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Strategic Tools: How to Comprehensively Track and Improve Corporate Performance?

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***Abstract:** While most of the management population is aware and agrees with the philosophy that unless we measure we cannot control, the problem arises in choosing the right tool. This paper attempts to explore a few popular performance tracking and measurement tools used in the corporate world and highlight the usage associated pros and cons. Finally, it zeros down on a tool/combination of tools, which can be used by an organization to comprehensively manage its performance while offsetting all the related cons.*

***Keywords:** competition; SWOT; benchmarking; balance scorecard; business excellence model; short-term focus; communicating the strategy; strategic planning.*

I. INTRODUCTION

The current Era is one of the most demanding ones for businesses as there is enough competition in the market and customers have become fickle-minded more than ever. Together with regular sluggishness in the economy, these factors are enough to bring businesses to their knees. The only way to beat these is to continuously review the performance and take actions to align with the environment. Some of the common tools that are available for SWOT, BCG Matrix, Balance Scorecard etc. A deep understanding of these tools is important before applying them as they differ in approach, application may depend on the maturity of the organization, and the skill set of person applying.

The aim of this research article is to compare the popular Business Performance Management methodologies and highlight the various pros and cons associated with each of them. Finally, identify one methodology, which provides a mechanism to do a comprehensive review of all the aspects associated with corporate performance.

II. UNDERSTANDING THE TOOL

Various corporate performance review methodologies/tools were explored and following four were chosen (majorly on popularity and ease of use) for this study.

- Balance Scorecard
- SWOT Analysis
- Benchmarking
- Business Excellence Model (BEM)-EFQM

A. Balance Scorecard

Kaplan and Norton propounded the theory of Balance Scorecard in the year 1991. Historically, organizations always relied on financial metrics to gauge organizational performance while they were important, they were recognized as short-term focus. They did not measure the creation or destruction of future economic value. Other important longer-term issues as development of customers, organizational learning, changing environment, etc. were not given due importance. To address these concerns BSC was formulated which incorporated four quadrants to focus on a wider spectrum of Business Aspects.

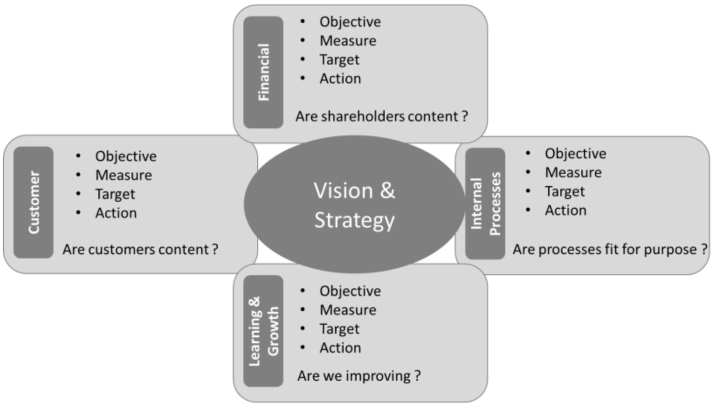

Fig. 1 Balanced Scorecard Quadrants

It is termed as Balanced because it maintains a balance between Financial and Non-financial, Internal and external, Objective and subjective, and Lagging and leading indicators. The major function of BSC is to implement a strategy but it also helps in clarifying and communicating the strategy, planning targets for the employees. It shows how the quadrants and measurements link together (causal links) to ensure the organization moves towards its strategic goals and objectives.

B. SWOT Analysis

The first mention of SWOT could be seen in the literature of 1960s, the same time as concept of strategic planning gained access to the discipline of business management. The origin of SWOT is not very clear. Some attribute it to Stanford University while others to Harvard Business School, though the literature review shows more references to the latter.

It is an analysis tool, which helps in decision-making or strategic planning. SWOT stands for Strengths, Weaknesses, Opportunities and Threats and it explores various facets of an organization under these headers. Since an organization operates in an eco-system, it is imperative that focus is maintained on both- internal (strengths and weaknesses) and external (opportunities and threats) environments.

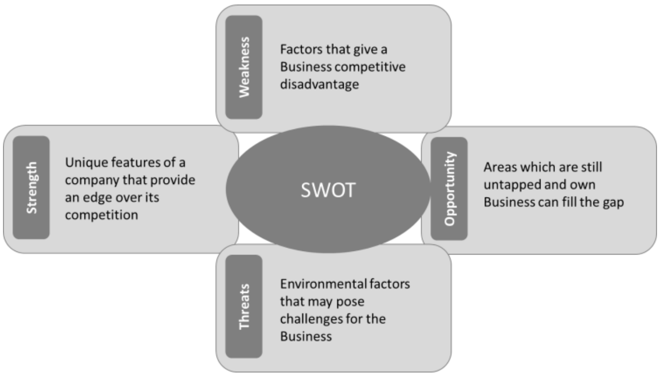

Fig. 2 SWOT Framework

The analysis of internal organizational aspects is vital in establishing the source of competitive advantage. These aspects/resources are then developed and sustained to remain ahead in the industry. Identifying them under strengths and weaknesses gives clarity as to what to focus on.

External environment analysis helps organizations to appreciate major advancements in the industry and future implications. This consists of variables that are beyond the control of an organization, but which need attention to reorient corporate strategy to changing business environments. The analysis identifies possible threats that should be thwarted and opportunities, which should be made use of.

C. Benchmarking

It is another performance management tool, which brings external focus to internal practices, products and services. The area (process or performance) in question is compared against those of entities, which could be termed as leaders. Gaps identified and actions taken to match or exceed the industry leader. Continuous improvement is achieved by practicing this concept for various aspects of the organization.

Historically, it all started with reverse engineering, tearing open competition's products, studying them and then improvising. In the late 1970s, mainly due to works in Xerox, Benchmarking evolved into many forms-competitive benchmarking, process benchmarking, strategic benchmarking and global benchmarking.

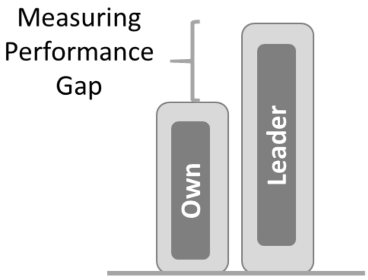

Fig. 3 Benchmarking

D. Business Excellence Model (BEM)

Business Excellence refers to designing and enhancing an organization's management systems and processes to achieve superior results and create value for stakeholders. Implementation of BE is done through well-defined models. Based on various aspects of the models, assessments are done and scores are given. These scores can be used for intra or inter-benchmark comparisons. The assessment and scores highlight the organizational strengths or improvement opportunities. The scores are also used to confer national quality awards to organizations in various countries.

Though there are 100+ BEMs, 3 of the globally accepted BEMs are MBNQA, EFQM and the Deming Prize. "Deming Prize" was institutionalized in 1951 in Japan to award the best Japanese company following the principles prescribed by Dr. Edward Deming. For the purposes of this paper, we will use the popular EFQM model as the representative BEM.

Fig. 4 EFQM Framework

III. STRENGTHS AND WEAKNESS OF EACH MODEL

A. Balance Scorecard (BSC)

Since BSC is tied to the strategy of the organization, it is a very useful tool for prioritizing processes for resource allocation. It concretely highlights to employees at all levels what is expected of them to achieve the strategic goals of the organization. Target setting combined with actionable measures illuminates the path to be followed and the result to be achieved. Process, learning and growth aspects of the BSC act as a leading indicator for future performance.

However, even though it verifies the existence of a strategy it doesn't talk much about the efficacy of the strategy or the strategy formulation process. It does not explicitly provide prompts for Social and environmental issues. Suppliers and public authorities, Competition, External environment and several interest groups are also out of the picture.

B. SWOT Analysis

A very simple tool, providing full flexibility to users on topics to touch. SWOT Analysis promotes group discussion about strategic issues and strategy development. Using creative participatory techniques such as brainstorming, and group meetings, enables a pool of knowledge.

The analysis doesn't explicitly prescribe going beyond the mere generation of lists under each heading and determining the cause and effect arising from each factor in the process. Listing strengths on paper is prone to bias and if the facilitator and participants are not pragmatic, the group discussions can quickly turn into a session as students in a case study class. The lack of a quantitative index to provide an operational criterion for benchmarking hinders the competitive analysis, especially in an interdependent setting to evaluate the size of competitive gaps, an organization needs to know the relevant performance levels of all its close competitors. This analysis technique has also a problem in terms of quality and quantity. In applying SWOT Analysis, many factors can be identified. However, quantity does not mean quality. The model itself doesn't highlight any requirement for prioritization. Finally, the categorization of variables into one of the four SWOT quadrants is challenging. The same factor can be fitted into two categories. A factor can be a strength and a weakness at the same time. In addition, strengths that are not maintained may become weaknesses. Opportunities not taken, but adopted by competitors, may become threats.

C. Benchmarking

Again, a tool based on a very simple concept that is easily understood by users. It offers various types of benchmarking helping organizations to choose what is required. It pursues a very clear goal of matching/exceeding the benchmarked performance levels.

The major challenge faced here is that it is very difficult to compare apple-to-apple comparison because the performance of a business is influenced by various factors – systems, processes, people, leadership, external environment, target customers etc. Therefore, understanding all interactions and then comparing may not be easy. Securing data from benchmarked organizations is another herculean task. Even during Internal benchmarking exercises sister companies may not be fully transparent owing to separate P&Ls. Finally, this exercise will help only if the right areas are chosen for benchmarking. The tool does not offer any help in selection of strategic areas for Benchmarking.

D. Business Excellence Model (BEM)

EFQM Excellence Models provide a holistic framework that can be used in any organization for any business. It helps in identifying a range of strengths and opportunities for improvement. The RADAR tool in EFQM makes the assessors review not only the results but also the process and its deployment. Assessment scores can be used to compare against other organizations or just for guiding own organization along the path of excellence. Most importantly, the model is still continuously reviewed and upgraded.

Since the framework is holistic, many resources are required to provide information on processes and results related to all aspects of the business. These would include non-strategic areas as well. Only trained personnel can assess all the information as required by the sophisticated assessment criteria. After highlighting the improvement opportunities, actions are still left at the discretion of the organization.

IV. Best Tool for Measuring Performance

When none of the tools covers all bases, the standard technique of selecting best from various worlds helps find the solution.Though BSC is action-oriented with well-defined targets, it fails to authenticate the genuineness of the strategy or to identify missing aspects. Therefore, even if we have the right actions pursuing the right targets it would not be effective for the organization. This pitfall could be avoided by using BEM as with use of criteria questions and RADAR, the missing areas could be highlighted and plugged. Implementing the scorecard post a BEM assessment would support the organization in monitoring and getting better in weak and strategic areas.

At the same time missing action orientation in BEM assessment, which mainly identifies the areas of improvement but solutions and rectifications are left for the organization to undertake, could be solved by applying BSC. BSC will secure the strategic and weak areas as inputs post-BEM assessment, set targets and list down actions to achieve desired targets.

Applying BEM in its full glory could be a challenge for a resource-constrained organization. So for starters, BEM should be applied only to crucial aspects of the company so that key areas are assessed and BSC monitoring is set up.

This way BEM and BSC both prove complementary to each other, ensuring the right focus is maintained in the right areas.

V. Conclusion

Though the implementation effectiveness of a tool also depends a lot on the skill of the practitioner, a comprehensive tool provides a good framework. Each of the tools has its own strengths and weaknesses. Hence difficult to declare one winner. However, a combination of tools can offset the weaknesses of each other providing an immaculate way for performance management. An organization looking to work towards a sustainable enhancement of performance is likely to gain from the combination of BEM and BSC. BEM could highlight the process and result-related issues, and BSC can then be implemented for the critical areas providing a clear target and initiatives to eclipse the target.

This doesn’t mean that other tools are not good. If one has all the performance related details of the leader, Benchmarking can work wonders. Same is the case with SWOT; during discussions very apt points may come out which could be pursued by the organization. Yet when it comes to managing the performance holistically, a well-rounded solution should be undertaken.

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