An Overview of Organizational Performance Index: Definitions and Measurements

Hashem Salarzadeh Jenatabadi
Department of Science and Technology Studies
University of Malaya, Kuala Lumpur, Malaysia
salarzadeh@um.edu.my
+60178777662

Abstract

Estimating the performance of the organization has always been of interest to management teams and researchers. In this regard, some researchers focused on determining definitions and how to measure organizational performance. The main objective of this study is to overview of organizational performance index definition and performance measurement. The history of performance is classified into six different subcategories. Various ideas and opinions on each of the performance subcategories are discussed. This review paper is applicant for researcher and student to better to understand definition and modelling of performance in organizational studies.

Keyword: organizational performance index, organizational theory, performance measurement, efficiency, effectiveness

Introduction

Performance is one of the most argued concepts about which there has never been an agreement among various researchers and theorists. This index with different definitions have been used in various disciplines like airline [1-5], education [6, 7], management [8-13], and computer science [14, 15]. Cameron [16] refers to an absence of sufficient understanding or clarification in the definition of the concept of performance. In the absence of any operational definition of performance upon which the majority of the relevant scholars agree, there would naturally be different interpretations and inferences opined by various people according to their own perceptions. This discord and lack of agreement is partly due to the lack of a significant attempt to theoretically or practically account for and define the concept. As a result, a commonly accepted definition of the concept faces various problems, which means that the possibility of any definitions and deriving some norms to arrive at the desired definition is still questionable.

Organizations perform various activities to accomplish their organizational objectives. It is these repeatable activities that utilize processes for the organization to be successful that must be quantified in order to ascertain the level of performance and for management to make informed decisions on where, if needed,
within the processes to initiate actions to improve performance. Therefore, it can be claimed that there is a close relationship between the organizational objective and the concept of organizational performance. Therefore, all companies probably attempt to achieve certain pre-determined objectives with the help of available resources. Hence, the two aspects of the concept, i.e., the organizational objective, and the organizational inputs or resources can be considered in the definition of organizational performance.

Some researchers, such as Thompson [17], and Friedlander and Pickle [18] consider performance as a theme that repeatedly occurs in paradigms of management. Strategic and operations management are also included in performance, a feature that attracts the interest of both practicing managers and academic scholars. Performance, therefore, can be defined as the evaluation of the constituents that try to assess the capability and ability of a company in achieving the constituents’ aspiration levels using efficiency, effectiveness, or social referent criteria, which are briefly explained below.

Effectiveness, refers to the maximum extent production functions are able to fulfil and meet the demands and requirements of the customer. Efficiency, on the other hand, is assessing and evaluating how the resources of an organization are economically utilized through the accomplishment of functions to achieve its objectives. Quantitatively, performance and the dimension of scale are interrelated, i.e., it is generally quantifiable in different dimensions. As an example, the performance level can be expressed as a percentage or an absolute value in a way that makes it easy to understand for directors. According to Macleod et al. [19], the quantitative expression of performance targets is the only way to render them meaningful. Furthermore, performance refers to the nature and quality of an action performed in an company to achieve the accomplishment in its primary functions and tasks to produce profit [20].

**Literature of Organizational performance index**

The history of performance is classified into six different subcategories. Various ideas and opinions on each of the performance subcategories are discussed in this part. A fairly clear statement on the concept of organizational performance was issued by Etzioni [21], in which he believed that frequent assessments of organizations have been carried out in relation to the achievement or non-achievement of the set objectives and goals. However, in Etzioni’s suggestion, the resources that an organization needs to achieve its objectives and aspirations were not taken into consideration. Some other researchers, such as Chandler [22] and Thompson [17] apparently nurtured an idea of organizational performance similar to that of Etzioni. Researchers like these argue that the ultimate criterion of organizational performance is its growth and long-term survival. In other words, continuous improvement of organizational performance forms its vital objective. What these definitions had in common was the “effectiveness” or realization of the objective component of organizational performance.
In contrast, Lorsch [23] has a different suggestion for measuring organizational performance based on two factors, i.e., good fit between the organization and its environments; and good fit between the organization and its individual contributors. Lorsh believed that the performance of an organization is expected to be more successful if there are efficient operations between the organization and its environment and its staff are content with and aspire to contribute to its success and development.

However, the statements of Lawrence and Lorsch [24] do not answer whether there is confusion concurrently between the organization and its environment and between the organization and its staff, and in case of the existence of such a confusion, how the company is able to retrieve its workable balance. The arguments of the above researchers provided the organizational performance concept with a new dimension, i.e., "relevancy" (client satisfaction), despite its inability to resolve the discord in the concept.

Some researchers believe that in the 1970s the concept of performance dealt with both organizational means and ends [25]. Performance is defined as the extent to which a company, as a social system with certain resources, is able to fulfil its goals without being obliged to incapacitate its resources and means or putting excessive strain on its employees. Lupton [26] treated the concept of organizational performance in the most careful and explicit manner in comparison with other researchers in the same period. According to Lupton, in an effective organization, the productivity rate and levels of satisfaction and motivation of its members are high, while rates of turnover, costs, labour unrest are low or absent. However, according to Katz and Kahn [27], the efficiency (ratio of outputs to input) and effectiveness of an organization were parallel, both vital components of the overall organizational performance, which can be assessed through maximizing the total returns of all kinds. In summary "effectiveness," “efficiency,” and “relevancy” are three dimensions of organizational performance that have been used as common elements in the above-mentioned definitions.

In the 1980s, performance is defined as the extent to which an organization, as a social system, could consider both its means and ends [28]. This definition is in line with the earlier one suggested by Georgopoulos and Tannenbaum [25]. Nevertheless, Cherrington [29] defined organizational performance as a concept of success or effectiveness of an organization, and as an indication of the organizational manner that it is performing effectively to achieve its objectives successfully.

In the following decade, the 1990s, Adam[30] considered organizational performance as heavily dependent on the employees’ performance quality. He believed that in order to ensure a high quality organizational performance, it is vital to have regular exposure of the staff of the company to new and up-to-date knowledge and skills, which would, in turn, help them keep up with the new changes happening in the market, and, ultimately, enhance the quality of organizational performance. In a "Note on Organizational
Effectiveness”, Harrison and Freeman [31], and Adam [30], confirmed that an effective organization with high standard of performance level is the one that keeps its stakeholders’ (shareholders, customers, and its own) demands satisfied. These definitions also support the “relevancy” dimension of organizational performance stated in the earlier definitions above.

In the first decade of the twenty-first century, the definition of organizational performance mostly focused on the capability and ability of an organization to efficiently utilize the available resources to achieve accomplishments consistent with the set objectives of the company, as well as considering their relevance to its users [32]. In this definition, the three general elements of OP, i.e., “efficiency,” “effectiveness,” and “relevancy” have been taken into consideration. Conversely, the performance of an organization is believed to be able to cover broader areas including the connection between performance and organizational goals (effectiveness); organizational resources (efficiency); and, satisfaction of the stakeholders (relevancy).

**Performance Measurement**

Organizational performance has always had a significant influence on the actions of companies. One of the consequences of this influence is the increase in the number and variety of the means and methods to accurately measure the performance and, gradually establishing an important research field for both companies and academics. The last twenty years have, in effect, witnessed performance measurement (PM) [33] gaining the interest of the academics in an ever-increasing number of research fields [34]. Neely [35] believed that in the two years between 1994 and 1996, the number of the published academic articles on PM amounted to about 3,615, which, ultimately, resulted in the appearance of one relevant book on the topic every fortnight in the US alone in 1996. Some researchers’ attempts, like Marr and Schiuma [36], in different functional fields, have made available a wide variety of basically different information on PM, which has contributed to the field being well known as a vital part in the literature of the manufacturing strategy [37]. However, PM does not specifically belong to any specific discipline or academics. This feature of PM has rendered the researchers from various backgrounds and disciplines to be reluctant in removing and widening the traditionally set functional boundaries in their studies on the topic [35].

Facing new conditions and organizational realities and due to the upcoming challenge for industrial supremacy, the concept of PM has been developing and evolving drastically in recent years. However, the new environment is apparently turning into a new frontier for PM. More expectedly, in the near future, inter-organizational PM will experience a significant development in fields, such as supply chain as well as extended enterprise. Jagdev and Browne [38] described the extended enterprise PM to be a closer formation of co-ordination in the design, development, co-ordination of the relative plans of manufacturing and co-operating independent manufacturing enterprises and related suppliers schedules, and costing. This
can also be regarded as a consequence of a deviation from the traditional perspective of manufacturing firms that operate within specific and pre-set boundaries, being restricted to limited connection areas and relationships with other organizations and firms, and the excessive focus on internal effectiveness and efficiency of the company alone [39]. This trend is expected to have a significant impact on the PM practices in different companies in the near future. The depth of such an influence is sensible in the literature on PM.

Despite the popularity of the topic of PM and its wide fame among relevant scholars and researchers, very few of them have ever attempted to define it in practice [40]. Some researchers defined PM as the process of evaluating performance "relative to a defined goal"[41], "in terms of explicit short-, medium-, and long-term objectives and reporting the results to management"[42], and "efficiency and effectiveness" [43]. In the words of Gunasekaran et al. [44], PM is the process of transferring the complex reality of performance into a sequence of limited symbols that can be communicated and reproduced under similar circumstances.

From the above definitions and the ones suggested by some other researchers, it can be concluded that PM is a progressive language that classifies the current and future status of performance. PM allows a continuous advancement towards the established goals and identification of the stagnations and shortcomings [45]. Concisely, it can be claimed that PM is a progressive and steady movement towards the achievement of the set objectives. However, observation of PM is not only on the past performance, but it also concentrates on the realization of collective aspirations and the assurance of an effective and efficient future performance.

PM is also considered as a metric employed to measure performance. Therefore, it can be regarded as an analytical tool that records measures, shows outcomes, and determines subsequent actions in the process of the PM [41]. Overall, Man [46] determined that measures of performance are divided into four categories, i.e., financial; non-financial; tangible like quality [47]; or intangible like experience [48]. The focal point of financial performance measures is generally on the resulting impact on production activities and financial characteristics, such as logistics activities. Non-financial performance values, however, have their focal point directly on actual production activities, such as defect ration, investment turnover, and lead time [49].

Business PM has attracted increasing attention both among managers and academics, and has always been a managerial priority. Measuring business performance, as well as asking for information related to performance, forms one of the major responsibilities and requirements of various managers in different companies. PM can be claimed to be an integral and essential requirement for the achievement of success in executive managerial tasks. As Lebas puts forth, in effect, PM can be defined as the complex reality transferral of performance into a range of communicable symbols that are reproduced in similar conditions [50].
As mentioned above, performance itself is composed of two essential parts, namely, one part tends to deal with achievements and accomplishments in the past resulting from past actions, while the other looks at the predictions or inferences of future performance based on current actions. The role of PM is connecting these two parts through discovering accomplishments and measurements from which future performance can be inferred or predicted [51].

Sink [20] believed that “measurement is complex, frustrating, difficult, challenging, important, abused and misused,” nevertheless, in the words of Das[52] “if we cannot measure it, we cannot manage it”. Since the 1980s, when literature on PM first emerged, it has been continuously evolving and expanding. In the traditional context, small companies’ operations were simple and the most important PM focused on cash flow. As a result of the expansion of the size of organizations during the post-Industrial Revolution, the measures of productivity were extensively used in various production phases. In a span of time from the late nineteenth-century to the 1930s, both practical and theoretical management accounting methods were set up and widely used [53]. Later, traditional management accounting was included as part of PM for distribution operations and their manufacturing plants. As research on PM developed and expanded more, some scholars, like Pursell [54], shifted their focus on the PM of the whole business unit (typically plant level and division level) and attempted to investigate the standards, criteria, and measures of performance. Nevertheless, after all these studies, there seems to be no cohesion in the traditional literature on PM [55].

Some drastic and dramatic changes have occurred in the corporate world in the past few decades in terms of the introduction of national and international awards, improvement initiatives organizational roles, work maturity, external demands, increased competition and advanced technology. These changes have resulted in companies encountering dramatic competition resulting from the improvements occurring in product quality, enhancement of flexibility and reliability, the expansion of product variety, and emphasis on innovation [56]. The critical business features for corporate success are emphasized more than mere financial reporting [57]. In view of the new challenges and changes happening in the corporate world, organizational managers are required to consider appropriate PM paradigms if promotion of managerial improvement is desired.

**Roles of Performance Measurement**

Management can hardly exist without PM [50]. However, a poor methodology of measurement can be a major factor that contributes to frustration of the advancement of a firm [53]. In contrast, a well-designed performance management system is an essential and fundamental factor contributing to the enhancement of effective planning and control of management. In fact, it can be claimed that PM allows business management to excel through motivation enhancement, performance monitoring, improvement of
communication, and problem diagnosis [58, 59]. Furthermore, PM can provide an effective approach to study and identify the management strategy, as well as enabling a proper perception of prosperous and present circumstances that influence the progress of a company. The significant roles of PM are briefly presented in the following subsections.

**Monitoring business progress**: this can be done using the output to observe the progress of a firm in respect of the achievement of its set goals, which makes identification of the future and current status of the company possible. PM can generate a shared understanding, and demonstrate the extent to which the planned expansions have essentially taken place.

**Monitoring the effect of strategies and plan**: outputs enable testing the impact and possibility of strategies and plans. It is through them that the implementation can be observed and controlled. Therefore, the successful achievement of long-term goals can be ensured by the choice of right measures.

**Diagnosis**: if a business fails or is in decline, the output can show the failure symptoms, and encourages identification of the probable causes that have led to the failure [58]. As a result, a company can search for the problems and their reasons to enhance their protection against the potential future misfortunes and failings.

**Supporting decision making**: PM enables an organization to search and identify the causes that have led to its success and the potential chances that the company can use for further development and advancement in future. Moreover, PM enables the organization to determine whether it has been able to gain the satisfaction of its customers and achieved its desired goals. Actually, in addition to indicating where and how to act, these measurements also monitor the performance efficiency. Further details of identification of potential and actual problems are provided by feedback. PM is also an essential requirement for the justification of more investment of effort by companies. PM ensures that the decisions are made on the facts instead of assumptions and suppositions. Consistent objective-oriented operations and timely corrections can only be achieved through a direct guide to operations and accurate and timely feedback on operational performance.

**Facilitation of motivation and communication**: PM indicates the rate of progress of a company and highlights its present and future performance status. The motivation and clarity of the PM provides the company with an increase in the overall rate of operation including communication among its staff and managers. Performance management both precedes and follows PM in a virtual spiral in order to establish a suitable setting for measurement [50]. In brief, PM is claimed to be a vital and powerful tool for effective management. In the case of supply chain management, PM significantly leads to the development and
improvement of performance and feedback of comprehensive performance supports the design and improvement of the supply chain systems.

References


