

# Measuring Organizational Performance – Problems and Solutions A Systematic Review

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## **Abstract:**

Performance of an organization is widely used in research as a dependent variable in a wide range of Organizational Behavior studies. Performance measurement is therefore a key for validating many studies. However, measuring the performance of an organization is challenging because of various factors that affect it in different proportions at various points of time. Despite being a difficult task, the importance of measuring performance of an organization cannot be discounted. In spite of its importance, it is evident from various studies that there are severe deficiencies in its measurement. In this study, the major problems in the measurement of performance is highlighted and the necessary steps to overcome these problems have also been discussed. This study therefore offers scope for future researchers to identify the potential problems in performance measurement as well as take steps to resolve these issues.

**Keywords:** Performance Measurement, Financial Performance, Organizational performance.

## **Introduction**

Performance measurement is a tool to reflect on the activities done in an organization during a particular span of time. It aids in identifying the factors that helped / hindered the organization's progress towards attaining its objectives. Many organizations like banks are mandated by law to measure their performance in a particular fashion and report them in the format prescribed to them by the regulating agencies. However, it is important to note that the management of an organization has the responsibility to micro-manage its internal affairs and thus needs a set of various other data in the form of performance measure over and above the data that is officially published for statutory purposes. Performance management of an organization is therefore done at various levels. i.e. performance appraisal of individuals, teams, departments, various field level branches, supervisory / support offices etc., Measurement of organizational performance gets complicated due to the fact that performance is

viewed differently by different stakeholders. This systemized study therefore aims to critically examine the present organizational performance measurement approaches and recommend a roadmap to be followed to make the measurement more accurate.

## **Objective of the Study**

Organizational performance measurement is done in many studies following various methods and scales. The complex nature of measurement due to various factors that affect them has proven to be a challenge for researchers. To efficiently overcome such challenges, it is important to identify the problems in measuring organizational performance. This study therefore aims at

- Identifying various problems in the measurement of Organizational performance
- Suggest suitable solutions to the identified problems.

## Literature Review

Development of a performance measurement scale is done for a variety of reasons. It is generally attributed with highly positive motives. However, the motive of performance measurement ranges from being narrowly managerial to broadly political. Therefore, one size fits all kind of solution for performance measurement will not be suitable for research. As creating and maintaining performance measurement systems are very expensive, practicality of having a wide range of dimensions that lead to the measurement of performance is therefore grim (Thomas, 2006).

Organizational researches generally compare businesses based on profits, market capitalization, sales, market share, debt ratios and productivity. This method of business performance evaluation may however not be suited for measuring the performance of a Hospital or an University (March & Sutton, 1997).

Evaluating performance and establishing the impact of various independent variables on performance as a dependent variable is a herculean task. This is because of the fact that it is difficult for the respondents to properly process and report the information they may have due to Organizational or Human limitations (Feldman, 1981).

On review of various studies done on training and organizational performance, it is observed that the studies lack the methodological rigor of the field. Lack of methodological rigor of the field in which the study is done raises the question of significant validity threats which includes external and internal construct and statistical conclusion validity (Garavan et al., 2019).

A balanced scorecard brings in a structure for performance measurement. It establishes the link between performance and the strategy adopted by the organization. Many accounting approaches tend to attribute a universal set of measures that reflect an organization's performance. Adopting a universal set of measures to evaluate performance has however been proved to be ineffective. To ensure that the measurement of performance is

done efficiently, it is necessary to include specific measures for specific circumstances (Neely, 2002).

In addition to sector specific performance measures, it is also important to factor in the impact of the type of organization whose performance is measured. In the financial services sector, the type of financial industry has a significant impact on performance and therefore its measurement. Furthermore, generalization of results and the method of performance measurement cannot be made without considerable caution. Study of the same industry in an everchanging and different environments will change the influence of the various factors that contribute to the performance measurement scale (Hussain & Hoque, 2002).

The term organizational performance although widely researched and discussed, is still devoid of an all-encompassing accurate definition. Studies have shown that Organizational performance is polysemous and ambiguous thus making the measurement of organizational performance further complicated.

## Research Methodology

A systematic review on 'the measurement of organizational performance' has been done in this study to identify the problems faced by the researchers and to suggest pragmatic solutions.

Relevant journal articles were sourced by using the key terms "Performance Measurement, Financial Performance Measurement, Organizational Performance Measurement". An exhaustive review of the articles related to the key terms thus obtained were studied extensively to understand the problems in the measurement of Organisational performance. In this systematic review the views and arguments of various researchers have been given due consideration for suggesting suitable solutions.

## Problems in Measuring Organizational Performance

Most of the existing study measuring organizational performance is based on cross-sectional data that is collected during the intervention of the independent factors or immediately after that. This methodology is flawed because, the intervention will take time to show results. In some instances, the intervention of independent variables itself may be done in a step by step process and it takes time to display the impact of the intervention. Moreover, organizational performance tends to slowly improve, fall or remain stable with the course of time. This dimension of changing organizational performance with time is not captured with a cross-sectional data; thus, projecting unreliable results because of the methodology used.

The management of an organization should adopt a performance measurement system that is consistent with the objectives of the organization and not blindly adopt it from similar organizations. For example, the banking industry is still firmly stuck to financial measures for performance measurement (Hussain & Hoque, 2002).

Measurement of organizational performance in various studies is also marred by a unidimensional view on performance. Organizational productivity, profitability, quality, HR implications etc., are few of the dimensions used individually or as combination of a few factors, to study organizational performance. Although it is an established fact that these are important constituents of performance, cherry picking certain variables for the study without a solid reasoning for its inclusion or exclusion has made the results questionable.

Organizational performance measurement especially in terms of Human Resources and Employee perception has failed to give accurate results. Failure to measure organizational performance in many of these cases are due to the fact that the sampling used for the study is faulty. Majority of the studies have given equal weightage for every respondent in the organization. Whereas an organization does not provide all their employees with the same powers

and responsibilities. An employee in the same job level but assigned a different role will make a different impact on the performance in the organization. Furthermore, the method of performance measurement and the weightage being given to the various factors will sway the performance measure.

Integration of performance measurement system should be done with the manufacturing / service planning and control system. Performance measurement system is primarily directed towards planning, control, coordination of activities, evaluation of Human Resources and benchmarking. Studies have shown that there are four distinct performance dimensions – Productivity / Cost, Time, Flexibility and Quality (De Toni, 2001)

Experimental control on predictor variables is generally not exercised by the researchers who study organizational performance. This leads to difficulty in soliciting archival data and makes interpretation extremely difficult (March & Sutton, 1997)

Measuring performance is not a process that can be done within a short span of time. The bottlenecks in an organization's performance measurement such as unavailability of data, format of reporting, channels for report submission and reporting errors makes performance measurement a difficult task. A significant part of the delay in creating a proper reporting system for the performance indicators is generally attributed to the resistance within the organization to the measurement process. Many studies have failed to capture this important factor because it is difficult to observe. The employees who resist the performance reporting system do not share their opinion during the study (Bourne, Mills, Wilcox, Neely, & Platts, 2000).

### **Road Map to Follow while Measuring Organizational Performance**

Researchers must explore the possibility of collecting longitudinal data rather than depending

on cross sectional data. Longitudinal data would enable us to better understand and appreciate the effect of the independent variables on performance.

Failure to precisely capture the measure of organizational performance in the dimension of Human resources and employee perception is mainly attributed to the fact that a faulty sampling technique is adopted for the study. A meticulous effort to follow proper sampling technique that is suitable for the study along with the longitudinal data will enable a researcher to precisely estimate the performance of an organization.

Organizations and employees are often reluctant to disclose vital performance indicators with researchers because they are skeptical about the motive of the Researchers. Researchers therefore have no choice left but to work on the data that is available in the public domain. The researcher should take necessary steps to earn the confidence of the respondents. This will enable the respondents to overcome the resistance to disclose information.

Majority of the studies that measure performance of an organization fail to capture performance measures based on its objectives. Observing the performance of an organization through the lens of its objectives will help in better estimation of performance. Therefore, it is conclusive from these arguments that blindly borrowing scales to measure performance from another organization lacks theoretical backing.

Respondents process the information that they have as per their own convenience rather than giving the right interpretations. This along with the natural tendency of individuals to withhold information to paint a rosy picture of one's own performance will adversely affect performance measurement. This problem has to be overcome by thoroughly understanding the organization's business model and by collecting responses from a diverse group of stakeholders.

Measurement of performance is generally done taking a particular year as the base year and comparing the present year's performance with

that of the base year. Many studies fail to capture the impact of environment in their study. Excluding the impact of external environment distorts the actual measure of performance.

The core measures that constitute organizational performance has been studied by many researchers and there is conclusive evidence for the fact that it varies with sector of operation, organizational internal factors and external environment. A multi-dimensional approach to measuring organizational performance factoring in the unique characteristics of the organization, sector specific attributes that affects performance and external environment is therefore necessary to accurately measure organizational performance.

### Conclusion and discussion

The concept of performance measurement in organizations has been studied in this paper considering the views of various researches. Various studies pointed out the lacuna in the methodology used for the measurement of organizational performance. The problems in measuring organizational performance is therefore studied in detail with the objective of finding suitable solutions to the existing problems and to suggest pragmatic solutions. A comprehensive set of factors that has to be taken into consideration during organizational performance measurement has been suggested for future researches.

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