

# METHODOLOGICAL APPROACH TO ORGANIZATIONAL PERFORMANCE IMPROVEMENT PROCESS

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*Organizational performance improvement is one of the fundamental enterprise tasks. This especially applies to the case when the term "performance improvement" implies efficiency improvement measured by indicators, such as ROI, ROE, ROA, or ROVA/ROI. Such tasks are very complex, requiring implementation by means of project management. In this paper, the authors propose a methodological approach to improving the organizational performance of a large enterprise.*

## 1. INTRODUCTION

In the contemporary business environment, characterized by rapid changes, performance improvement becomes a significant challenge for each enterprise, which can not be addressed by a single activity, nor a project, but rather by a series of continuous activities at all organizational levels. The bottom-up, or top-down approach to the implementation of such activities does not meet the requirements of involving all the employees, which leads to the conclusion that their combination is needed, depending on the situation and the objectives to be achieved. Namely, although organizational performance is perceived through the measures of efficiency, effectiveness and adaptability, its improvement begins at the lowest level of elements comprised by these measures. Therefore, it is important to analyze individual performance measures in order to initiate the process of performance improvement. The issues to be addressed in this process include (Armstrong, 1994):

- keeping focus on measurable results;

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- measurement is concerned with results delivered *now*, instead of *tomorrow*;
- present success should build further success;
- success is driven by employee empowerment.

The requirements set by the performance improvement process are very complex and should be, therefore, addressed by an appropriate methodological approach, which should lead from general to detailed insights, as well as from abstract insights to practical solutions. Besides, the modeled approach should be pragmatic enough to be applied to an existing problem, which leads to the need to design a multi-stage process of the organizational performance improvement process.

Independent of the chosen methodological approach and implementation strategy, the authors' research on performance improvement has demonstrated that treatment of such tasks as projects, including the utilization of project management principles, leads to significantly improved results. On this basis, the authors have developed a project-based approach to the performance improvement presented in this paper.

## **2. CONCEPT OF THE ORGANIZATIONAL PERFORMANCE IMPROVEMENT PROCESS**

The organizational performance improvement process should produce results that enhance the efficiency of the entire business. Therefore, taking into account that such a process is important for designing efficient organizations, it can be understood that it is treated as significant by both theorists and practitioners. There are many different models of organizational performance improvement consisting of several stages. The model in Figure 1 shows a four-stage process.

Each of the stages consists of several activities, which lead to the design and implementation of an adequate solution, possibly using a feedback connection a few times.

### **2.1. Preparing**

The objective of this stage is to determine the existence of the gap between the existing and the desired performance level, as well as the critical factors which have produced such a gap. In order to efficiently complete this stage, it is necessary to:

1. identify the objectives and
2. identify and choose among the critical performance measures.

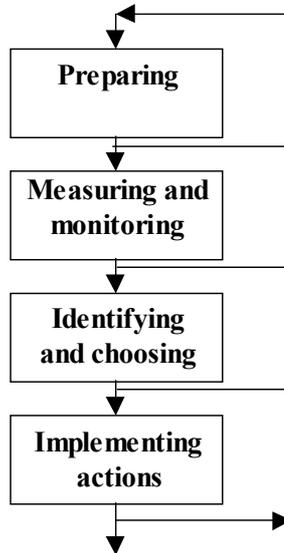


Figure 1. Main stages of the organizational performance improvement process

**(1) Identification of objectives** is the first step in the process of improving the organizational performance, which comprises of defining the desired performance level. The starting point for this activity is usually the vision statement, i.e. the vision of what the enterprise wishes to achieve in the long term. Objectives should be achieved in order to accomplish the enterprise mission, i.e. they are derived from the enterprise mission itself and define the *manner in which the mission is to be accomplished*. Taking into account that an enterprise is a multi-level system, the objectives themselves are hierarchically ordered, as shown by Figure 2.

As shown by Figure 2, the enterprise objectives are derived from the mission, the workgroup objectives from the enterprise objectives, while the individual objectives are derived from the workgroup objectives. Looking upside-down, i.e. from the mission toward the individual objectives, the question Why ? is being asked, while looking downward-up, i.e. from the individual objectives toward the mission, the question How ? is being asked.

The number of levels in the hierarchy depends on the size and the structure of an organization.

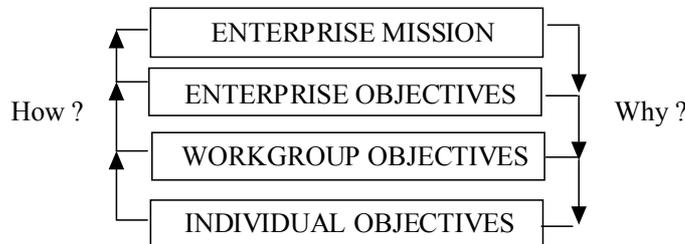


Figure 2. Hierarchy of objectives in an enterprise

If the program of performance improvement is to fulfill its aims, the objectives at all organizational levels should be precisely defined, realistic and quantified, which means that the initial objectives should be so precise, that each individual understands the required level of accomplishment. Objectives defined in such a manner represent the starting point for the performance improvement process.

**(2) Identifying and choosing the critical performance factors** consists of asking oneself three crucial questions:

1. What will be measured ?
2. Where will the measurement take place ?
3. When will the measurement take place ?

The content to be measured is related primarily to efficiency, effectiveness and adaptability. Efficiency is measured through the level in which the available resources are being used, while the effectiveness is measured by the planned output level. Adaptability denotes the level in which an enterprise can adjust itself to unpredictable situations, or unstandardized requirements of the business environment.

The indicators which should denote the level of the organizational performance should be connected to the priority objectives, as well as realistic, ready for easy, rapid and cheap use. They should motivate the employees to attain the larger output levels.

The answer to the question of where the measurements should take place is connected to the requirement to set up a feedback system that should report about the parameters and other factors determining output. The feedback system

usually reports whether the desired output level has been attained, but it can also report on the effectiveness of the input conversion process. In any case, the measurements should be comprehensive, such as within the Total Quality Management concept.

The question of when the measurements should take place is connected to the frequency of measurement, which influences the quality and the effectiveness of the corrective activities. Too much of a time span between the detection and the moment in which corrective action is taking place could cause unwanted effects. On the other hand, if this time span is too short, or the corrective action is happening too quickly, instability may arise. Therefore, the measurement should be adjusted to the requirements set by the next stage of the organizational performance improvement process, which ensures that the obtained information is timely, as well as that the measurement frequency is appropriate to the pace of changes in the business environment.

## **2.2. Measuring and monitoring**

This is a very important stage in the organizational performance improvement process, taking into account which performance measurements will be used, as well as who will measure. There are many different approaches to this problem: from the traditional to the contemporary ones.

The traditional approach to monitoring the process of organizational performance improvement is based on monetary values, such as ROI, payback method and discounted cash flow. However, these measures are very generalized when it comes to customers and their needs, on one hand, and the employees who are either designing the product, or contacting with customers, on the other hand. Therefore, it can be concluded that the measures should be oriented toward creating closer connections between individual actions and their outcomes, which also fosters the implementation of self-control. Such a control system is based on:

- trust (meaning that the individuals should be entrusted to perform certain activities in the appropriate time),
- training (meaning that the individuals should be instructed how to perform the needed activities) and
- self-empowerment (meaning that the individuals decide which tasks are associated with a certain duty, as well as that they are empowered to decide what should be measured).

The measuring and monitoring system is ready for functioning after it is informatively checked. During the system check, the decision-maker is able to see how the planned process of organizational performance improvement is running, i.e. the manner in which discrepancy between the desired and the current situation is decreasing.

### 2.3. Identifying and choosing

Identification and choice of performance aspects to be improved is a very complex task, which should address two key issues: what are the reasons for the existence of the gap between the targeted and the current performance level and which solutions should be chosen for their improvement. Therefore, this stage consists of three activities:

1. Identification of reasons;
2. Identification of options;
3. Selection of the most appropriate option.

**(1) Identification of reasons** for the discrepancy of the existing and the targeted performance level is a key issue of the entire organizational performance improvement process. Namely, this activity enables the possible effects to be well measured. Hence, there is a need to design a diagnostic procedure to address this issue with the assistance provided by the adequate tools and methods. We propose a diagnostic procedure consisting of three fundamental stages:

1. *investigation of symptoms*, first qualitative, and then quantitative;
2. *formulation of insight*, which consists of generating the possible solutions, their description and the selection of a solution to be more precisely looked at;
3. *identification of reasons for the discrepancy*, in which the relations between the symptoms and the independent variables should be defined.

This activity can be performed either individually, or in a team, by using appropriate methods for stimulating creativity, such as the Pareto analysis, Ishikawa chart, lateral thinking, etc. The objective of such a complex procedure is identification of the real source of discrepancies, instead of mere symptoms, however significant they may be.

**(2) Identification of options** is an activity which requires the generation of options available for elimination of the performance discrepancy. This is a highly creative task, in which different venues of possible performance improvement are explored. It is performed with the assistance of the methods

for stimulating individual and collective creativity, depending on the nature and the degree of the performance discrepancy. Such methods include brainstorming, nominal group technique, visioning, etc. They are based on generating as many ideas as possible in order to choose the adequate one later.

**(3) Selection of the most appropriate option** is one of the vital stages in the organizational performance improvement process, taking into account that it comprises the decisions about:

1. which options should be selected;
2. which options should be accepted with some corrections and
3. which options should be accepted integrally.

The previous decisions were made on the basis of economic and non-economic criteria. Economic criteria are based on confronting the economic benefits of a certain option with the investment required to carry it out. In that context, one must take into account the losses due to the performance discrepancy and the investment required to eliminate it. The relation between those variables determines the level in which a certain option may be considered optimal from the economic point of view. However, besides being optimal in the economic sense, the choice of a certain option is also affected by many different non-economic criteria, such as humanitarian, social, etc.

Taking into account the non-economic criteria, it is not always possible to predict which of the generated options will be finally accepted, which means that the best possible option will not always be singled out because of management-specific reasons. It is also possible that management does not choose any of the proposed options, but rather seeks a new one, which may be a combination of the existing ones, or a completely new option. It is usually recommended to choose the simplest, the most efficient, the most economic, the most easily understood and the most supported one (SMART-principle). Individual options can be valued by different methods, of which one of the most popular ones is the "decision tree".

#### **2.4. Implementation**

This stage requires the actual implementation of the designed and chosen option for improving the organizational performance level. It consists of three activities:

1. testing and experimenting,
2. reexamining and modifying and
3. implementation.

**(1) Testing and experimenting** is an activity that follows the decision to accept a specific option. The clear definition of objectives to be reached by the tested option, as well as the description of inevitable changes brought about by the specific option, are of vital importance for the success of this stage. Namely, only a clear and unambiguous approach to the organizational changes can ensure the absence of resistance. Acceptance of the option by the employees directly affected by its different aspects, is a prerequisite for the successful change management and the successful improvement of organizational performance.

Testing, as an activity, should be well defined, precisely planned and constantly controlled. It should be noted that most of the organizational changes are often considered a threat, or a source of some irrational danger to the employees, which justifies the need for creative, rational and gradual implementation of organizational changes into the working routine. Therefore, the team members responsible for implementing and controlling the tested option should devote their attention to the active communication with all those affected by the changes. This is the reason why creativity and competencies of the team members can be also regarded as one of the vital success factors in the testing stage.

In order to ensure the effectiveness of the team responsible for testing, it is recommended to elaborate a detailed “testing plan”, which should facilitate the management of this stage. It should also serve as a basis for the cooperation of all those affected by the changes, as well as an instrument for monitoring.

**(2) Reexamining and modifying** is based on the data obtained during the testing stage and consists of the following activities:

- ❑ detailed and comprehensive analysis regarding the weaknesses of the suggested solution, including all the relevant information from the testing stage;
- ❑ critical reexamination of individual components that compose the proposed solution and
- ❑ modification or restructuring of such components.

The most important information regarding the quality of the suggested solution is mostly collected during the testing stage as a part of the action-oriented, planned and continuous process of implementation control. The obtained information suggests the progress and the possible limitations in implementing the selected organizational solution.

After the testing has been completed, some of its components may be reexamined, or changed in order to eliminate the perceived shortcomings of the tested solution. The methodological framework for this stage addresses the following issues:

- Does the proposed solution help achieve the objectives previously agreed upon ?
- What has hindered the planned performance of the solution ?
- What are the fundamental weaknesses of the suggested solution ?

Answers to these questions represent the basis for the critical reexamination of the suggested solution and drive the further activities, directed toward the redesign of the initial solution. The previous research, based on such a methodology, has shown that the most common reasons of failed implementation are related to people affected by changes and driven by their resistance to planned changes (either open, or concealed), insufficient understanding of objectives and rationale for the change process, etc. Therefore, we emphasize once again that the objectives and the rationale for the suggested solution should be clearly and precisely defined, especially taking into account its contribution to the organizational performance improvement and the need for close cooperation between the team members in charge of implementation and the employees affected by the solution.

**(3) Implementation** provides several options, which should be considered by the organization professionals and managers who act as change agents in the organizational performance improvement process. Those options are:

- implementation of the redefined (modified) alternative of the original solution,
- implementation of a modified alternative, after it has been re-tested, or
- implementation of an entirely new solution, after being previously tested.

The first option is appropriate when the modifications enable the suggested solution to be successfully implemented, while the latter options require that the process returns to the selection and testing stages. We especially emphasize the importance of planning these stages appropriately because of their conclusive influence on the success of organizational performance improvement. However, the impact of other activities, related to the implementation control, should not be underestimated. Re-testing, as well as the initial testing of a new solution, requires a new approach to the employees from the team members conducting the process. People should be attracted and persuaded to cooperate in the implementation of organizational changes: the reasons for change should be

explained, employees actively involved in implementation of changes and stimulated in the right manner.

### 3. PROJECT AND PROJECT MANAGEMENT

#### 3.1. Notion of project and project management

A project can be defined as a venture with defined starting and ending points, required to realize certain objectives within constraints, including limited budget and quality requirements, as well as the required sequence of activities. In order to fit into the definition of a project, a venture has to meet the following requirements (Buble et al., 2000):

- it is *directed toward certain objectives*;
- it is *not repeated in regular intervals*;
- it has to be *completed by previously agreed deadlines*;
- it *requires the coordination of multiple enterprise functions*;
- it is *associated with a certain risk*.

Project management is a particular management form, directed toward the coordination and optimization of resource usage, with the objective of successful project completion. Of many project management distinctions, the most important ones are:

- *task orientation* (realization of project objectives),
- *system orientation* (system-based comprehension of a project) and
- *temporal orientation* (independent scheduling of activities).

Each project progresses through a life-cycle consisting of four stages which require specific project management skills. Those stages are illustrated by Figure 1. The main stages of the organizational performance improvement process are the fundamental elements of a successful performance improvement program.

#### 3.2. Model of global project organizational structure

As recognized in the literature, efficiency is one of the fundamental enterprise performance measures (Thor, 1994) and its improvement is one of the fundamental and continuous tasks. From the viewpoint of the enterprise as a whole, efficiency is described by indicators, such as ROI, ROE, ROVA, or ROVA/ROI. Those are complex measures which should be broken into a series of partial, lower-level indicators.

Implementation of such a task is, consequently, a complex project, consisting of many smaller sub-projects. Developing organizational linkages among the sub-projects represent the design of the formal project structure. A program committee and a program manager occupy the top of such a structure, with more subordinate project committees, consisting of two or more project teams. The number of project committees and teams depends on the scope of relevant project activities. Logistic support is provided by a common project administration. Figure 3. depicts the global project organizational structure.

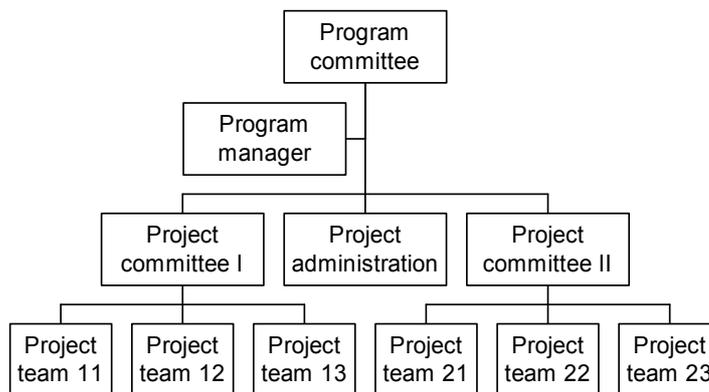


Figure 3. Model of global project organizational structure

#### 4.2. Key elements of project organizational structure

The organizational structure of a project has five key elements:

(1) *Program committee* organizes and coordinates the workflow of the entire performance improvement program, as well as directs the program implementation. It consists of the chairperson of the board, top management members and the program manager. The program committee is headed by the CEO of the corporation.

(2) *Program manager* is an expert responsible for the program implementation, appointed by the program committee. His fundamental activities are:

- coordination of individual project committees (teams),
- informing the program committee about the status of activities,
- cooperative planning of activities with project managers,
- cooperative design of the project network chart with project managers and
- controlling implementation of solutions prepared within the project.

(3) *Project committee* is the expert group, organizing and coordinating the workflow of an individual project and directing its implementation according to the common program plan. It consists of both the experts delegated by “process owners”, and staff experts. The latter are intimate with the project contents and are able to formulate and implement the project on time. In order to ensure efficient communication between the project committee and the project teams, the project manager is also then a member of the project committee.

(4) *Project team* consists of experts actively involved in the implementation of project activities. Individuals are regularly participating in project teams on a full-time basis, i.e. they are transferred from the operative organization to the project structure. Positions on the project team include the *project manager* and the *project team members*.

The *project manager* is the expert directly managing the implementation of project activities. He is appointed by the project committee and, therefore, held responsible for the overall implementation of the project. He is also authorized to take all appropriate actions in order to meet the project objectives within the previously agreed resources and deadlines. A *project team member* is an expert directly performing the project activities, also appointed by the project committee and responsible for the appropriate implementation of project activities.

(5) *Project administration* facilitates efficient expert work. Its activities include:

- planning the utilization of available resources,
- registration and classification of project activities,
- preparation of project and program entity meetings,
- preparation and distribution of memos and
- daily operational support (preparing reports, data, documentation, records, etc; typing; copying; drawing; etc.).

Besides the administrative personnel, administrative activities can be facilitated by appointing a *project secretary*. Such a concept of project organization ensures the appropriate efficiency level.

#### **4. PERFORMANCE IMPROVEMENT PROJECT**

The process of performance improvement is aimed at enhancing the ability of an organization to achieve the desired targets and outcomes of its actions. It is not an “on-off” or “once and forever” exercise. Effective performance

improvement is a continuous and ongoing process, which is driven by the gap between the current situation and the desired future (Baguley, 1994). However, situations in which performance improvement is actually practiced are “one-time” events with defined outcomes and results. This is the fundamental feature of a project, which implies the opportunity to utilize project management in performance improvement.

The successful performance improvement projects are only those identifying the causes of the current performance improvement gap. This knowledge helps identify options for changing the current performance, of which a project *may* be one of the options (Baguley, 1994). However, many performance improvement options have project features, as evidenced by the common business processes. Individuals included into such processes address the current performance gaps either on their own, or by working in groups. At the same time, they are often included into the task forces addressing such performance gaps in the long-term perspective.

Therefore, it is important to assess whether the utilization of a project concept is justified and/or even opportunistic in such cases. Namely, the project concept assumes employing an expert team, headed by a project leader, possessing specific skills. This implies exclusion of the employees involved daily in the specific problems and assigning the problem solving to the project team. Implications of such a concept become obvious when the proposed solution is to be implemented.

It is obvious that the solution proposed by a project team induces resistance by employees who did not take part in its design. They may feel that the proposed solution is imposed upon them, which may lead to the implementation failure, even in the case of a superb performance improvement proposal. Business practice demonstrates that such problems may be avoided by treating only some successful performance improvement options as formal projects. The other options can be implemented by a joint team, consisting of both expert members, and the “process owners” (i.e. employees required to implement the proposed solution). This especially applies to the projects focused on the fundamental performance gaps, such as inadequate ROI.

## 5. CONCLUSIONS

Performance improvement is a complex task, which, under specific circumstances, has features of a project. This is especially applicable to the cases of improving fundamental performance measures, such as efficiency

described by the net profit/investment ratio (ROI). The value of this indicator is essential for each enterprise in order to secure the required amount of capital. However, improvement of such an indicator is a complex task which calls for the establishment of lower-level partial indicators, which shape the hierarchical "indicator pyramid". This also represents a manner of dividing a single, global performance improvement project ("program") into a multitude of sub-projects ("projects").

From the organizational aspect, the same process leads to the design of the organizational structure consisting of committees and teams. The structure is headed by the program committee and the program manager, managing the work of multiple specialized project committees, which are themselves led by managers of individual projects. Such a concept of project organization can ensure success in improving this fundamental performance measure.

The presented methodological approach to the organizational performance improvement process enables an enterprise to:

- quickly identify the factors influencing the existing level of the organizational performance,
- generate well-defined alternatives for improving the organizational performance,
- define and implement projects, which will translate the generated options into a practical solution and
- quickly and properly implement the designed solutions.

Application of such an approach requires the use of project management, which should involve both the professionals and the employees. The success of the organizational performance improvement program can not be guaranteed if the active involvement of employees is affected by changes. Therefore, such a program is based on the stimulation of employees to accept it readily.

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## **METODOLOŠKI PRISTUP PROCESU UNAPREĐENJA ORGANIZACIJSKIH PERFORMANSI**

### **Sažetak**

Unapređenje organizacijskih performansi predstavlja jedan od fundamentalnih zadataka svakog poduzeća. To posebno vrijedi za one slučajeve kada izraz "unapređenje performansi" implicira unapređenje uspješnosti mjerene pomoću indikatora kao što su ROI, ROE, ROA ili ROVA/ROI. Ovakav je zadatak veoma kompleksan, pa stoga nužno zahtijeva implementaciju projektnog managementa kao posebnog oblika organizacije rada na složenim projektima. Stoga autori u ovom radu predlažu poseban metodološki pristup unapređenju organizacijskih performansi u velikim poduzećima.

