The PMA 2012 Conference has now released its conference programme, which is available through the PMA conference website. The conference takes place in Cambridge, UK, on 11-13 July 2012 at the University of Cambridge on the theme of Performance Management: From Strategy to Delivery. The event will explore the latest thinking and research into how to connect strategy to delivery, through technology, systems and process.

The conference will be mixture of keynote and plenary presentations, as well as parallel streams and discussion groups. With over 100 papers being presented, three world-class keynotes will present at the conference:

- Howard Dresner, a widely regarded expert in business intelligence,
- Professor Gerhard Satzger, IBM’s Director Business Performance Services, Europe, and
- Professor Christopher Hood, University of Oxford.

The conference will also feature Panels and Workshops, including:

- Enterprise AID: A Performance Measurement System for Enterprise Assessment, Improvement, and Design
  
  Patrick T. Hester and Thomas J. Meyers, National Centers for...
This analysis was triggered by an article in The Washington Post on February 19, 2012. It raised a technical measurement question and a question of measurement epistemology. Under the headline, “The trick (all emphases added) to D. C.’s homicide closure rate,” The Washington Post printed an in-depth, half-page article analyzing and criticizing how the District of Columbia police reported its closure rate for homicide cases.

The D. C. Police Chief reported that in 2011 the department’s homicide closure rate was 94%. In the article, the reporter stated, “But an examination of District homicides found that the department’s closure rate is a statistical mishmash that makes things seem much better than they are. The District had 108 homicides last year. A 94% closure rate would mean that detectives solved 102 of them. But only 62 were solved as of year’s end, for a true closure rate of 57%.” The reporter claimed that the D.C. Chief misrepresented the “truth.”

The following week, the D. C. Chief wrote a response taking offense at the charge that she intentionally tricked the public. She argued that she was following nationwide FBI Uniform Crime Reporting guidelines in reporting that in 2011 her department closed 92 homicide cases out of the 108 in that year which is a 97% closure rate. She had included in the closed cases in 2011 the 43 open cases from prior years that were closed in 2011.
This debate in the media raises a technical question about how to best measure the performance of a work process that is continually being filled with problematic new tasks that can take days, weeks, months, or years to be successfully completed. What is the best way to measure this type of organizational performance when it has to be reported on a time-period-specific basis?

Let us answer this question by considering a hypothetical work process whose inputs are problematic “cases” that are assigned to capable employees to analyze and resolve in order to “close” the case. Each case requires an employee to use expert judgment to develop an understanding of the situation by gathering facts and testing possibilities to solve the problem. Solving a crime and helping a customer untangle a software problem are examples. There is great variation in the time it takes to close such cases and an employee has to stay on the case until it is closed.

One measure of the performance of this process is the “closure rate” which is the percent of cases successfully closed in some period of time. The technical measurement question is “How should the closure rate be calculated?” To analyze the possibilities, let us construct a hypothetical flow of cases through a hypothetical process:

- Assume that from the inception of the process 100 cases have been entered and 75 have been closed but the closure rate has not been calculated or reported.
- At the start of a new reporting period, 25 “prior” cases are still open.
- During the reporting period, 20 of the 25 prior open cases are closed.
- During the reporting period, 100 “new” cases are added to the process.
- During the reporting period, 60 of the 100 new cases are closed.

In the reporting period a total of 75 cases were closed. What is the closure rate? There are several possibilities depending on the denominator used to calculate the percentage:

1. The overall closure rate since inception is $75+20+60 \div 100+100 = 78\%$
2. The closure rate for new cases in the reporting period is $60 \div 100 = 60\%$
3. The closure rate for all open cases in the reporting period is $20+60 \div 25+100 = 64\%$
4. The closure rate for all cases closed out of all cases in the reporting period is $20+60 \div 100 = 80\%$

The epistemological measurement question is “Which closure rate is the true rate?” Unless you are a believer in the positivist paradigm for scientific inquiry, this is not a useful question for managing organizational performance, because there is an element of “truth” in each of these measures, but each truth is partial. A better approach to measuring the closure rate is to acknowledge that there are different rates depending on what part of performance is of interest:

- If overall performance since inception is of interest, then #1 is the true rate.
- If only new cases closed in the reporting period are of interest, then #2 is the true rate.
- If all cases closed in the reporting period are of interest, then #3 is the true rate.
- If all cases closed out of new cases in the reporting period are of interest, then #4 is the true rate.

The D. C. Police Chief reported #4. The Washington Post reporter said the true measure is #2. The article probably did not help the public better understand how to assess the performance of the police department.
A circular methodology to implement performance measurement systems in SMEs
Patrizia Garengo and Stefano Biazzo, University of Padua, Italy

The analysis of the studies on performance measurement systems (PMSs) for small- and medium-sized enterprises (SMEs) shows an important contradiction: on the one hand, such enterprises have a hard time rationalising their operational practices and strategic processes, and consider strategy as mainly emerging (as defined by Mintzberg and Waters, 1985); on the other hand, scholarly literature offers methodologies for the implementation of a PMS that are based upon a top-down approach and that aim at translating strategy into action, with little consideration to the tendency of small enterprises not to give much importance to the formalisation of their strategic choices (Garengo et al., 2005). To contribute to this research gap, the authors identify a circular methodology to implement a strategically aligned PMS in SMEs.

The theoretical and empirical analysis and formalisation of the PMS implementation process in SMEs, led to the identification of a methodology, which is defined as ‘circular’ to remark the contrast with the ‘top-down’ logics. The proposed methodology is based on the balanced scorecard model (as proposed by Kaplan and Norton, 1996) and features four main phases: (1) the analysis of current ‘individual dashboards’ to actually show the performances that are kept under control; (2) the clarification of the critical success factors (CSFs) underlying the measures under control; (3) the definition of the desired strategy map (Kaplan and Norton, 2004) as a result of the comparison between CSFs that are currently under control and the desired strategy; (4) the translation of the desired strategy map into a dashboard of indicators necessary for the implementation of the strategy.

Figure 1 shows the four main steps of the identified approach: the starting point is not made of abstract, and often generic, formulations of strategic visions, but of the operational reality of each individual, as actually expressed by the performance measures that people regularly use to manage their activities.

Because in SMEs looking at what is actually measured by the various organizational actors as a whole is quite uncommon, the first phase (steps 1 and 2) is dedicated to unveiling what is regularly kept under control. In order to reveal what the enterprise measures and controls, the first step to take is to reconstruct ‘individual dashboards’ and the implicit organisational dashboard. Individual dashboards consist of all those performance measures that each person uses to assess the activities one is responsible for; the implicit organisational dashboard is the synthesis of all individual dashboards.

The word implicit is an important qualification; the ‘reconstructed’ dashboard is implicit because it often is invisible to the management; performances...
are locally monitored and there is no overall vision of the performances being under control. Furthermore, it is not the outcome of a rational design process, but an accumulation of monitoring needs that have arisen in each business function over the course of time.

The organisational dashboard is the basis for the subsequent identification of the implicit strategy map: the bottom idea is that, from the performances that are actually under control, it is possible to try and figure out what the CSFs, which (implicitly) hold up the currently pursued company strategy, are. The amount of information that the implicit strategy map can offer obviously depends upon the number of individual dashboards being used for its set-up; in view of this, during the first phase (steps 1 and 2) both the top and middle managers should be involved.

In order to construct an implicit strategy map, it is necessary to carefully examine each performance measure and to pair each one with the phenomenon that it measures – the underlying CSF. This operation, which requires a great effort because it calls for critical thinking about the reasons behind the figures, enables the firm to make sense of the management dashboard and to turn it into an implicit strategy map. The various measured phenomena may in fact be placed in the four classic perspectives of the BSC (and even connected with assumptions of cause–effect relationships): what emerges is a picture of the CSFs that are currently kept under control and, hence, of the strategy that the enterprise implicitly supports.

Through the implicit strategy map, it is possible to proceed with the design of the BSC (steps 3 and 4) using a differential approach; the future or desired strategy map is built from the implicit strategy map by eliminating non-strategic CSFs and adding new strategic CSFs. The desired strategy map is then the basis for the identification of the performance measures that will make up the BSC. With step 4 we go back to actual metrics: the approach has been defined as ‘circular’ because the performance measures represent both the starting and arrival points.

The proposed implementation process features key aspects, connecting the actual strategy with the intentional strategy and engaging SMEs in a process of observation and clarification of their future vision. It becomes a tool that can be easily applied and enables a company to solve in operational terms the concepts of emerging and desired strategy, and to guide SMEs’ managers toward the implementation of a strategically aligned BSC. Further details and practical examples of the implementation process are described in a recent book titled “Performance measurement with the Balanced Scorecard. A practical approach to implementation within SMEs” (Biazzo and Garengo, 2012). The description represents a useful operational reference that facilitates not only the understanding, but also the implementation of the proposed methodology.

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Dealing with Dilemmas: Where Business Analytics Fall Short

By Frank Buytendijk, chief marketing officer, Be Informed; visiting fellow, Cranfield University School of Management, Center for Business Performance; and author of “Dealing with Dilemmas: Where Business Analytics Fall Short”, Wiley & Sons, 2010.

Western management is overly focused on analysis. Almost every job advert for a knowledge worker requires deep analytical skills; there is a multi-billion dollar market for analytical tools. And it is almost like MBAs don’t teach anything else.

Particularly in the area of strategic management, analysis turns out to be a limited toolkit. Don’t get me wrong, analysis has its uses, in business process optimization, in market understanding, in cost control, in general problem solving. But from a stakeholder point of view, an organization is a collaboration between various stakeholders, through which all achieve their own goals. Strategy then is a continuous process of identifying stakeholder objectives, understanding their often conflicting nature, and finding ways to reconcile them. Strategy is full of dilemmas, and analytical thinking is only partly helpful. Analysis the art of taking things apart until you understand how they work only confirms and strengthens dilemmas.

A different toolkit is needed for strategic decision-making that is focused on reconciling conflicting stakeholder positions, in other words, strategic dilemmas. Not analysis, but the opposite, synthesis. Synthesis is the process of taking multiple, often contradictory, ideas and fusing them to create a single picture. By bringing together opposite positions, you fundamentally solve business problems, and you raise your organization to a new level of insight.

Think about this example: Most organizations have been centralizing and decentralizing for decades, without fundamentally moving forward. All they achieved was to exchange one set of problems for another, eventually reverting to the original set. The pendulum keeps swinging, and a stable synthesis (“standardization”) between centralization and decentralization is never reached.

The Six Fundamental Dilemmas

The idea of synthesis is not new, it was familiar to the ancient Greek philosophers but it seems that in our business best practices, we have forgotten all about it. Through my research, including literature study, executive interviews and a worldwide survey, I have found that many of the dilemmas that organizations face are the same. And they are predictable.

Even better, we can use today’s methodologies to reveal them, particularly the Balanced Scorecard. Let’s take the Balanced Scorecard in a previously unexplored direction, that of strategy formulation, the area where executive decision-making ultimately resides. To do that, we need to go back to the origins of the Balanced Scorecard in the early 1990s (see Exhibit 1).
Originally, the Scorecard showed four perspectives that companies should consider, equally grouped around the strategic objectives. Later, the four perspectives were linked to create cause-and-effect relationships in what were called strategy maps. However, if we don’t link the perspectives, but instead contrast them, the six fundamental dilemmas that each company faces unfold (see Exhibit 2).

### Solutions to Dilemmas

In the literature, there are solutions for every one of the six dilemmas. To my knowledge, there has never been any study that provides a comprehensive overview of all of the solutions. Here are some solutions that I have identified:

**Value and profit.** Providing a transparent price structure and transparent terms and conditions makes it easy to create a clear value proposition for customers. Transparency can be a competitive differentiator, leading to higher market shares and profit.

**Long-term and short-term.** Adopt an “options-based” strategy. When assessing your strategy, don’t think just in terms of whether it’s right or wrong; consider whether it helps you adapt to changing circumstances. Take decisions that address today’s issues, while keeping your options open for future change.

**Top-down and bottom-up.** On the tactical level, align financial top-down planning with operational forecasting, linking resources to activities and financial results. On the strategic level, let go of the idea of a financial portfolio of activities, and focus only on activities that contribute to the brand.

**Inside-out and outside-in.** Many organizations seem almost to cherish the conflict between back office and front office, and treat their needs as trade-offs. However, there’s no contradiction between the need for administrative efficiency and the need for sales flexibility. Customer self-service models bring more efficiency to the back-office, while improving the customer value proposition.

**Optimize and innovate.** Create aspirational goals that cannot be met by optimizing existing processes and ways of working. Disturb existing processes on purpose with new and different inputs to see how people react to them and to ensure that your teams will be ready if external conditions change.
Dealing with Dilemmas Cont...

Listen and lead. Why not lead your customers while listening to them? If you’re able to detect the question behind the question or understand customer behavior better than your peers, you can develop a great source of competitive differentiation.

Now what?

Strategists need to rethink their best practices. Many of these methods have proven to work perfectly when solving linear and tactical problems, but they’re not useful for strategic decision-making processes. You need to bring a bigger toolbox to that job, and it must include an understanding of the dilemmas that executives have to deal with, the various ways your company tends to deal with them, and the practical solutions that have evolved in other companies, times and industries.

It’s time we had fewer people calling themselves analysts, and more people seeing themselves as synthesists.

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A recent survey conducted with 1500 Chief Executive Officers worldwide established that today “successful CEOs make customer intimacy their number-one priority” (IBM Institute for Business Value, 2010). Customer intimacy (Treacy & Wiersema, 1993) has gained momentum over the last years, as the ability to capture customer needs and to tailor provided solutions accordingly has become a key success factor in the B2B space. Furthermore, the growing importance of customer intimacy is driven by the increasing importance of services in mature economies, leading to higher competition among service providers, raising expectations on the demand side, and a shift in the role of the customer from a passive service consumer to an active “value co-creator” (Vargo & Lusch, 2004).

However, most organizations still lack a holistic view with regard to customer intimacy (Peppers & Rogers Group & IBM, 2010). In particular, current IT solutions such as CRM systems do not provide appropriate means for service providers to assess the impact of pursuing a customer intimacy strategy – from the IT perspective, “the role of customer intimacy has been under-investigated” (Liang, 2009). Literature on this topic is extensively discussed in Habryn et al. (2010).

The performance measurement system Customer Intimacy (CI) Analytics which is introduced in this article has been conceived and implemented in order to address this issue: it provides a model and a methodology for B2B providers to measure the performance of their customer intimacy strategy with different customers. CI Analytics allows an assessment of the established degree of customer intimacy - derived from customer knowledge and customer relationships - as well as an evaluation of the financial and non-financial business impacts of the customer intimacy strategy such as cross-selling and customer participation. In order to perform this assessment, CI Analytics leverages operational data already available in the provider’s information system. It, therefore, relates to the discipline of pattern-based strategies which is defined as the “search for patterns that may have a positive or negative impact on business strategy and operations” (Burton et al., 2011).

The methodology followed in the CI Analytics project consists of four main activities. First, we performed a thorough literature review on customer intimacy and related concepts in order to identify the key characteristics of a successful customer intimacy strategy and the established means for measuring these characteristics. Second, we analyzed customer data available in providers’ information systems such as groupware and CRM systems in order to determine their relevance with regard to the assessment of customer intimacy. We subsequently designed the customer intimacy metrics, thereby linking the literature insights to the operational data. Finally, we assessed the accuracy of these metrics by means of an empirical validation.

This article is structured around the framework proposed by Neely et al. (2005), which states that a performance measurement system can be examined along three different levels: (i) the relationship between the performance measurement system and its environment, (ii) the performance measurement system as an entity, and (iii) the individual performance measures.

Customer Intimacy Analytics and its Environment

According to Neely et al. (2005), a performance measurement system has to be aligned with the environment it is applied to, in particular with the business strategy of the organization. In that regard, CI Analytics is tailored to organizations that pursue a strategy of the customer intimacy type. Customer intimacy driven organizations are successful through their ability to develop
Customer Intimacy Analytics Cont..

individualized solutions which are tailored to the specific needs of their customers (Treacy & Wiersema, 1993). CI Analytics, thus, allows an assessment of the provider’s individual customer offerings with regard to their impact on business success.

CI Analytics yields several benefits for its environment. On the one hand, it provides the ability to assess the interaction investments performed by the provider employees, such as meetings, phone calls, and emails, in order to establish relationships with customer employees and acquire knowledge of the customer. On the other hand, it allows an analysis of the financial and non-financial results of the customer intimacy strategy. By integrating these two aspects, CI Analytics supports the decisions of the provider to invest in one or the other customer.

Customer Intimacy Analytics as a Performance Measurement System

A performance measurement system consists of two types of performance measures, namely the results based measures and measures related to the determinants of the results (Fitzgerald et al., 1991). These two types of measures are also addressed in the performance measurement system CI Analytics. As illustrated in figure 1, customer intimacy has been broken down into the acquired customer intimacy and the leveraged customer intimacy. Acquired customer intimacy, as a determinant of the results, corresponds to the acquisition of customer knowledge and to the establishment of customer relationships that enable the provider to propose tailored solutions to its customers. Secondly, the leveraged customer intimacy indicates the actual results and benefits of the customer intimacy strategy which are the following in the proposed model: customization, customer loyalty, proactiveness, cross-selling, customer participation, and transaction costs reduction.

Figure 1: CI Analytics Model (Habryn, 2012)
In order to assess these intrinsic components of customer intimacy, a series of metrics based on interactions, activities, and results achieved with customers are calculated. In addition, some metrics called centrality metrics leverage the topology of the network formed by the provider and customer employees. These metrics are grounded in existing literature and are calculated upon the operational data of the provider consisting of customer interaction channels such as groupware and customer interaction sources such as project databases and customer relationship management systems. Further details on these metrics and their calculation are described in Habryn (2012).

Calculating the Individual Performance Measures

The conceptual CI Analytics model has been operationalized in the application CI Analytics whose dashboard is presented in figure 2. Implemented as a web application, this dashboard allows a visualization of the acquired and leveraged customer intimacy metrics for a specific customer within a distinct time frame. The diagram on the left-hand side provides a representation of the social network formed by the provider and customer employees based on specific interaction based metrics such as interaction quantity or interaction regularity. On the right hand side, several chart diagrams indicate the values of the proposed metrics for assessing customization, cross-selling, transaction costs, and customer participation. In the case proposed in figure 2, it can be observed that the degree of customization of the offering to this customer is increasing and the degree of cross-selling is fairly high for the time period 2010-2011, thereby indicating that the customer is responsive to the customer intimacy strategy followed by the provider.

Implications and Outlook

CI Analytics has been introduced above as a novel holistic performance measurement system yielding several benefits for organizations pursuing a customer intimacy strategy. First, CI Analytics provides a means to analyze the performance of a customer intimacy strategy with each customer and, therefore, supports the decision making processes of the provider with regard to its customer investment. Second, CI Analytics allows the provider organization to monitor the development of the acquired and leveraged customer intimacy with each customer over time, thereby allowing a proactive management of customer relationships. Finally, CI Analytics provides managers and employees with the ability to visualize the current relationship
Customer Intimacy Analytics Cont..

network formed by customer and provider employees. This feature facilitates the dissemination of customer knowledge within the provider organization.

Future research will focus on applying advanced analytics such as predictive models and complex event processing in order to uncover patterns for the successful implementation of a customer intimacy strategy. This will subsequently lead to the design of a task recommender system based on the values of the customer intimacy metrics.

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Take Care of the Edges and the Middle will Take Care of itself...

David Bovis

Setting Context - The Big problem

The complex world of business as we understand it in the West today has been significantly influenced, if not wholly formed by a few key developments of the past;

- The step change from Homo Erectus to Homo Sapiens
- Religion
- The replacement of bartering with money / coinage
- The industrial revolution,
- Democracy as the primary political model and
- Keynesian Economics / capitalism.

Within the cultural framework formed by these major historical developments, the last 40 years of business best practice has consisted at any one time of a few major toolsets that have reached the tipping point to become the ‘latest fad’.

- Lean (with all it’s historical iterations, QC | TQM | JIT | WCM | AGILE | OpEx etc.)
- Six Sigma – as an evolution of SPC (originally a tool within the TQM/WCM toolbox) &
- A few strategic, PM & quality models, like BSC, EFQM, ISO/QS/TS, 7S, PrinCell etc.

Regardless of the technical and logic (logos) these ‘tools’ promote and provide, a lack of ethics and empathy (Ethos / Pathos), especially in respect to Honesty, Respect and Trust (HRT for business) substantially undermines organisational performance. This cultural position has had a global and profound effect on the quality of life experienced by millions of people, with the global economic crisis over the last few years bringing these deeper issues into sharp focus.

The irony is that within this ‘logic-focused’ culture, hell-bent on defining ‘good’ only through that which can be measured, we systematically fail to consider or understand these most important aspects of organisational performance, particularly, culture, sustainability, innovation and engagement with any degree of precision.

Adding a little detail to the ‘History Jigsaw’

It is said that October 1910 saw Louis Brandeis, a 53 year old attorney request a meeting with F.W. Taylor, Frank and Lillian Gilbreth and other prominent industrial leaders (H. L. Gantt / M. L. Cooke) in a small New York apartment. He arranged the meeting to suggest he present Taylor’s allegedly over-inflated claims about his successes using ‘Time Study’, as ‘Scientific management’.

His motive? To offer an alternative to railroad price increases, in a rate case he was preparing for the Interstate Commerce Commission, to be heard in 1911.

So-called “best-practice” has been ‘moulded’ into marketing packages to satisfy such ulterior motives in various ways ever since.

Just like Brandeis presenting Taylors alleged false accounts of success as ‘Scientific Management’, it is also suggested...
that Six Sigma was a marketing exercise designed to satisfy the disclosure criteria relative to the Baldridge award. Motorola were required to divulge their methods to win the award. Taking only an aspect of the ‘Shainin methods’, they had actually used to realize their extraordinary successes through the mid 80’s, a few people, including Mikel Harry and Keki Bhote, publicly promoted ‘Six Sigma’, to protect what Motorola felt was their proprietary information. The last 25yrs has seen corporate group after corporate group pursue ‘Six Sigma’3 as a solution that was never the reason for Morolola’s 10:1 improvement success story realized in 1986.

Literally millions of people and thousands of companies have been impacted by such ‘ethical’ standards. However, across the ages, many names can be found that detail the need for ‘human factors’ to be considered in relation to organisational performance, and the profound impact such factors have.

In more recent times, extensive studies into 100’s of corporations over decades of performance have been carried out by people like John Kotter, who has detailed the enormous impact culture can have on organisational performance. Similar studies conducted by Jim Collins have detailed the sustainable benefits on performance from what has been defined as Level 5 leadership. These immense studies only add to the weight of historic and current opinion and findings.

Not so long ago, Lou Gerstner Chairman of the Board and CEO of IBM from 1993-2002 said…

“I came to see, in my time at IBM, that culture isn’t just one aspect of the game, it is the game. In the end, an organisation is nothing more than the collective capacity of its people to create value.”

The realization is this … organisations who put people (human factors) first, outperform those that don’t… by 100’s if not 1000’s of percent… sustainably! There is plenty of evidence to prove it, even where the prevailing cultural conceptions of ‘Good’ don’t allow much enthusiasm for the facts. Our application / use and over-reliance on measures often has a negative impact on the ‘culture’ of an organisation, which is at the real root of its performance. In often case, people find innovative ways to perform in spite of the measures used to judge them, not because of them.

This is of course a catastrophic summary. It only points loosely at few headline issues, from a few marvellous people. Ignoring the philosophers across the ages for now, we must acknowledge that many others have provided insights, including, but not limited to, Trait Theory, Lewin Lippitt & White, Maslow’s Hierarchy of Needs, McGregor’s X,Y theory, Blake & Mouton’s managerial grid, Hersey & Blanchard’s situational leadership, Fiedlers contingency theory, Adair’s Action Centred Leadership, Herzberg’s motivators and Hygiene factors, Toynbee’s Challenge-Response theory, Adam Smith “The wealth of nations”, Likert, Agyris, Hofstede, Dr. Russ Ackoff, Stafford Beer, Nadler and Tushman’s congruence model and of course the Toyota Way (as a philosophy) and the resultant TPS (Toyota production system) delivered to us by Taiichi Ohno and Shigeo Shingo … which goes a little way to name a further few.

All of these great minds have contributed to the thinking behind the evolutions and progress of the past. Unfortunately, most have also been reduced and misrepresented to suit the ulterior motives of others and undermined by the psychologically ignorant application and over-reliance on measures. Measures pre-determined as ‘Good’ from within a Keynesian Economics model, ignorant of the negative impact ‘control’ exercised over people through the technological mass-distribution of measures and targets can have on people and thus organisational performance. This has remained an unfortunate but consistent part of ‘business’ from government to gutter for too long. Even our primary school teachers now demonstrate a fear of authority and targets when reacting to Ofsted visits, deeply imprinting subsequent generations through emotional reactions to stress. It’s at this
depth we need to consider change.

**KAIZEN**

Under social pressure to conform to ‘tangible’ / ‘logical’ norms, we fail to consciously acknowledge this repeated return to deeper issues from so many great Eastern and Western minds across the ages. We do this at the expense of long term effectiveness and in favour of the logic, tools, measures, short-term, quick fix and quick returns based approach to business popularized over the last few decades from within this Keynesian economic fiscal philosophy...

Similar to the way Brandeis presented us with ‘Scientific Management’ and Mikel Harry presented us with Six Sigma, while we blissfully ignored effectiveness in favour of proposed efficiency without hard evidence, we’ve also ignored the mistranslation of the word Kaizen (Japanese) .. Gai shan (Chinese) .. Ge Sun (Korean) .. and the deeper, cultural and psychological aspects of change it represents; in favour of the popular and simple, ‘easy and convenient to believe’ account we’ve been presented with².

As Einstein so aptly said, “I wouldn’t give a penny for simplicity on this side of complexity, but I’d give my life for simplicity on the other side.”

Kaizen doesn’t in fact, mean, ‘Continuous Improvement’ and never did. This is just a convenient ‘reductionist’ western translation of a much deeper set of principles that exists within the cultural DNA of the East. When considering Kaizen, we might consider the Shinto religion, incorporating Buddhism, Confucianism, Taoism and great works like the iChing, Sun Tzu’s Art of War and Miyamoto Musashi’s Book of Five Rings (Go Rin No Sho), The Theory of BA (Nonaka / Taguchi) and the Oyabun-Kobun relationship (Master-Apprentice / Parent-Child) which understands experiential learning over time.

Considering this rich history, Kaizen is better considered as; “On-going Goodness / benefit for all, no one-person gaining at another’s expense.”

Which is much more aligned to ‘Human Factors’ as Robert Owen, Lillian Gilbreth, George Elton Mayo et al would have defined them. This philosophy incorporates a host of historical wisdom now being proven scientifically to offer psychological and neurological benefit.

**Conclusion**

Providing leaders already have the right mindset, the common mindset / worldview about ‘What works’ in practice, which often undermines organisational performance, sustainability, engagement and other such popularised buzzwords, can be addressed.

The measures we currently make through our technology are largely inaccurate & out of step with reality as experienced by the vast majority subjected to their use. About the only place they are considered to make sense is in the board-room and even here people are often lost, confused and expend a lot of effort convincing themselves that what they use gets the best results when it doesn’t.

Targets are predominantly based on an opinion or ‘best-guess’ (Forecasting) from a sales director, hoping he/she can read the markets and predict the future based on the past and the promises made by customer representatives, full of their own hopes and aspirations and wanting to please. Our technological systems (ERP / MIS) cannot consider ‘human bias’ and the need to be socially accepted and thus remain ignorant of intangible costs, mopped up by variance and accruals and
other such mathematical models, used to justify inaccuracies in practice.

All of this undermines confidence in the workforce and we drive people to act in defence of themselves, working to rule, seeing high attrition rates, people opposing change etc.…. yet this level of performance is a product of the systems we have come to socially consider ‘acceptable’.

Until such a time as leaders and leadership teams make the mental shift and become open to the possibility of a completely new approach, to see things from a different context and dip a toe into the water of a deeper approach, regardless of the technological capacity to measure and / or predict, we will continue to realise Einstein’s definition of madness;

“To do the same thing and expect a different result”.

Post recession, it’s very likely the world will be plagued with those who want to jump on the next ‘make a quick buck bandwagon’ just as they did with Knowledge Management, Lean, Six Sigma, Time and Motion Study etc. It’s very likely this next fad, if allowed to evolve, will be a superficial and ‘ulterior motives driven’ set of tools that change little if anything, promoted under the banner of ‘Culture change’.

Many HRD’s in corporate groups are already being given budgets to buy in consulting support for ‘Culture Change Projects!’ These will inevitably be delivered by the same consultants that have been providing the support that has detracted from organisational cultural performance over the last 30-40 years. The irony is 1st class.

The danger is this next generation of ‘Best Practice’ will be pushed and purchased by those educated in a ‘measurement only’ culture by those who believe a measurement-only culture is ‘Good’ for outcomes. This social treadmill will ensure the market remains focused on financial returns as a driver, rather than as an outcome. With this mindset / worldview and philosophy, they will continue to try to fix a problem from the inside, which requires an outside view and outside action.

It’s like trying to stop a house that’s built on sand from subsiding by polishing and replacing the ornaments on the mantelpiece – they keep shifting and getting covered in dust, you fully understand the problem from your internal perspective and you develop perfectly logical methods to cope, methods you can measure for efficiency, in time cost and quality. You can even track annual trends in your performance, to identify if Mantelpiece polishing and ornament replacement rates are going up or down, so you know if you need to recruit more ornament polishers or replacers ….. but the problem needs fixing from the outside …. before your whole house collapses around you.

The problem isn’t that we measure. Of course we need logical measures, but we also need to be aware of the impact of emotion (and the relationship between them) if we are to generate conditions in which we strike a balance and get the best from our organisations. The problem is that we’re fixated on measures and logic and we currently ignore the emotional aspects of organisational performance and the relationship / balance between the two sides of the same coin.

After we fix the subsidence and build our house on such new, solid (balanced) foundations, those measures will show improvement we couldn’t previously perceive (as reported by Kotter and Heskett et al ), but the measures we currently fixate on won’t identify the real problem or...
change the foundations on their own.

To re-frame the context around this problem, the Ornament Polishing Person and the Ornament Replacement Person will have to let go of their current comfort zones, around their current beliefs and worldview, step outside the house and see the bigger picture.

If the analogy is lost, and needs spelling out, it means business leaders need to re-frame their beliefs about what works and what doesn’t if anything is to fundamentally change. Our house, built on sand as it is, has recently collapsed and if we’re not too careful and fail to ‘step-outside’ to take in a broader view, we’ll start to build it back up, from the inside on the same sand.

Performance improvement in organisations, through ‘Culture change’ requires this broader view. It’s really a social issue (parenting / education) and thus a political and organisational issue (leading). We have to understand the common denominators that underpin them all if we are to contextualise ‘what works’. Honesty, Respect, Trust, emotionally mature psychological positioning of self in life, to benefit others etc., are all part of this social trilogy – Process-People and the Neuro-psycho-cultural relationship between them.

Notes:
7. Watch the MD from the case study company speak about the changes on video here http://www.pcchange.co.uk/Testimonials.html

PuMP Performance Measure Blueprint

People tend to have the same struggles with performance measurement. They struggle to find meaningful measures for goals that seem too intangible to measure. They struggle get performance measures properly aligned to their strategy. They struggle to get their colleagues to buy in to performance measures and get engaged in the process of measuring performance. They even struggle to get their performance measures to drive true performance improvement.

At the root of these struggles are very consistent reasons. People are either not treating performance measurement as a deliberate process (and relying just on brainstorming sessions to identify their measures). Or they have some bad habits to do with measurement that are getting in the way of success.

The PuMP Performance Measure Blueprint is a methodology that grew from and evolved through almost two decades of facing these struggles, and working out practical ways to overcome them. One of the PuMP techniques deals with the struggle of finding meaningful measures for goals that seem too intangible to measure. We call it the ‘Measure Design’ technique, and it is five logical and simple steps that are far superior to brainstorming KPIs. Jerry Stigall of Douglas County in the
USA, whose organisation recently won the Balanced Scorecard Institute’s Award for Excellence, says “I cannot tell you how many times I bring people back to your measure design model and see it work time and time again.” Jerry is the Director, Organization Development, Strategy, & Policy at Douglas County, and his leadership in bringing together the Balanced Scorecard and PuMP, to strengthen their performance measurement, has been inspirational.

Justine Fisher, from Queenstown Lakes District Council in New Zealand, also managed to get people more engaged with performance measurement by giving them a fresh approach. She explains “We’ve just started doing workshops with each department using the ‘How to design meaningful performance measures’ templates and so far they are working great. Thinking about the end in mind first and allowing time to really think about what the KPI would look and feel like really seems to be getting people thinking. We have come up with some great objectives and measures.”

Justine touches on something important, when she notes that thinking about the end in mind first really gets people thinking. Unlearning some bad habits is just as important as learning a few new techniques. One of the bad performance measurement habits people have, without realising it, is how they use language to write their goals and objectives. Weasely, vague motherhood statements in goal and objective statements. And this kind of language is immeasurable. We can only measure what we can observe in some way. How do you observe quality? What evidence convinces you something is efficient?

This is what she meant when Bec Bach, of the Department of Education and Children’s Services in South Australia, said “I’m trialling all the Results Mapping and the whole Blueprint process work with one of our schools. They are seeing a lot of benefit in it, by the way. One of their Assistant Principals summed it up well when I introduced the process by saying ‘We’ve taken a step sideways and now have a better view.’” They realised that you can only find meaningful measures when you have a clearly articulated strategy.

Having a clear strategy is the first struggle to overcome with performance measurement. But performance measurement is more than just selecting a few good measures. It’s also about bringing those measures to life, in a way that people feel ownership for them, in a way that people can quickly and validly interpret their signals, in a way that people can take the right kind of action to improve performance. That’s why we have strategy in the first place: to perform better in those things that matter most. And performance measurement, when it’s done well, is an incredibly powerful catalyst for this. The PuMP Performance Measure Blueprint is the step-by-step method to make performance measurement practical, engaging and transformational.

The Performance Measure Blueprint Workshop teaches the PuMP methodology, developed by Stacey Barr and in use in hundreds of companies and organisations around the world. The workshop is 2 days of interactive, engaging and practical techniques for how to overcome the most common struggles people face in trying to meaningfully measure what matters:

- measuring a strategy that seems immeasurable and is filled with vague words like efficient, effective, sustainable, quality, reliable and productive
- finding good performance measures that meaningfully track results, not activity
- engaging people in measurement, so they have buy-in and ownership of their measures to improve performance

This 2-day workshop will be held in various locations around the world: Read more at www.performancemeasureblueprint.com
Negotiation and conflict resolution with win-win attitude would definitely increase the organisational performance. Performance of the organisation can be improved significantly if parties are working in harmony and all know their roles and responsibilities. Tension will be released and all parties will adhere to their activities. The flow of work will be smooth thus creating an atmosphere of professionalism and coordination between departments, hence a more effective organisation and a more successful business. One of the major issues that can face the organisation within its journey in the industry is the conflict between its different parties (Two parties in this article). Negotiation is a process by which the negotiating parties try to reach a settlement about issues under dispute, i.e., make an agreement (Pruitt, 1981 and Kersten et al., 1991). Always parties have opposing interests/objectives, which makes the negotiation process a very hard experience (Raiffa, 1982). That is why negotiations and their processes are often complex. It is an awkward task and researchers from different fields have studied the problem (Raiffa, 1982; Sebenius, 1992; Teich et al., 1994). In order to achieve their planned goals and also to control the costs and risks associated with all organisational processes and activities organisational management have to care for two main issues; a) the organisation main interest in increasing its profit, reputation and ensuring continuous future workload through satisfying its customers and b) the employees main interests and satisfactions through ensuring a good working conditions atmosphere while achieving all agreed benefits (a major concern by all labour unions in lieu of the employees). Thus resolving any conflict between the management and employees (or Union in this context) should be a major issue of concern that management have to care for and can be resolved using proper negotiation. Hence, negotiation must take place in a cooperative and constructive way and exploit the different levels of importance which the parties attach to each issue in order to achieve joint gains (win-win situation) and so reach deals which are beneficial to all parties involved.

Significance and Objective of this work

The significance of this work appears in its contribution with a quantitative model to help negotiators (two parties in this context) resolve difficult multiple issues that cannot be resolved directly in a qualitative manner which depend on subjective judgement and personal capabilities. The application of this quantitative approach can give objective solutions when a dispute involves two negotiating parties who would like to reach agreement on several (multiple) issues. The method suggested here is the multi-criteria decision model (MCDM) coupled with the Pareto optimality method. The proposed model is able to estimate participants’ preferences and suggest a suitable solution to the issues discussed. The work demonstrates a case study that employs the MCDM suggested to show its use in resolving a labour dispute between two parties: the management team of a private textile company and the ministry of working affairs in Egypt (represented by the labourers union) where both would like to reach agreement on several multiple conflicting issues. Ultimately, with other main procedures, this can contribute positively on improving the whole performance of the organisation and create the appropriate working conditions required for the success of the organisation.

Case study: Negotiation Deal between a Private Textile Company and the Ministry of Working Affairs (Labour Union) in Egypt

1 Problem identification

In year 2010 a big dispute happened between one of the big private textile companies and the ministry of working affairs. Labours of this company disagreed of the bad management and
unfair decisions regarding some issues including adverse working conditions without raising their salaries or giving them their medical coverage and other disputes regarding firing some of their colleagues without compensating them. Accordingly, labours prepared a big strike and stopped to resume their work in the factory for over a month asking the labour union (representing the ministry of working affairs) to support them and resolve those issues with the management of the company. This conflict has affected to a large extent the performance of the organisation which stopped its production for over a month affecting its obligations and its profit. Accordingly, due to the interdependent interests of both parties it is of great importance to find a solution that maximises the interests of both parties. The main objective of this study is to help both parties to achieve a win-win situation using a proposed MCDM to achieve mutual benefits during the negotiation process for the two parties.

2 Model development

It was found that the best model to be used is the Pareto optimality method with the efficient frontier as a graphical presentation to help selecting the best package deal from among a set of attainable packages identified through interview sessions with management of both sides. The negotiation started between the two parties where three main multiple issues, as shown in Table 1, were identified which make the conflict in this negotiation process and require resolution by the MCDM model suggested. These are as follows:

<table>
<thead>
<tr>
<th>Issues</th>
<th>Union interest</th>
<th>Company interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Pay rise percentage (%)</td>
<td>Max</td>
<td>Min</td>
</tr>
<tr>
<td>2 Medical coverage percentage increase (%)</td>
<td>Max</td>
<td>Min</td>
</tr>
<tr>
<td>3 Reinstatement of fired staff</td>
<td>Reinstate</td>
<td>Do not reinstate</td>
</tr>
</tbody>
</table>

3 Data preparation

Both sides agreed to specify the following ranges of each issue or criterion:

1. Pay rise percentage. These are identified to be: 3%, 5%, 7% and 9%. These were chosen to reflect the range from the lowest to the highest percentage values that the ministry of working affairs assign in their working terms and specifications in the textile industry.

2. Medical coverage percentage increase. These are identified to be: 0%, 1%, 2% and 3%.

3. Reinstatement of fired staff. These are either to reinstate the staff (yes) or do not reinstate them (no).

From initial discussions during the interview, the union team has expressed their interest of a maximum pay rise of 9% and asked for a maximum of 3% increase in medical coverage and to reinstate the staff. On the other hand, the company management wants to only offer a minimum of 3% pay rise, and give labours 0% increase in medical coverage and not to reinstate the fired staff.
3.1 Assigning score values

Both sides of the negotiation process were asked to state their value functions (intra-criterion information) for each of the three issues on a scoring scale from 100 to 0 (100 = highest, 0 = lowest). After several discussions and elicitations with the help of an experienced facilitator, both sides assigned the score values as given in Figures 1 to 3.

![Figure 1](image1.png)

**Figure 1**
Union and management score values of issue #1: pay rise %

![Figure 2](image2.png)

**Figure 2**
Union and management score values of issue #2: medical coverage percentage increase %

![Figure 3](image3.png)

**Figure 3**
Union and management score values of issue #3: reinstatement of staff

3.2 Eliciting preference weights

The negotiators preference weights (inter-criterion information) were then elicited from the union as well as the management team to reflect their view of the relative importance of swings from worst to the best position on each issue. The swing weights are elicited using the simple multi-attribute rating technique (SMART) swing weights method [see Edwards (1971) for a detailed explanation of this technique] and are displayed in Table 2. These swing weights are then normalised to add up to 1.00 as given in Table 2.
Before exercising the MCDM application, both parties agreed to accept a tentative package deal (T) that they thought would be reasonable for both of them. The agreed deal was:

- 3% pay rise,
- 3% medical coverage percentage increase
- Reinstatement of staff.

4 Model solution

For solving the model, the suggested MCDM methodology employing the MAVT with the Pareto and efficient frontier methods are used. There are 32 package deals resulting from four options of issue #1, four options of issue #2 and two options of issue #3

\((4 \times 4 \times 2)\). By using a simple Excel sheet from the Excel Microsoft software the MAVT model was prepared and produced the 32 packages. The values were plotted on a two dimensional diagram between the management aggregate score values and the union aggregate score values for the three issues producing all efficient and non-efficient packages. The efficient frontier curve was drawn including only eight efficient packages as illustrated in Figure 4. Figure 4 shows also the tentative deal (T) as compared to the efficient deal (X) among other efficient deals that only lie on the efficient frontier as suggested by the Pareto optimality procedure.

<table>
<thead>
<tr>
<th>Swing weights</th>
<th>Raw weights</th>
<th>Normalised weights</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Management</td>
<td>Union</td>
</tr>
<tr>
<td>Pay rise (%)</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Medical coverage increase (%)</td>
<td>50</td>
<td>80</td>
</tr>
<tr>
<td>Reinstating staff</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>160</td>
<td>120</td>
</tr>
</tbody>
</table>

Table 2: Elicited swing weights for the three issues by management and union

3.3 Subjective tentative deal package

Figure 4: Efficient Frontier Showing the 32 packages with Tentative and Efficient Ones
Results and Findings

Filtering the resulted different possible packages (32 packages calculated using Excel sheet) and finding those that fall on the Pareto efficient frontier, the following efficient eight deals: P1, P3, P9, P11, P13, P15, P21 and P23, as shown in Figure 4, were found to be optimal and efficient. The eight efficient deals are detailed as follows:

1. P1: 3% pay rise, 0% medical coverage percentage increase and restatement of staff
2. P3: 3% pay rise, 1% medical coverage percentage increase and restatement of staff
3. P9: 5% pay rise, 0% medical coverage percentage increase and restatement of staff
4. P11: 5% pay rise, 1% medical coverage percentage increase and restatement of staff – The most efficient deal (X)
5. P13: 5% pay rise, 2% medical coverage percentage increase and restatement of staff
6. P15: 5% pay rise, 3% medical coverage percentage increase and restatement of staff
7. P21: 7% pay rise, 2% medical coverage percentage increase and restatement of staff
8. P23: 7% pay rise, 3% medical coverage percentage increase and restatement of staff.

For the sake of comparison the tentative deal (T) is package P7 (62.50, 56.52):

P7: 3% pay rise, 3% medicinal coverage percentage and reinstatement of staff.

An important finding also noticed here, is that the previous tentative agreed upon package (T) by the both parties (package deal P7), is also allocated on the graph but it does not lie on the efficient frontier and is not included in the recommended list of deals. This tells that this quantitative MCDM is useful in finding better deals than qualitative judgemental ones typically used in most negotiation deals.

The main and important finding here is that by applying this quantitative negotiation method to the textile company problem, the performance of the organisation is improved as their is a concept of conflict resolution with positive attitude between the two disputing parties, thus reducing the tension that was raised between the management and their employees. Figure 5 also shows the direct relationship between the increment value of performance and the different win-loose situations between the organisational management and the union. This can also be applied to different disputing parties (e.g. Front and Back offices). The diagonal line of performance increases from origin to the upper north-eastern corner showing a direct relationship between the success in negotiation with the increment in organisational performance. Disputing parties should strive to achieve the upper right corner of the figure in their conflict resolution.

Figure 5: Relationship between Performance Increment and Win-Lose Situations of Management and Union
Improving Organisational Performance Cont...

Conclusion

Negotiation, as defined by Pruitt (1981), “is a process by which a joint decision is made by two or more parties.” It usually involves each party presenting an initial position that they prefer most. Then the two parties engage in what Raiffa (1982) define as a negotiation dance, conceding from the initial point, until they reach a decision or not. The proposed MCDM method proved that, in negotiating unresolved multiple issues between two parties, a win-win situation can be achieved thus satisfying both parties’ interests. The method also shows that if the number of issues increased then the simple computer application would be efficient for giving quick and precise results than any other qualitative tool with more objective results that can satisfy both parties and ease any tension or possible conflict in dispute resolutions. The proposed method can be also applied in resolving disputes between parties in different industries and domains, e.g., construction disputes, court disputes between individuals or between companies, economical and political disputes and others. The ultimate benefit of this work, if applied, would be in achieving a win-win situation between any two parties conflicting in the organisation and hence improve their productivity which will reflect on their individual performance and then on group performance which will definitely lead to the overall improvement in the overall organisational performance. Further work can be done to modify this method to resolve issues of more than two disputing parties.

References

This article describes results from a recent workshop facilitated by the authors to prototype their test and evaluation- and multi-criteria decision analysis-derived approach to enterprise performance measurement. The workshop took place over five non-consecutive days and had three subject matter experts (SMEs) tasked develop a performance measurement system (PMS) specific to their newly formed, Old Dominion University engineering college research center. The SMEs observed mechanics stipulated with the Enterprise AID PMS featured with this Newsletter's September 2011 issue, and with that they:

- First established in top-down fashion an enterprise evaluation structure comprising a single, defined problem; six critical operational issues (COIs) the SMEs saw as necessary and sufficient to characterize the problem; and 17 unique measures of effectiveness (MOEs) derived from the COIs and then re-associated with them in 27 ways made distinct with a normalized weighting scheme assigned to each COI;

- Established COI threshold values of resolution along identically normalized scales that they would later use to determine whether or not their enterprise had or could resolve the COIs they had determined for the problem at hand;

- Identified and characterized in terms of relevance to MOEs a set of 116 distinct enterprise attributes, or measures of performance (MOPs), with which they felt they could appropriately judge whether or not their research center was operating or, with adjustments, could yet operate to void the problem of interest; and

- After concluding that their early stage enterprise understandably demanded a broad range of adjustments, began an enlightening process of identifying improvement measures of greatest and most immediate value.

While many findings were specific to the enterprise in question, several lessons learned from AID’s deployment are captured here for what the authors hope will be their utility for the greater performance measurement community.

Six key and general lessons learned were:

**Lesson learned 1:** Problem statement identification and consensus among SMEs can be a significant deterrent to progress in PMS design and execution. If participating SMEs do not possess a mutual agreement and understanding of the enterprise problem they are charged to address, then their effort is almost certain to derail and at best, produce a type III error defined as solving the wrong problem, however efficiently. PMS design efforts should therefore allow for adequate time to achieve consensus and universal understanding of problems to be addressed, and problem statements, per se, should be aimed toward single sentence constructs whenever possible.

**Lesson learned 2:** In order to select performance measures pertinent to the enterprise and enterprise problem of interest, SMEs can be forced to rapidly brainstorm over a short period of time about what can turn out to be a substantial number MOPs; and Miller’s notion of 7 plus or minus 2 unidimensional elements as a limit for human cognition and understanding should be considered when encountering such a circumstance. Seductive tendencies to build what can quickly become large measurement structures should be observed with caution for practical concerns associated with actually tracking these measures once the enterprise and problem...
specific PMS is ready for deployment. Even if it is possible to track a large number of measures, many can suffer an inappropriate degradation of significance as their numbers increase.

**Lesson learned 3:** Visual aids and the software needed to produce them are essential to PMS development. Such aids transfer what would otherwise be SMEs’ substantial cognitive burden associated with extensive deliberations to be largely transferred to supporting software, enabling experts to concentrate on the thought exercises necessary for proper PMS development. That being said, it also helped for the facilitators to engage SMEs through exercises that require them to get up out of their seats and interact with one another. The SMEs who supported this application of Enterprise AID felt strongly that a reliance on only one learning style missed opportunities to enhance the participation of individuals who may learn or engage by way of differing learning.

**Lesson learned 4:** Substantial value will almost surely be gained merely with the collectively enlightening conversations that take place among SMEs as they attempt to measure performance of their own enterprise. Over time, they simply come to understand their shared enterprise better than they do at the outset. In short, the act of planning alone is a worthwhile endeavor.

**Lesson learned 5:** Once developed, PMSs must be maintained, and those responsible for their development will want to maintain them in order to garner maximum utility and to avoid wasting what will generally have been a substantial development effort. Even the best designed PMS must be maintained to promote its later use in real settings important to the organizations that develop them. The importance and complexity of deciding on the mechanics behind how to do that (e.g., who will maintain the PMS, what software will be utilized, or how often it should be updated) should not be underestimated.

**Lesson learned 6:** SMEs should be expected to assign to enterprise peculiar PMSs they develop a significant value in pointing their enterprises to ways ahead. Participating SMEs and those to whom they answer will wish to conclude any AID application with a clear understanding of how their newly developed measurement scheme will be used to make their organizations better. They will not be content with assessment, but will want to pursue improvements or re designs. This finding reinforces the approach taken by the authors who accounted for it with an Enterprise AID construct robustly focused on improvement and design as well as assessment.

As facilitators of the workshop from which the stipulated lessons learned derived, the authors of this article see those lessons as valuable not only to the continuing development of Enterprise AID but also to the greater community concerned with performance measurement. The authors hope that lessons documented here will offer performance measurement practitioners a degree of insight of value regardless of the PMS application scope, approach, or problem domain they may pursue.

**Acknowledgement**

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In December 2011, Financial Services Authority (FSA) published its Board’s Report into “The failure of the Royal Bank of Scotland” (RBS).” The report investigates “the causes of the failure of RBS; and deficiencies in, and lessons for, the regulatory framework, supervision and the management of firms.”

Based on this report, Norman Marks, CRMA, CPA, the vice president for SAP and has been a chief audit executive and chief risk officer at major global corporations for more than 20 years, wrote a blog titled “Governance and Risk Management Failures Contributed to Failure of Major UK Bank” where he cited a number of clauses which he considered relevant and important to governance, risk and audit professionals.

Here, I want to draw your attention to the relevant parts of the FSA Report which Marks highlighted and which I consider important to the topic of this article.

Importance of leadership, governance arrangement, accountability and culture:

“Individual poor decisions can result from flawed analysis and judgment in particular circumstances: many of the decisions that RBS made appear poor only with the benefit of hindsight. But a pattern of decisions that may reasonably be considered poor, at the time or with hindsight, suggests the probability of underlying deficiencies in: a bank’s management capabilities and style; governance arrangements; checks and balances; mechanisms for oversight and challenge; and in its culture, particularly its attitude to the balance between risk and growth.”

Case against CRO reporting to the CEO or anyone below the CEO such as CFO

[in reference to ABN Amro bid]

“Whether the CEO’s management style discouraged robust and effective challenge.”

“Whether RBS’s Board received adequate information to consider the risks associated with strategy proposals, and whether it was sufficiently disciplined in questioning and challenging what was presented to it.”

“At the start of the Review Period, the RBS Group Chief Risk Officer did not sit on the GEMC or routinely attend the CEO’s morning meetings. It is the Review Team’s understanding that there was some reluctance on the part of the CEO to agree to his participation in these meetings, on the grounds that he reported to the Group Finance Director, who did attend. This situation changed following the appointment in January 2007 of a new Group Chief Risk Officer, who did attend the GEMC and the morning meetings, and had a direct reporting line to the Chairman of the Group Audit Committee. However, it was not until 1 April 2008 that the Group Chief Risk Officer was appointed as a full member of the GEMC.”

“In relation to RBS, the [Head of Group’s Internal Audit’s] memorandum to the Chairman states: ‘It is clear your colleagues feel this happens too often [degree of control over the information provided to boards] with ‘good news’ reporting and decisions presented as a fait accompli. They contrasted this with positive experiences at other companies’ Boards on which they serve.”

Case in support of CRO reporting either to the Board Risk or Audit Committee

“Whether the status accorded to the Group Risk function within RBS hindered the development of high-quality predictive risk management and risk management information;”

“The Supervision Team considered the reporting arrangements for RBS Group Internal Audit, which
reported directly to the Board’s Group Audit Committee, to be in line with good practice. Group Internal Audit also reported to the Group Finance Director for ‘pay and rations’ purposes, but this arrangement is by no means uncommon, although it might under some circumstances undermine the real or perceived independence of internal audit. In the case of RBS, the issue was recognized by the Supervision Team, which kept it under review. The effectiveness of Group Internal Audit was part of the regular agenda for meetings with the external auditors and the Chairman of the Group Audit Committee.”

In light of above observations, I would recommend that in addition to the CEO (but not to CFO or anyone below the CEO), the CRO of a financial institution in particular should also have a reporting line to the Board Risk Committee or the Board Audit Committee for independence and authority.

Norman Marks also supported this view in his comment in response to my article. He wrote:

“My opinion is that the reporting relationship should depend on the organization. In financial institutions, where the risk manager takes an active role in assessing risk and evaluating against risk criteria, I think the CRO should have the ability to report directly to the top of management and the board. Where risk is embedded in decision-making across the organization, and every manager is a risk manager, the CRO is more of a facilitator and the need for a direct reporting line to the top is less critical.”

The present reporting structure of RBS Group also acknowledges the importance of CRO’s role and its Group CRO Nathan Bostock, not only reports to the Group CEO, Stephen Hester, but also has a dotted reporting line to the Board Risk Committee with a right of access to the Chairman.

What’s your opinion? I'll welcome your comments.

References:


• Governance and Risk Management Failures Contributed to Failure of Major UK Bank available at: http://www.theiia.org/blogs/marks/index.cfm/post/Governance%20and%20Risk%20Management%20Failures%20Contributed%20to%20Failure%20of%20Major%20UK%20Bank

In this series of PMA Newsletter, the author wants to share a concept which he thinks it is interesting to spread it around. First of all, when someone speaks about the research in human capital, he thinks it must define what the ‘unit’ is, of measuring the human potentials. He believes that without defining such the ‘unit’, it is not any way possible to pursue any convincing performance measurement tools, just like the scale on a ruler, centimeter or millimeter, this is something seriously missing. Otherwise the results must be something very depending on measuring from the financial perspective only, which is the root of many financial crisis, do you still believe in a genuine financial report?

As early as 1980s, the concept of capabilities approach brought up by Amartya Sen and Martha Nussbaum, as an approach to welfare economies, later it was adopted by the United Nations as a basis to create the human development index, Julian thinks this approach cannot inform the full perspective of human development participating in economy activities. There are many weaknesses, such as, the concept is strongly founded on religious foundation, and he believes the background and beliefs of the authors influenced what they think it was right to call that a universal approach for the United Nations. Similar, this approach cannot define what it meant by happiness and life for instance.

There are already very rich literatures from different perspectives to talk about ways on developing human potentials and its specific functions. For example, human potentials in some people are defined as somebody who has specific functions (capability) to bend a fork with their will powers. Or you can see the David Copperfield is demonstrating his magical skill to set him free from handcraft just 30 seconds before a box hanging in the air crash to the floor. What about the Mathematics genius? Kids attend grad schools at ten year-old? A Tai-chi master demonstrates martial arts that can jump and run in the air or water? Do you know, people with extra ordinary capabilities to memorize and recognize hundred of names just in one minute? And the fortune teller who like to predict the future of the organizations or even a country?

Setting a Clinical experiment to examine human potentials in a controlled environment

Today, our workplaces hired trainers who are thinking too far away to design and develop a series of skills for ‘extraordinary employees’ with ‘extraordinary capabilities building’ only. Julian thinks that this concept is unrealistic. For example, the company wish to hire a motivator to turn an underperformed sales people to become a super salesman as expected after he attended the super motivational program. The problem is, all of these so called trainings and evaluation are not pragmatic enough to answer the needs of some very specific problems which the employees are must face at their workplace.

If you take sometimes to review the curriculums designed and developed by trainers, most of them are not fit into the definition of ‘competencies building’. We are not here to create super-humans please remember that. Indeed, we are here to discover and develop human potentials, let the employees to do their best level, so, the question is, how do you know he had tried the best level that he could? The trainers responsibility is to bring out individual talents and make them to perform according to what they are designed at the maximum magnitude of efficiency. Before you can achieve this wonder, you must first to define the ‘unit’ to measure an employee’s potentials, without this, it is not making any sense to measure someone’s achievement at work. Again, do we already have a ‘unit’ of assessing human potentials at this moment in our literature? The answer is yes but no. If no, on what basis do you use to measure someone’s performance?
Performance Measurement: Defining the ‘Unit’ of measuring human potentials Cont...

Julian uses the literature search engine such as the Emerald database, pump in some key words in the search function, such as,’ unit of human potentials’, the good news is, he could not find any match word. This makes this research becomes one step closer to reality, and more exciting.

Think about this, there are a lot of literatures written in a very attractive ways to describe how to do training needs analysis, how to design and develop effective training programs, methods to conduct trainings, as well as how to create performance appraisal system. All are fine. However, let’s ask a basic question again, how do you know if your trainings which you designed, delivered did they helped to sales improvement?

Puzzle number two; let’s think it over again from another perspective, if the staff in your trainings is only acting as a supportive function, such as administrative or human resource, then, how do you know if your trainings are making her become more effective? Is she now more efficient? Another question is, can the administrative clerk now process more works with the same pay rates? Just avoid all biasness. Something is missing here obviously.

Commonly people are using questionnaire feedbacks to measure people ‘feelings’ which they designed in Likert’s scale, the majority are. Julian thinks this way is not about to tell the whole picture of the performance measurement. Statistics is only use in modeling and correcting wrong answers (data) for the good. But it may not necessary tell the truth. It’s not perfect, but what about if you collect emotional data?

“TEC LAB” – Case Study

The following slides will demonstrate the first LAB experiment under TEC LAB controlled conditions. The primary purpose of this experiment is to design a mechanism of ‘conversion units under TEC-LAB’. The code for this experiment is TECCBD1. To address this doubt, Julian proposed something called the ‘brains factories’ concept to measure the unit of human potentials. It is only a raw idea and some ways to go about. The concept is this, ‘brains’ are people’s ideas processed through a series of intensify exchanges of discussions and readings, and creates processes to approach a problem. And then the ‘factories’ mean a transformation process from intangible assets (such as ideas) into tangible assets (such as action plans).

Step 1: Defining a Problem

Based on the theory of production, all labor are hired with specific purpose, land provide inputs and enterprise is a production process, such as factory and management, while capital is a factor of exchange between inputs, process and
outputs. The problem is, are we operating at the optimum level? The answer is always very certain, no! All of these factors are being used in highly structured processes.

**Descriptions:**

Flow 1: Like blended food stuff, change agent should provide four brain factory’s ingredients (see the diagram 1,2,3,4) to all individual staff from his team in Strategic Business Unit 1. He will organize information into a form of report which consists of four primary ingredients’ sources.

Flow 2: Like necessary to consume sufficient amount of nutrition everyday to sustain their health standard, individual members should be liked consume one of the most important structured information – the ‘brain factory calories’.

Flow 3: Brain factory calories’ are basis of unit for measuring structured activities. The outputs of these activities are either competitive capital (similar to human muscles) or brain factory fat (see step 4).

Flow 4: Excessive ‘brain factory calories' will generate 'brain factory fat' and finally develop into deadly diseases (Flow 5) example like Deming’s 7 deadly diseases).

Seven deadly diseases by Deming (1993):

- Lack of constancy of purpose
- Emphasis on short-term profits
- Evaluation by performance, merit rating, or annual review of performance
- Mobility of management
- Running a company on visible figures alone
- Excessive medical costs
- Excessive costs of warranty, fueled by lawyers who work for contingency fees

Julian believes by using TEC-LAB, you can diagnose more corporate diseases, not only the seven most common diseases as identified by Deming (1993).

Once such diseases are identified, a transformation specialist will provide relevant advice (see Goh Transformation Specialist Centre http://www.juliangoh.com/Goh-Transformation-Specialist-Centre.php) to the organization chief to carry out relevant operations and
Performance Measurement: Defining the ‘Unit’ of measuring human potentials Cont...

steps taken to ensure the company remains resilient and competitive.

Step 2: The Structure Organization Process:

First of all, Julian is utilizing the metaphor medical terminologies, medical specialists centre and consultants in this conceptual paper to illustrate different roles to explain the concept of human potentials.

Julian defines the ‘brain factory calories’ as a measuring unit of ‘brain factory energy’, it is the amount of energy in ‘brain-factory ingredient’ (food) that is available through ‘structured activities’ (digestion exercises). He defines the ‘brain factory fat’ as excessive ‘calories’ which cannot be converted into ‘competitive capital’ and store in the form of ‘adipose tissue’. For example, the ‘adipose tissue’ in an organization is likened to ‘cancer’ in an organization, it can be observed through individual emotions, such as demotivate attitude, dishonest behavior and many more. You can observe those staff are distracting from their work or creating a large amount of unwanted bytes with other staff in the same SBU or outside. They use their ‘calories’ which is not relating to works on creativity.

The brain factory ingredients will be generate ‘brain factory calories’ (heat), about how to measure this ‘calories’, at the preliminary stage, ‘TEC LAB’ will be used to test the amount of ‘calories’ generated. I have three factors, first, is ‘bytes’ (information theory) usage among the members, to trace the volume of communication and with whom they communicate. Second is, using the ‘numbers of strategic plans’ (ideas) by each individual, and whether they are executable or not.

To calculate energy conversion, I will use ‘information entropy’ and the theory of ‘thermodynamics’ which is ‘the study of the connection between heat and work and the conversion of one into the other. This study is important because many machines and modern devices change heat into work’.

Note: OM is Organization Memories, is defined as all experience, knowledge and skills generated by labor in any forms, be it intangible or tangible.

Step 3: Links of Theories

‘Connections between information-theoretic entropy and thermodynamic entropy, including the important contributions by Rolf Landauer in the 1960s, are explored in ‘Entropy in thermodynamics and information theory’ (Source 2).
According Shannon (1948), he defined ‘in information theory, entropy is a measure of the uncertainty associated with a random variable. The term by itself in this context usually refers to the Shannon entropy, which quantifies, in the sense of an expected value, the information contained in a message, usually in units such as bytes’.

‘There are close parallels between the mathematical expressions for the thermodynamic entropy, usually denoted by S, of a physical system in the statistical thermodynamics established by Ludwig Boltzmann and J. Willard Gibbs in the 1870s; and the information-theoretic entropy, usually expressed as H, of Claude Shannon and Ralph Hartley developed in the 1940s’ (Wikipedia). And I am now bridging these theories into change by designs in organizational transformation exercise (TECCBD1).

Brown dot 1: Assumption of basic conversion rates from information to work based on existing theories:

1 Byte = 7.7 × 10-23 J/K = 1.8x 10-23 Cal/K (1.8x 10-23 Cal)

Note: 1 cal = 4.184 J / 1 cal/K = 4.184 J/K

Brown dot 2: According to the theory of information entropy (Shannon, 1948), Julian proposed a formula like below to calculate the total amount of heat produced in joules (convertible to thermodynamic calories). \[ \sum \text{bytes (information)} \times \text{h (time)} = \text{joules per Kelvin (calories per Kelvin)} \]

This can be interpreted as how many bytes/hour need to create an idea in joules before execution. The purpose to have this (change by) design because he thinks, ‘when a group of individuals and change agent come together, how fast they can generate ideas to get their work done’.

\[ \sum (I)^4 = 4 \text{ ideas} = \text{`Y’ Cal} \]

Assuming one change agent with four individuals in one SBU project,

Note, every member must create ‘X’ G intellectual materials (and equal to ‘Y’ Cal, whereby X is corresponding to Y, in order to obtain X and Y, I need to set up TECCBD2+Z). On the other hand, to calculate the total resources given to one member, it is (7+X) G.

Brown dot 3: Of course, once the calories are generated, you will need to convert them into competitive capital through structured activities. Some of your calories will not be useful therefore temporary keep in organizational memories (storage), but...
Performance Measurement: Defining the ‘Unit’ of measuring human potentials Cont...

this will consider as wastage due to time spend on Unnecessary structured information.

Step 4: The Calculations:

1 J = 1 watt x 1 second / 1 watt hour = 3600 J

1 cal = 4.184 J / 1 cal/K = 4.184 J/K

Assumptions:

According to Chapter eleven, I have two basis points to calculate 1CAP, (1) length of service and (2) $ 1k = 1 CAP. Considering some future variance, I will not consider to use $ 1 k = 1 CAP. 1 member average work hour is 8 h per day x 20 days = 160 WH or 160 WH x 3600 J = 576,000 J per month

Thus, 1 (CAP) = 576,000 J / month = 137,667 Cal = 7.6 x 1027 Bytes = 7.6 x 1018 Gigabytes (round up to 7.0 x 1018 Gigabytes for calculation reason).

Comparisons:

The above calculation is at ideal state, and suitable in mechanical process. Since a human is not a machine, but comparing to machine process, we will know the ideal path to achieve objective in change by designs.

Based on early assumption, one member who receives 7 G of ingredients must be able to produce 1 idea (plan) with 7 G in 160 hours. Based on the watt-hour given = 1 CAP in a month or 7 x 1018 Gigabytes (round up), you have to give 18 ideas (1 CAP is a basic requirement).

Assuming that every 100 ideas, only one successfully commercialize (or one project needs 100 ideas to generate one success, it depends on how the strategy is being set, such as the early example given the managerial strategy MR1.2-SC1.1.1.1.2.1), then, According to the sum of four members inputs, theoretically you can explain that every one and a half months (1.5 months), you will be able to successfully complete one task/project. Nevertheless, this can only happen under a strict control in project management.

Step 5: IDEAS generating: First step of liberalizing human potentials

![Image](image_url)

Step 6: A Conceptual Scheme Measuring the Performance

How the Scheme Work leading to Performance Measurement
Assuming:

1. Any proposed plan will lead to obtain one additional CAP
2. Any plan worked and yielded results will lead to obtain two additional CAPS
3. Length of service will lead to obtain one additional CAP per month, and thereafter.
4. Every $1K receives from sales or cost reduction will lead to obtain one additional CAP.

Assuming that, every individual in a strategic business unit is required to meet a minimum requirement of 100 CAPS on a yearly basis. Any measuring unit of ‘brain factory calories’ unsuccessfully transform into CAPS (a measuring unit of competitive capital) are to be turned into ‘brain factory fat’, and gradually accumulated later, and may be created some diseases threatening the organizational health, or even result in the death of the business.

Like explained above, those ‘bytes’, ‘time’ to produce ideas (plans) (that cannot be executed) are all considered ‘fat’. However, some of the plans still can be used for recycle in future; this will help to reduce ‘fat’. Ideally, I think the organization should create ‘good fat’ (recyclable intellectual materials) and ‘muscles’ (competitive capital) to keep the organizational health at its optimum level.

Concluding Remarks

The implications of this preliminary study hopefully will expand the fifth element of the theory of production, what we already know before: capital, enterprise, labor and land. So, this human potential should become the fifth element of production theory.

Then, this enquiry of ‘defining a unit of analysis of measuring human potentials’ will be made further a possible bid for a PhD candidacy, any feedback or further discussion please contact directly with Julian at J@juliangoh.com.

About JULIAN

He is the General Manager at the L&S Transformation Specialist Centre in Malaysia. The company is specializing in providing diagnose and transformation operations to large corporations in Malaysia. He is also the Managing Partner of Goh Business Practitioners since 2005. GBP is specializing in making high-end business connections successful.

Bibliography

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