it causes an abrupt and drastic change of system's state. Innovations of business processes are often implemented through reengineering. In contrast, *Kaizen approach* is a process of a stable and gradual, step by step change of state that most frequently isn't conditioned by big financial investments.

Kaizen is defined as business and managerial philosophy which represents gradual and continuous improvement of manner and organization of work, quality of products and services, processes and corporate culture as a whole. Figure 4 represents the approach of achieving the improvements by implementing big changes and approach on the basis of *Kaizen*.

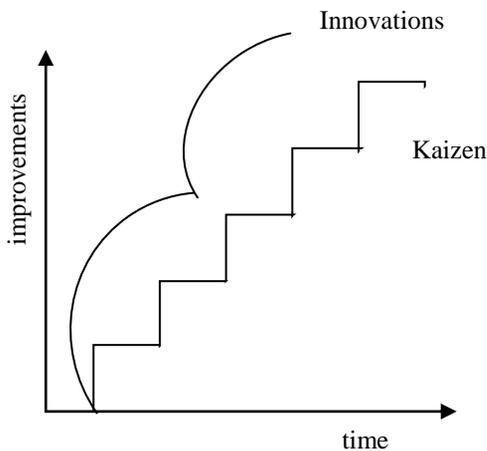


Figure 4. Improvements achieved by innovations and by the principle „step by step”

Therefore, *Kaizen* suggests the implementation of small but continuous improvements which, observed in the long run, can achieve the results that correspond

to results that would be achieved by introducing the innovations, i.e. drastic changes. Organizations from our territories in today's rather turbulent and insecure environment are not ready for introduction of some big changes in their manner of work both for financial reasons and lack of readiness of their own personnel to adopt imposed changes in the short time period. Having this in mind, and realizing the significance of performance management and benefits that organizations can achieve by its implementation, the authors suggest the approach of partial, i.e. process introduction of performance management. This approach implies the establishment of performance management in one segment (process) of organization's work which would after proving the efficiency in achievement of desired goals be gradually transferred on other processes in organization. Such an approach would be entirely in accordance with *Kaizen* principle of improvement where each management of a new process on the basis of performance management would actually represent one step towards the improvement (figure 5).

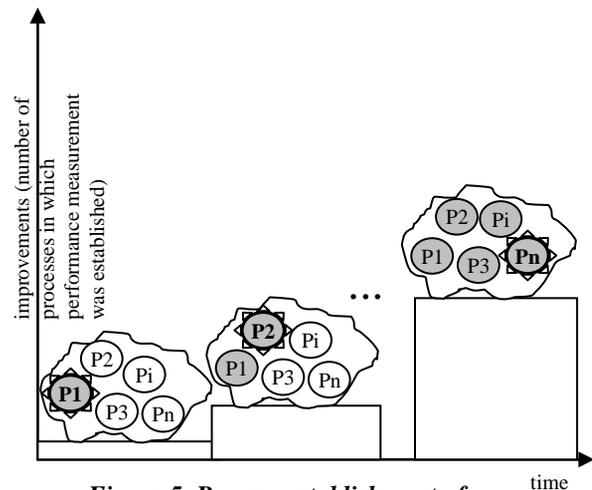


Figure 5. Process establishment of performance management

Selection of initial process that would represent a pilot project in this approach is

not simple. Key reason for that lies in a fact that the first process should actually be a milestone (in the sense of achieving the process stability, achievement of goals set and manner of setablishing performance management) for the establishing of performance management in other processes.

From teh aspect of organization's need to achieve sustainable survival and development, as a logical solution it is imposed that pilot process should be the one that mostly contributes to providing the goals defined. In that aspect, it is necessary to consult two standards that can directly be related to these problems and that are mutually compatible:

- ISO 31000-Risk management system
- BS 25999 – Business Continuity Management (BCM)

In the standard for risk management system, risk is defined as the “impact of uncertainty on goals”. This definition is consistent with the one from AS NZS 4360:2004, according to which the risk is a *„chance for something to happen which would affect the goals“*. Therefore, standard ISO 31000 starts from the fact that risk is actually the uncertainty which represents an obstacle between the organization and its goals. In that sense, organization must recognize the process which can be critical from the aspect of possibility of reaching the goals and it should be oriented on its monitoring.

Such an approach is compatible to the approach of standard for business continuity management in which it is required from an organization to recognize possible incidental situations that can be a threat to business and, base don this, define certain activities for providing the stability of business. In this standard, it is explicitly stated that by incidental situations we actually imply those that lead to inability of achieving previously set goals. Therefore, key risk (incidental situation) for organization's business

continuity and its development is the risk (incidental situation) for the set goals, which are vital for survival and development of organization, not to be achieved.

Having in mind such comprehension of risk and incidental situation for pilot process in process establishment of performance measurement we choose the one that carries the highest risk for the achievement of goals, i.e. the highest probability of the appearance of incidental situations. This process is put under control and improved by establishing teh performance management. After reaching the desired efficiency of the process and reduction of the risk for teh achievement of organization's strategic goals, the procedure is transferred to the next, according to the same criteria, most significant process. This is repeated for all the processes from process network up to the establishment of complete strategically managed system of performance management.

As the efficiency of established performance management in some system largely depends on success of cascade transfer of goals to all the employees which provides the generation of timely and correct information on progresses towards goals set and generally the effectiveness of the Balanced Scorecard strategy, having in mind its possibilities, it can be a rather good solution. In relation to this, by transferring strategic goals to the level of a process, we create the possibility for a more detailed analysis and additional examination of the set strategic goals from the aspect of that process. Creation of one BSC model or scorecard for the current process (which depends on complexity of the process itself and the need for cascading of goals) provides strategic management of that process with proactive measurement of the degree of achieving the set goal through performance management.

By transferring such management on

the following processes in the system, BSC models (i.e. scorecards) are created which are gradually related constructing one comprehensive BSC system of strategic performance management in organization.

5. CONCLUSION

It is a fact that establishing the performance management system, although it can provide significant benefits for the organization, it also requires certain financial investments, additional engagement of employees, as well as possible changes in manners of work, which mostly represents an obstacles for organizations for its establishing. In relation to this and having in mind the fact that strategic system of performance management can provide better flexibility of organization, in this paper we have presented process approach of performance management which can lead to the establishment of one complex system in the form of gradual improvements.

Therefore, the establishment of performance management process by

process would provide spreading of management by performances through entire system. The process selected as critical from the aspect of goals achievement, which is simultaneously one of the key processes in the system, by putting under control and improvement on the basis of performance management, it would be a good example of efficiency for other processes in the system as well. In this paper, we particularly stress the application of strategic system of performance management such as Balanced Scorecard due to its special orientation on cascading of goals, which largely contributes to the accomplishment of defined strategy. Namely, BSC model (i.e. BSC scorecard) created for a process provides measurement of the success of that process in relation to goals defined, but it also provides the integration with BSC models (BSC scorecards) of the other processes. By joining these BSC models (scorecards), we obtain one comprehensive strategically oriented performance management system that would appear by gradual improvement of organization's business by the principle step by step, i.e. process by process.

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