

Performance measure critique

Business



Performance Measure Critique One of the critical aspects of Total Quality Management (TQM) and total quality organization is performance measurement. Previously a lot of emphasis was given to financial measures of performance. Nowadays, firms are increasingly looking towards measuring non - financial measures to gauge the overall performance of an organization. There are four important performance measures. They are as follows: 1. Human Resource Measures - this is analyzed in the form of performance evaluations 2. Financial Measures - this is determined by the profit and loss of an organization 3. Market position measures - this can be determined by judging the market share of the firm 4. Product or service measures - this is analyzed by finding the number of clients served by the organization Let us explore the importance and utility of each of the above mentioned measures. 1. Human Resource Measure - Conducting performance evaluation is an important part of an organization and helps the firm to grow. All individuals need to be motivated to perform better and this is one of the main steps taken in this aspect. Financial incentives help significantly to improve the performance of the task allocated. However, their effectiveness may depend upon organizational conditions. Individuals also have the need to be respected and revered and this is attained by giving them important positions in the company. Group incentives are also effective in organizations when the entire group is congratulated for performing well. This is more effective if along with a financial incentive some other exciting opportunity like an excursion or a team lunch is organized by the firm. Another important utility of conducting performance appraisal is that it helps in developing ethical values in an organization. This helps in improving the judgments of employees working in a particular

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company (Selvarajan & Cloninger, 2008). Performance appraisals can help to check unethical behavior and promote ethical behavior in an organization.

This helps employees to adhere to the organizational culture and values. 2.

Financial Measures - Financial measure is an important determinant of a firm's performance. It determines the traditional approach to the success of an organization. This entails measures like sales, return on investments or profits (Maltz, Shenhar & Reilly, 2003). One of the main responsibilities of a corporate is to garner profits. The financial measure reflects the actual improvement of the performance of an organization. It is very important that a firm has a good financial standing in order to succeed and expand its operations. Nowadays with the advent of globalization, firms have to face severe competition and one of the main requisites to remain in market is product expansion and diversification. Both these require a lot of funds and this translates to the fact that the financial position of a company should be firm in order to take major expansion measures. The stock price of a company is also an important determinant of the financial standing of a company. One of the main uses of financial measures is to track the performance and plan for the future. This can be attained by comparing same ratios from one year to the next, or for a series of years thereby drawing a progression chart of the organization. Depending on the results of the progression chart, the firm can project its future growth and carry out investments accordingly. The working capital ratio is also important as it helps to determine the ability of a firm to generate cash for clearing bill payments. 3. **Marketing Measures** - An important responsibility for stakeholders and managers is to assess the market performance of a firm. The market share of a firm helps to determine the profitability of a firm. This <https://assignbuster.com/performance-measure-critique/>

also determines the ability of an organization to successfully innovate and adapt to changing situations (Neely, 2002). However analyzing the marketing performance of a firm is difficult as it depends on external factors which are largely uncontrollable. Two most important factors on which the marketing performance depends are customers and competitors. Both these factors may positively or negatively influence the marketing measures of a firm. Marketing measures are important because they aid in promoting scholarly investigation and help to elucidate managerial decision making. They are important to gauge a firm's performance level as they are a driver of future growth and profit. Moreover an increasing demand of information related to marketing strategies and expenses need to be included in a firm's financial statement. This is due to the fact that the marketing measures adopted by a company project the future expansion and growth of the organization. Also business performance measures like Balanced Scorecard have emphasized the importance of marketing measures as one of the contributors to the overall performance of a firm. Balanced Scorecard method emphasizes on non - financial measures of performance of an organization. The Balanced Scorecard method raises the issue of which marketing measure should be included to analyze the performance of a firm.

4. Product / service measure - An important measure of performance of a company is to gauge the quality of the product or service that the organization provides. This is one of the key factors which determine the growth of the firm. With the advent of the internet, all information regarding a service or product is available online. These not only include price but also the quality of the product or service provided (Yang, Jun & Peterson, 2004).

Hence most people, before taking a decision to purchase a product or

service tries to extract extensive information about the same. This is one of the main factors why today's product and service oriented industries are increasingly focusing to provide better quality of product / service to their clients. It is one of the key strategies to position themselves more effectively in the market and at the same time tackle competition. A happy customer or a happy employee may not help a firm to garner immediate financial gain. But, this will surely help a firm to remain in business for about 5 - 10 years. Hence, product / service quality of a firm needs to be measured as it helps a firm to remain in business. However measuring service or product quality is increasingly difficult due to the fact that customer satisfaction, service / product quality and purchasing behavior has remained, to a large extent, unexplored. To conclude, all the above four performance measures are critical to analyze the overall performance of a firm. The performance measures help to identify overall progress of a firm. It also helps to identify opportunities to improve and compare a firm's performance against external and internal standards. Hence it is very important that every firm seeks to review its overall performance by measuring the four critical factors discussed above. References: 1. Maltz, Shenhar & Reilly (2003). Beyond the balanced scorecard: Refining the search for organizational success measures, *Long Range Planning*, vol. 36, pp. 187 - 204. 2. Neely, A. (2002). *Business performance measurement: Theory and practice*. U. K.: Cambridge University Press. 3. Selvarajan, R. & Cloninger, P. A. (2008). The importance of accurate performance appraisals for creating ethical organization, *The Journal of Applied Business Research*, vol. 24, pp. 39 - 44. 4. Yang, Z., Jun, M. & Peterson, R. T. (2003). Measuring customer perceived online service

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