

**A Systematic Benchmarking Perspective on Performance Management of Global  
Small to Medium-sized Organizations: An Implementation-based Approach**

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# **A Systematic Benchmarking Perspective on Performance Management of Global Small to Medium-Sized organizations: An Implementation Based Approach**

## **ABSTRACT**

**Classification: Research Paper**

### **Purpose**

This research offers small to medium-sized organizations (SMOs), with global business aspirations, an innovative approach to performance measurement and management.

### **Design/methodology/approach**

The first phase of this research is based on literature review. The second phase capitalizes on the literature review to offer a conceptual framework aimed at improving the performance measurement approach utilized by small to medium-sized organizations. The advocated approach stresses performance measurement, benchmarking, and effective implementation.

### **Findings**

The conceptual approach offered in this study represents the main outcome of this applied research. The advocated approach integrates several frameworks in an effort to address practical concerns related to performance measurement, management, and improvement.

### **Research limitations/implications**

The research offered in this study has practical and theoretical implications. The proposed approach offered by this study should be refined and validated through future research.

### **Practical implications**

The approach presented in this study offers practicing managers a systematic and practical approach to performance measurement, management, and improvement.

### **Originality/value**

The approach offered in this study capitalizes on several methodologies and tools to offer managers a benchmarking-based performance management approach suitable for small to medium-sized organizations with global operational aspirations.

**Keywords:** Small to Medium-sized Organizations; SMO; SME; Performance measurement, System orientation; Conceptual approach, Benchmarking, Global operations.

# **A Systematic Benchmarking Perspective on Performance Management of Global Small to Medium-Sized organizations: An Implementation Based Approach**

## **1. Introduction**

The performance measurement literature has advocated the effective utilization of performance measurement systems as a critical factor in the road toward competitiveness. In this context, organizations have redefined the scope and the role of these systems in order to outperform their competitors in their selected markets. Such effort has led to higher organizational performance, which translated into enhanced competitive position in the global marketplace (Kovačič, 2007).

Nowadays, organizations which have been competitive in certain regional/local marketplaces have the potential to capitalize on their know-how and success factors to enter the global arena. However, in order to be successful in the highly global competitive market, these organizations must pay closer attention to their performance measurement and management processes. In this context, for an organization to be able to compete effectively, it must measure, track, monitor, improve, and benchmark the different aspects of performance against internal, competitive and external proven benchmarks.

The recent literature clearly points to the increasing importance of the different facets of performance measurement, tracking, monitoring, improvement, benchmarking, and management. This appears to be the case, regardless of the organizational sector of operations (Gomes *et al.*, 2004; Gomes *et al.*, 2008; Yasin and Gomes, 2010). Given the different facets of performance measurement, benchmarking best practices are seen as an essential ingredient in the effort to achieve a first-class organizational performance. In this context, organizations are attempting to integrate benchmarking efforts with performance measurement practices into an overall organizational benchmarking performance management system. Such a system is designed to promote the effectiveness of the different facets of the organizational performance. In this context, the benchmarking effort goes beyond the typical competitive analysis, as it provides a better understanding of the processes that create superior performance (Kovačič, 2007). As such, benchmarking is considered as one of the most effective continuous improvement tools. It tends to facilitate transforming knowledge gained into innovations aimed at improving operational and strategic practices (Jain *et al.*, 2008).

As small to medium-sized organizations attempt to capitalize on their expertise to gain an entry into the growing global market, their managerial approaches, including performance management tend to become more challenging and complex. Therefore, the performance management process, with its different facets must be re-engineered based on sound benchmarking initiatives of effective global practices. Such benchmarking initiatives should be at the heart of the performance management system in order to integrate the different facets of performance with the strategic and operational practices of these organizations.

Motivated by the increasing importance of the different aspects of performance management in a global context, and the growing role of small to medium-sized organizations the objective of this study is to present a performance management approach to be used by Small to Medium-sized Organizations (SMOs) that are operating or intend to operate in the global market. The advocated performance management approach is based on the integration of several conceptual frameworks, in order to provide managers with a total system view of organizational performance in a global operations context. These frameworks are highlighted below:

- An overall organizational performance measurement system framework as well as a performance measurement system for each of the organizational business units (Figures 1 and 2).
- An informational system framework to ensure the integration of internal and external benchmarking efforts and innovative practices in relation to the performance management process (Figure 3).
- An implementation framework to ensure the effective implementation and utilization of the performance management process (Figure 4).

This study is organized into five parts. Following this introduction, the literature related approaches utilized by small to medium-sized organizations to globalize their operations and market is reviewed. In the process, the performance management and measurement orientation utilized in these organizations at the different stages of their global involvement are outlined. In the third part, a performance management approach to be used by SMOs in a global operations context is presented. Finally, the conclusions and the practical implications for managers of these organizations are presented.

## **2. Relevant Literature**

### **2.1 Performance measurement**

During the 1980s, scholars and practitioners advocated drastic changes in the way that organizational performance was measured and managed. Due to the serious criticisms of financial performance measures, as promoter of short-term thinking, and therefore serving as barriers to strategic thinking and innovations (Banks and Wheelwright, 1979; Hayes and Garvin, 1982; Kaplan, 1983), the literature began to stress the utility of non-financial measures, as well as the need to balance and integrate the different facets of organizational performance (Johnson and Kaplan, 1987; McNair and Mosconi, 1987; Santori and Anderson, 1987). As a result, the decade of the 1980s ended with the appearance of the first two performance measurement systems (PMS), namely the SMART (Cross and Lynch, 1988; Lynch and Cross, 1991), and the Performance Measurement Matrix (Keegan *et al.*, 1989).

During the 1990s, several PMS, universal models and approaches were proposed to promote general frameworks, which could be extended to different organizations and operating environments. Among the most widely cited of these frameworks were the Performance Measurement Questionnaire (Dixon *et al.*, 1990), the Performance Measurement Model in Service Business (Brignal *et al.*, 1991), the Balanced Scorecard (Kaplan and Norton, 1992), and the Integrated Dynamic Performance Measurement System (Ghalayini *et al.*, 1997). During this period, some authors focused more on the intrinsic characteristic of each organization. In the process they tended to stress design and implementation issues concerning PMS, rather than the general utility of a given PMS (Dixon *et al.*, 1990; Eccles and Pyburn, 1992; Neely *et al.*, 1996; Flapper *et al.*, 1996; Beamon, 1999; Waggoner *et al.*, 1999). Emphasizing a case-by-case approach to PMS, the Performance Prism was presented with a focus on both stakeholders' satisfaction and contributions (Neely *et al.*, 2001; Adams and Neely, 2002).

During the last two decades, the performance measurement literature underscored some relevant characteristics of performance measures and measurement systems. These characteristics are highlighted below:

- Must reflect relevant non-financial information, based on key success factors of each organization (Clarke, 1995);
- Should be implemented as means of articulating strategy and monitoring organization results (Grady, 1991);

- Should be based on organizational objectives, critical success factors, and customer needs and monitoring both financial and non-financial aspects (Manoochehri, 1999);
- Must accordingly change dynamically with the strategy (Bhimani, 1993);
- Must meet the needs of specific situations in relevant manufacturing operations, and should be long-term oriented, as well as simple to understand and implement (Santori and Anderson, 1987);
- Must make a link to the reward systems (Tsang *et al.*, 1999);
- Financial and non-financial measures must be aligned, and used within a strategic framework (McNair and Mosconi, 1987; Drucker, 1990);
- Should stimulate the continuous improvement processes (Kaplan and Norton, 1992; Kaplan and Norton, 1993; Flapper *et al.*, 1996; Neely *et al.*, 1997; Medori and Steeple, 2000);
- Must be easy to understand and to use (Kaplan and Norton 1996; Ghalayini *et al.*, 1997);
- Must be clearly defined, and have a very explicit purpose (Flapper *et al.*, 1996; Neely *et al.*, 1997);
- Should allow a fast and rigorous response to changes in the organizational environment (Bititci *et al.*, 1997; Medori and Steeple, 2000);

During this same period, the literature related to global business suggested a set of performance measures to be used in organizations engaged in global activities. These measures are highlighted below:

- Sales growth (Cavusgil and Zou, 1994; Aulakh *et al.*, 2000; Cadogan *et al.*, 2002);
- Export market share (Aulakh *et al.*, 2000; Cadogan *et al.*, 2002);
- Competitive positions (Aulakh *et al.*, 2000);
- Profitability of export sales or export profits (Cavusgil and Zou, 1994; Aulakh *et al.*, 2000; Cadogan *et al.*, 2002);
- Export sales (Cadogan *et al.*, 2002);
- Rate of new market entry (Cadogan *et al.*, 2002);
- Export intensity (Beamish *et al.*, 1999; Verwaal and Donkers, 2002);
- Export revenues (Beamish *et al.*, 1999).

These performance measures are mainly traditional in nature. They also tend to be more appropriate for organizations which are at the export mode of global operations.

Recent dramatic environmental, technological, and market changes have left their unmistakable marks on performance measurement practices and performance measures utilized in today's global organizations. Due to these more recent changes, the literature tended to emphasize the need to approach the management of performance from a more open system perspective, which focuses on markets and customers. A sample of recent relevant issues noted in the literature is highlighted below:

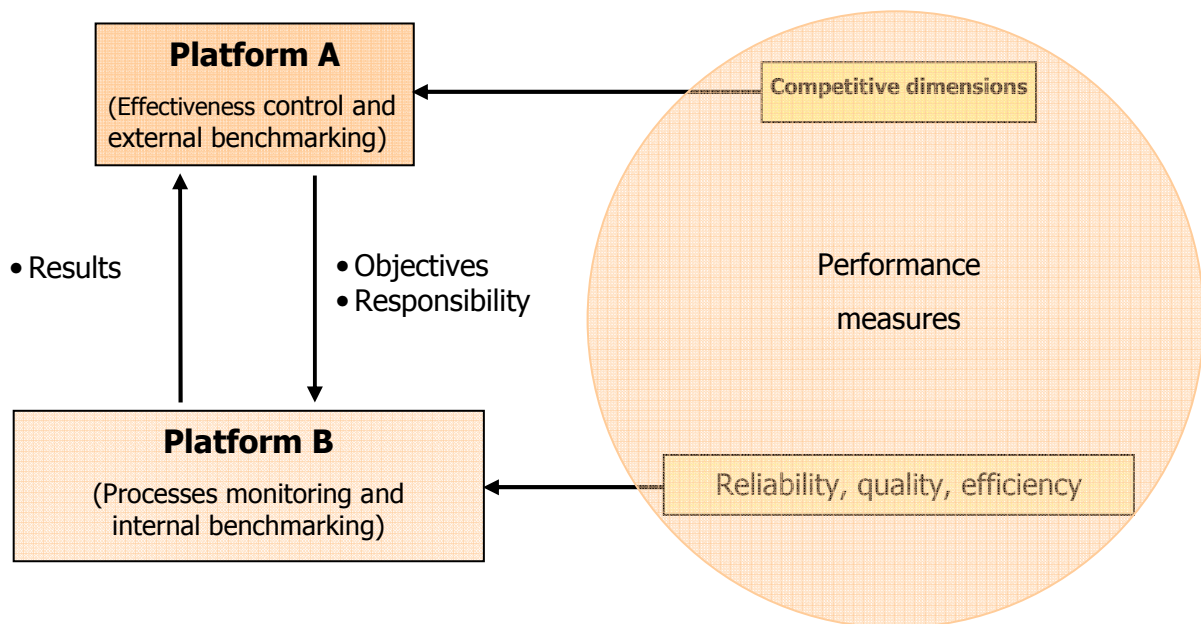
- Should capture the dynamic nature of the market and environment and include it in the performance measurement systems (Pun and White, 2005; Neely, 2005; Shepherd and Gunter, 2006);
- The organizational focus should be redirected from performance measurement to performance management (Neely, 2005; Greiling, 2005; Dey 2008);
- Should be changed from an internal/closed to an external/open perspective, measuring across supply chain and networks (Folan and Browne, 2005; Neely, 2005; Shepherd and Gunter, 2006);
- Information systems and technology should be facilitators of the performance measurement and management process (Gunasekaran *et al.*, 2001; Gomes *et al.*, 2007c);
- New processes, initially developed for large organizations, should be found to implement PMSs in SMOs (Garengo *et al.*, 2005a);
- A stakeholder oriented approach should be created, balanced in its perspective (Sinclair and Zairi, 2000).

In general, the examination of recent literature tends to suggest that two types of organizational performance evaluation platforms are needed (Figure 1) in order to have an effective and dynamic performance measurement system which has a broader organizational perspective on performance, with comprising the specific nature of key performance areas (Gomes *et al.*, 2004; Gomes *et al.*, 2007b). The need for having these two platforms was consistent with the views of executives who manage the performance of global organizations. The dynamic nature of this system is consistent with the need to monitor the internal and external contexts and review objectives and priorities (Bititci *et al.*, 2001) without changing PMS structure. In this context, platform A is designed to gauge the organization's competitive efforts in response to market tendencies. On the other hand, platform B is more closely tied to the organizational structure in order to support and maintain an effective operational culture.



The first evaluation, platform A, has a more global, corporate-management orientation. As such, this platform focuses mainly on a few performance measures that reflect critical organizational performance dimensions. These measures should be consistent with the executives' individual cognitive capacities (Lipe and Salterio, 2000; Garg *et al.*, 2003). In this context, platform A should be consistent with indicators designed to gauge the competitiveness of the organization in the global marketplace (Basu and Wriath, 1997; Chenhall, 2005). The emphasis of this platform is on the effective flow of products/services to markets. The measures used in this platform must be directly related to the strategic objectives of the organization. This platform should incorporate and support both organizational effectiveness measurement and competitive external benchmarking efforts.

**Figure 1 – Dynamic Performance Measurement System (DPMS)**



The second evaluation, platform B, maintains a measure-specific perspective. This platform defines the relationship between specific measures and the organizational unit responsible for such measures. In this context, individual performance measures can be used to evaluate efficiency, reliability, and quality components of operations pertaining to a specific unit or function. To accomplish this, diverse measures should be utilized individually, and/or in small groups. These measures are critical to detecting and dealing with specific efficiency-related problems. The key to performance

improvements under this measure-specific platform is the effective training and development of employees in order to promote responsibility and accountability. This platform should incorporate and support an effective internal benchmarking effort.

## **2.2 The Global Operations' Context**

When choosing to pursue business activities globally, an organization needs to decide which mode of global operations it wants to use. Several operational modes can be found in the literature, ranging from exporting (products/services), to making direct foreign investments (Daniels *et al.*, 2009).

For many years, export represented the main model of reaching out for global markets. The advent of e-based business models, which capitalize on the information and communication technologies made the global markets more accessible to small to medium-sized business organizations (Maguire *et al.*, 2007).

The globalization process may follow a series of progressive stages/steps, which can be gradual in nature, depending on the resources and capabilities of the organization. The first step, and least resource-intensive, is the exporting process. The last step is the direct investment on a subsidiary business unit. However, most SMOs may not have to move from one stage to the next (Bradley *et al.*, 2006), since some SMOs are born to be global (Sharma and Blomstermo, 2003; Gabrielsson and Kirpalani, 2004; Knight and Cavusgil, 2004). Such organizations are created and designed, to start with, to operate globally. On the other hand, some SMOs choose to establish a global presence through new and innovative processes, such as joint strategic ventures and other strategic collaborations with global partners (Brouthers, 2002; Gabrielsson and Kirpalani, 2004; Spence *et al.*, 2008).

When organizations choose to go global, they should expect to face new challenges that differ from those typically faced in domestic markets. These new challenges tend to be associated with two broad categories: The first category includes physical and social factors, such as country-specific geography, politics, law, culture, and economy. The second category includes competitive factors, such as the nature of organizations' suppliers, customers, and competitors. Therefore, the PMS of these organizations must be able to measure and track the influence of these multifaceted factors on the different aspects of organizational performance. These organizations must also be able to utilize effectively internal and external benchmarking processes in order to gain and maintain competitiveness in the selected global markets (Niemi and Huiskonen, 2008).

Due to their specific characteristics, small to medium-sized organizations face unique challenges, in addition to typical challenges associated with the global context (Gabrielsson and Kirpalani, 2004; Fernandez and Nieto, 2006). In the past, these organizations generally did not utilize information technologies effectively to shape their operations and strategies due to the lack of resources, and the needed know-how (Garengo *et al.*, 2005b; Maguire *et al.*, 2007). However, recent technological and competitive changes, such as declining communication related costs, lower trade barriers and advancements in transportation have offered these organizations better opportunities to compete globally (Knight and Cavusgil, 2004). In this context, such organizations are finding new global opportunities through the integration of e-business options, to create and sustain true competitive advantages through innovative informational-based practices (Pavic *et al.*, 2002; Maguire *et al.*, 2007). Therefore, many small to medium-sized organizations are becoming global innovators of business practices and approaches to the global market (Hong and Roh, 2009). As such, these organizations are translating their innovative business models into improved sales, market exposure, and profitability. These gains and improvements are leading, in turn, to better economies of scale, market learning, and operational flexibility. In the process, this is allowing these organizations to reduce volatility and increase the growth potential of their earnings (Lee *et al.*, 2006).

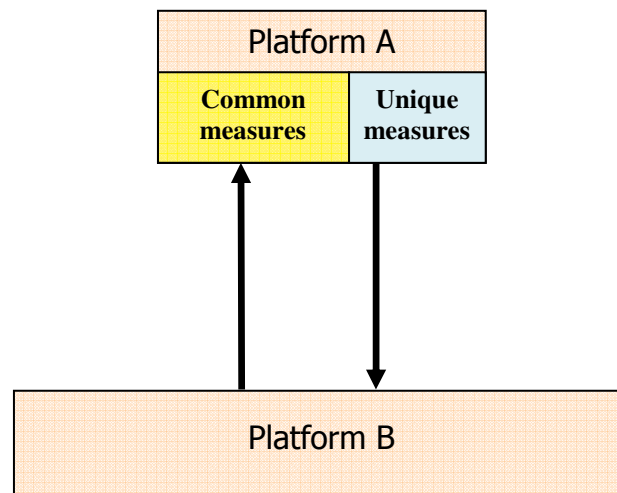
Due to the growing role of SMOs in the global marketplace, these organizations are slowly and steadily becoming the engine which drives global economic growth (Singh *et al.*, 2008). In this context, SMOs are no longer viewed as smaller versions of large organizations (Lu and Beamish, 2001; Martin-Tapia *et al.*, 2008; Ledwith and O'Dwyer, 2009). Rather, they are considered as unique flexible, entrepreneurial organizations with high potential for growth in terms of both market presence and effective performance. Toady's small to medium-sized organizations tend to differ fundamentally from their large counterparts, as they tend to have more flexible resources, organizational structures, and management systems. These fundamental differences tend to impact the performance exceptions of SMOs. Therefore, the PMS for these organizations must be designed carefully to incorporate the unique features and characteristics of these organizations. These systems must be consistent with the flexible and entrepreneurship-orientation of the organization.

### 3. Performance Management in a Global Operations context (PMGO)

#### 3.1 Performance Measurement Approach

In a global operational context, even the innovative architecture of the performance measurement system presented in Figure 1 may fail to prevent the myopic effect on the analysis of performance regarding the measures included in platform A. The number of performance measures in this performance platform will increase, as the number of business units and the number of countries where the organization operates increases. The extent of organization globalization involvement tends to significantly impact marketing strategies, technological requirements, and cultural contexts under which global organizations have to operate (Hsu and Pereira, 2008). These variations could be managed and moderated by the organization through improving its learning processes based on effective utilization of internal and external benchmarking (Ford and Evans, 2001; Gleich et al., 2008). This learning process tends to facilitate and promote organizational competitiveness in multifaceted operational and market realities. As such, each business unit (BU) should include, in its effectiveness platform (A), a set of performance measures that are common to all other BUs, as well as another set of measures that are unique to its specific demands and operational capabilities (Figure 2).

**Figure 2 – Dynamic performance measurement system for business units in global operations context**



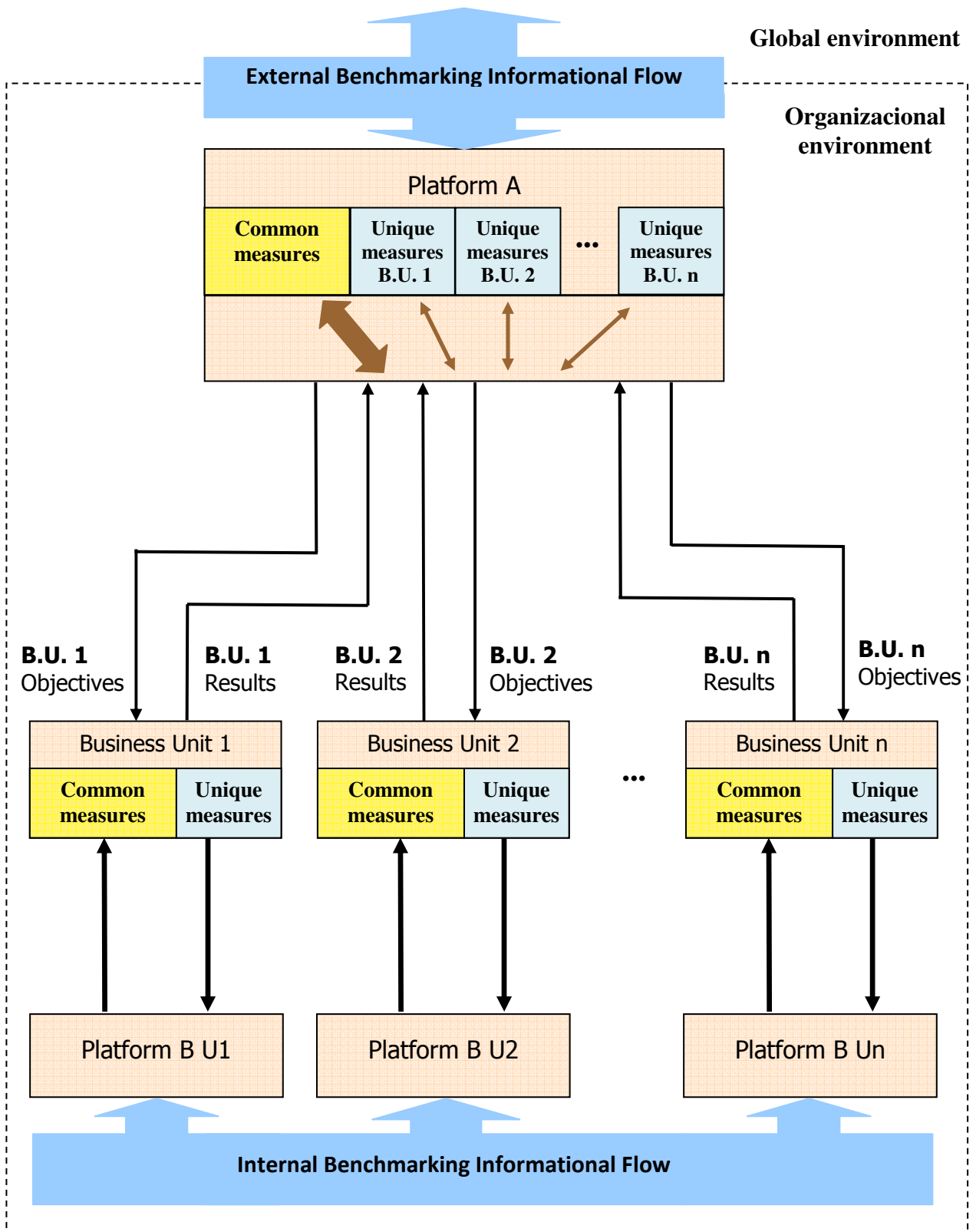
In a global and multicultural context, with multiple business units, the proposed framework depicted in Figure 2 should be customized for each business unit. The customization process should take into account the uniqueness of each business unit, without overlooking the need of the overall organization to have consistent performance management procedures and processes. Consistency in this sense serves to ensure that

the organizational performance targets are integrated into targets of different business units.

In order to manage performance effectively, top executives of the organization need to be aware of information processing tendencies and practices pointed out by the literature. In this context, the literature stresses the utilization of unique performance measures in the performance evolution of each business unit in order to better capture the unique competitive factors of each unit. However, when executives try to analyze organizational performance of the entire organization, they have the tendency to consider only performance measures that are common to all business units (Lipe and Salterio, 2000). Therefore, they tend to overemphasize common financial measures (Ittner and Larcker, 2003). When executives are uncomfortable with the ambiguity resulting from the need to analyze several financial and non-financial measures, they tend to ignore, or even overlook important information in order to reduce the level of analysis ambiguity (Van Dijk and Zeelenberg, 2003). Such behaviors tend to lead to serious loss of important performance related information and potential opportunities for improving competitiveness. Therefore, ignoring the contribution of each BU unique performance measures can compromise the organization's competitiveness factors related to regional specificities. To allow the performance measurement systems of SMOs to monitor relevant performance concerns, a new benchmarking informational architecture is needed in order to avoid complexity, and to promote an effective performance measurement and benchmarking of all resources and activities that contribute to overall organization competitiveness. In this context, the market learning process is one of the most important competitive tools for SMOs choosing to become global (Hsu and Pereira, 2008). Therefore the PMS of these organizations should promote a common language, practices and procedures (Busco *et al.*, 2008), while simultaneously allowing the inclusion of dialectic/ethnic information that can help the global learning organization be more responsive to its markets and customers. As such, the performance measures must be explicitly organized in two groups: common organizational measures and the unique BU measures (Figure 3).

These two levels of the analysis process can provide top executives with a better understanding of the significance of technology utilized by different subsidiaries (Andersson *et al.*, 2001), the management of tensions inside global organizations (Busco *et al.*, 2008), the innovation performance (Kafouros *et al.*, 2008), and the collaborative intensity between BUs (Spence *et al.*, 2008).

Figure 3 – The role of benchmarking informational system in relation to performance platforms (A and B)



The approach presented next is consistent with practical need of executives to manage the different levels of their organization's performance. This approach capitalizes on both the literature examined and the views of executives who had to struggle with the difficulties of managing small to medium-sized global organizations.

### **3.2 The Performance Management Process Approach**

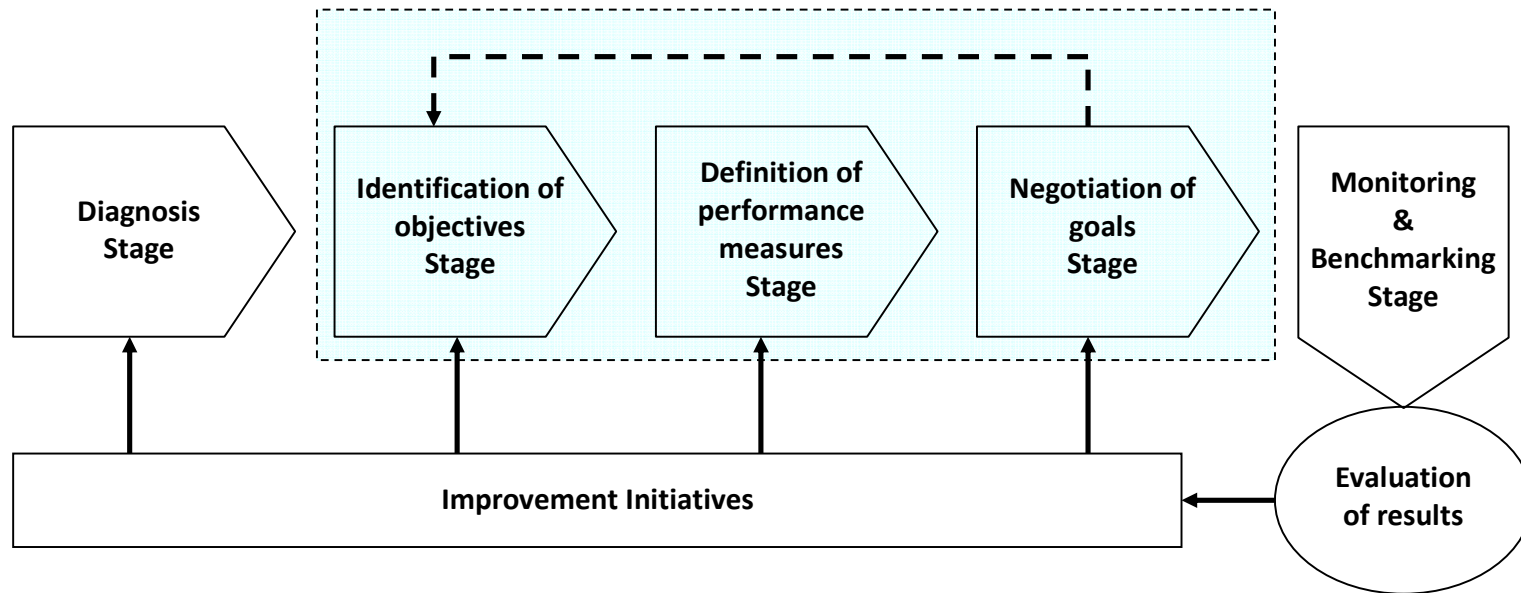
Based on the performance measurement approach presented in Figures 1, 2 and 3, the two main concerns in relation to measuring the progress of the organization relative to the goals defined (Platform A), and the communication of specific successes/failures to responsible managers (Platform B) are underscored. Recent literature stresses the need for a broader business performance process approach. Specifically, it advocates a broader performance management approach (Neely, 2005; Greiling, 2005; Dey, 2008; Tatichi et al., 2010). The approach proposed in this research is consistent with a broader perspective on organizational performance.

Figure 4 represents the context in which the overall approach advocated in this applied research is implemented. It is used to integrate and implement the models of the performance management outlined in platform A and platform B. The overall implementation approach presented in Figure 4 utilizes a dynamic cycle, which consists of several stages. As such, this cycle starts with the diagnosis stage, and ends with monitoring and benchmarking stage. The stages advocated in the performance management framework are highlighted below.

#### **DIAGNOSIS STAGE**

At the outset of the PMS implementation in small to medium-sized organizations, the diagnosis stage is usually the most neglected stage. Perhaps this is one of the main reasons contributing to the performance management process failure. The first phase of the diagnosis stage includes the identification of the competitive characteristics for products/services. The existence of products or services with different competitive characteristics will influence the identification of different business objectives to be included in platform A, which, in turn, influences Platform B objectives. Platform B objectives are associated with the most important resources, which are usually strategic resources in nature. Such resources tend to impact organizational competitiveness directly.

**Figure 4 – A Performance Management Process-based Approach (PMPA) for Small to Medium-sized Global Organizations**





Several methodologies can be utilized to make the product/services segmentation depending on the information available. In this context, traditional methodologies such as ABC analysis may be proved effective. However, often the results obtained may not be related to customers' future needs. Also more complex segmentation techniques, which are more related to customers' future needs may be used, despite some lack of information availability.

Competitive characteristics identified in the diagnosis stage should be based on two sources of information. In this context, internal organizational information related to past performance, namely, sales, products/services life cycles, and resulting profit should be considered. Also, external information related to future performance and potential markets/customers should be incorporated into the analysis.

#### IDENTIFICATION OF THE OBJECTIVES STAGE

After the product/services competitive groups have been identified, objectives should be identified for each of these groups. This stage should be based on a team effort. Targeted discussions related to the organization and market factors relevant to organizational performance are needed. An existence of a blame culture will hinder this effect. Thus, the project manager will have a fundamental role in the creation and fostering performance related project management challenge (Taticchi et al., 2010).

The objectives identification stage depends on the intrinsic characteristics of each business unit and of the market conditions. In this context it is important to note that this stage needs to be flexible, as objectives could and should be modified based on the realities of the market in the internal negotiation stage. As such, established objective are subject to modifications and adjustments. This orientation can drive the creative process of objectives identification.

After identifying a set of possible objectives, they should be reduced to an appropriate number that allows the manager to have an image of the global performance of the organization. Therefore, it will be necessary to verify, for each of the objectives, if it will be stimulating and promoting conflict behaviors with other objectives. If such conflicts exist, there will be several possible scenarios, namely, to abandon the objective, to accept the

conflict and to monitor it with the appropriate frequency, or to accept the objective and to manage the resulted trade-off (Slack and Lewis, 2008).

#### DEFINITION OF THE PERFORMANCE MEASURES STAGE

After identifying the objectives, the definitions of the performance measures should be carefully formulated and integrated into workable organizational practices. The lack of approaching this important task can lead to serious mistakes which may seriously hinder the entire performance management effort. Information related to the definition of performance measures should be available for appraisal and appraisers. Therefore, this information should be objective, as it is used to clarify the behavior that these measures should encourage in order to improve the organizational performance.

#### NEGOTIATION OF THE GOALS STAGE

This is the most critical stage of the performance management effort. Difficulties often result due to the lack of an organizational culture which facilitates a constructive dialogue among business unit managers and the organization's top executives. The relative power of top executives of the organization can compromise this stage. Therefore, a win-win approach is needed among all the concerned negotiation parties. In this context, it is very important that all the concerned parties must understand the value of compromising in order to reach goals, which are value-added driven for the entire organization. They also need to understand that the results obtained will be directly affecting the remuneration of all their employees during the period under evaluation.

Negotiation is a complex process. In this case, it is even more complex due to the multicultural nature of the parties involved. However, in order to smooth this process, two golden rules are in order (Lewicki *et al.*, 2003)

- Parties negotiate hoping to obtain better results than simply to accept what the other intends voluntarily to offer.
- The success of negotiation depends on tangible and intangible interests of each negotiator.

The negotiators should not forget that they are all working for the goals of the entire organization. Therefore, they should be working toward creating value-added for their

organization. In order to create value-added, negotiators should avoid changing the negotiation process (win-win), to a bargaining process (win-lose). This is not an easy task because the whole process is based on perceptions. In this context, negotiators are typically motivated by different perspectives, namely the personal interests, the opinions, the risk level that they are predisposed to run their business units or even in the temporary preferences. These differences can present serious barriers to the success of the negotiation stage.

Negotiation among managers in organizations with business units in several countries represents a serious challenge. In this context, a negotiation is not just done across borders but, across different cultures. When people from the same culture engage in negotiation, they tend to have the same cultural frame of reference. However, differences of cultural frames of references among managers of organizations that operate in several countries can induce difficulties in the negotiation of goals and objectives due to communication problems.

#### MONITORING AND BENCHMARKING STAGE

The monitoring and benchmarking stage is the engine of the performance management effort. Benchmarking is an essential component of continuous improvement (Dawkins *et al.*, 2007). In order to maintain a continuous and effective pace, efforts need to be made to show efficient results. This means that stage produces the expected results, while consuming the least amount of resources. Essentially, it produces reliable information, which should be available on time for decision-makers. Thus, this stage should be efficient and timely in providing the needed information without having redundancies which lead to inefficiency.

#### RESULTS EVALUATION AND IMPROVEMENT INITIATIVES

After each performance evaluation cycle the results should be compared with the goals previously negotiated.

During the evaluation process the following two factors can negatively impact the whole performance management efforts, and thus contribute to performance difficulties.

- The manager's difficulty to synthesize the results of the organizational performance based on performance measures available tends to lead to serious performance related problems. In the absence of such synthesis, a manager is unable to assign specific responsibilities for the different aspects of organizational performance. This could lead to negative impact on the achievement of the overall organizational strategy. To avoid this cognitive difficulty, a manageable number of critical performance measures should be maintained. These performance measures should be tied directly to the achievement of organizational strategy through effective and improved performance.
- The manager's difficulty to assume the responsibility for the improvements/corrective initiatives that are necessary to be implemented in order to close the gaps between results and the predefined goals, will have a negative impact on organizational performance improvements efforts. Many of these decisions will be difficult to take, as their implementation is functionally dependent on other elements on the organization. Therefore, the performance improvement efforts should be viewed as part of the organizational culture, rather than discrete responsibilities.

The organizational changes that will be required after each of the performance evaluation cycles will depend on the dynamics of the market, organization, and the business units. If the results of the monitoring and benchmarking stage significantly diverge from the goals previously negotiated, a new diagnosis effort is needed to verify if the deviations resulted from the changes in the market, or if they resulted from merely ineffective resource utilization. If the monitoring and benchmarking results point to slight deviations from the negotiated goals, renegotiation of the goals may be required.

The improvement initiatives depend on the determined gaps between results and pre-defined goals. Actually, if the performance measurement system is working in an effective way, these initiatives should be only of the proactive nature. One of the main objectives of PMS is to advance future market behaviors, so that the organization can adapt its productive resources to the new competitive forces. However, in the case of most important initiatives, trade-offs are identified. The trade-off relationships among some of the objectives/goals (cost, quality, variety, stocks, investment) can induce a deficient

performance in other objectives. It is to be kept in mind that organizations which try to be excellent in all performance facets can, sometimes, end up being mediocre in all of them (Silveira and Slack, 2001). Therefore, the role of this process is very critical, as it provides the balance between the overall goals and achieved results.

Despite the need for information on specific performance measures related to each business unit, it is also very important to have information on performance measures that are common to all business units, in order to make it easier to conduct comparative analysis. However, as mentioned earlier, managers have the tendency to reduce the scope of the needed analysis focusing only on performance measures that just stress the financial performance aspects of the organization. Academic and professional literature, in the last 20 years, has warned against the danger of the utilization of the financial information measures exclusively, when measuring organizational performance (Gomes *et al.*, 2004). Non-financial measures should be an integral part of the common performance measures group of all business units in order to make the comparative evaluation of the performance among business units more effective, balanced and fair.

#### **4. Conclusion**

The relevance of the different facets of performance has been the subject of increasing research efforts in the last twenty years (Gomes *et al.*, 2004; Gomes *et al.*, 2008; Hult *et al.*, 2008; Yasin and Gomes, 2010; Taticchi *et al.*, 2010). This research is motivated by the significant recent changes influencing modern organizations. The principal engine of the organizational changes has been the growing utilization of e-business activities facilitated by information and communications advancements. This has created tremendous global opportunities for small to medium-sized organizations (Pavic *et al.*, 2002; Maguire *et al.*, 2007). Such organizations must be able to perform effectively in different markets and cultures. Thus, they must pay closer attention to the different aspects of their performance (Gomes *et al.*, 2007b). This research presented a performance measurement and management process approach to aid these organizations in re-orienting their performance effort to ensure effectiveness in their global markets.

The strategic framework for performance measurement in global operations incorporates the two main objectives of an effective performance measurement system. In

this context, it has two performance platforms, aimed at incorporating internal and external benchmarking efforts and practices in order to improve the different facets of organizational performance. The objective of platform A is to effectively measure the organizational performance progress related to pre-defined goals and to benchmark the results relative to external competitors. On the other hand, platform B emphasizes the effective communication of successes and failures with the employees in order to promote organizational learning and innovative benchmarking practices derived from different business units within the organization (Storey and Kelly, 2001).

The overall approach advocated in this research is designed for small to medium-sized organizations, which have operational ambitions to perform effectively in the challenging global marketplace. As such, it offers these organizations a dynamic and feasible approach to measure, track, and improve the different aspects of organizational performance systematically. The advocated approach reduces the complexity of the information needed, thus allowing the focus to be on the process to be improved, rather than on the tedious work which often does not lead to better performance (Gomes et al., 2007a). Also, it promotes the utilization of non-financial information in the evaluation process. Therefore, it has performance effectiveness focus, without compromising the efficiency components of performance.

## **5. Practical Implications**

Despite effective implementations and careful monitoring, some performance measurement systems can be rather ineffective. Such lack of effectiveness can be attributed to inconsistent and unclear objectives definitions, which tend to lead to a cost-added perspective, rather than the intended value-added perspective. This can lead to performance confusion, where the performance path is opposite of the path dictated by the market. In this context, managers wrongly believe that the PMS has been correctly implemented, when in fact, all the decision making-processes are being conducted based on the wrong information, due to deficient objectives definition. Actually, in organizations that still operate as closed systems, objectives tend to be defined based only on their resources and capacities availability in hope of imposing their products/services on the market. Such orientations run counter to the competitive realities of the global marketplace. In this

context, objectives definitions should result from a reconciliation process between the market needs and the competitive resources of the organization (Slack and Lewis, 2008).

If implemented systematically, the PMPA framework has the potential to be very useful to top executives of small to medium-sized organizations with global operations. In this context, PMPA can be used not only to monitor the performance of the different aspects of organization management, but it also can provide a performance-oriented context for continuous improvement initiatives and benchmarking efforts.

The conceptual framework in Figure 4 is designed to offer a road map toward the effective implementation and utilization of the performance management process in small to medium-sized organizations with global operational plans. The monitoring and benchmarking stage is the main driver, which motivates the entire performance management approach. If implemented effectively, this stage has the potential to motivate organizational change, which may lead to a culture of continuous improvement. Therefore, the monitoring and benchmarking stage has a fundamental importance to the overall performance of the organization. As such, organizational integration is decisive in order to obtain value-added performance.

The contribution of this research focuses on its attempt to simplify the measurement context relevant to organizational performance. Thus, it attempts to reduce the uncertainty and complexity of the measurement process through introducing an innovative and simplified organizational performance management approach.

In final analysis, the approach advocated in this research has direct benchmarking implication to small to medium-sized organizations with global aspiration, as they seek best practices in performance management to improve their competitiveness positions. The processes relevant to the advocated performance management approach presented in this research were highlighted with emphasis on implementation since performance measurement and management is an evolving art. This research is a modest contribution toward refining such important art. It has strong practical implications to small to medium-sized organizations, which has strategic plans to enter the global market utilizing different feasible modes of entry.

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