Assessing Organizational Performance

Organizational performance is a multidimensional concept, and wise managers rely on multiple measures of performance when gauging the success or failure of their organizations. The balanced scorecard provides a tool to help executives gain a general understanding of their organization’s current level of achievement across a set of four important dimensions. The triple bottom line provides another tool to help executives focus on performance targets beyond profits alone; this approach stresses the importance of social and environmental outcomes.

In this article you will learn:

1. Understand the complexities associated with assessing organizational performance.
2. Learn each of the dimensions of the balanced scorecard framework.
3. Learn what is meant by a “triple bottom line.”

Organizational Performance: A Complex Concept

Have you ever been to an archery range and shot arrows at the target? If you have, you already understand the basics of organizational performance! You aim at the center of the target – bulls-eye. But the most important part of each shot is the assessment of whether you are high, low, too far left or too far right – feedback on your performance.

For businesses, organizational performance refers to how well an organization is doing in reaching its vision, mission, and goals. Assessing organizational performance is a vital aspect of strategic management. Executives must know how well their organizations are performing to figure out what strategic changes, if any, to make. Performance is a very complex concept, however, and a lot of attention needs to be paid to how it is assessed.

Two important considerations are:

(1) performance measures and

(2) performance referent.

(Figure 2.5 “How Organizations and Individuals Can Use Financial Performance Measures and Referents”)

Performance measures are metrics along which organizations can be gauged. Most executives, investor and stakeholders watch and examine measures such as profits, stock price, and sales in an attempt to better understand how well their organizations are competing in the market, as well as future predicted results. But these measures provide just a glimpse of organizational performance.

Performance referents are also needed to assess whether an organization is doing well. A performance referent is a benchmark or standard used to make sense of an organization’s standing along a performance measure. Suppose, for example, that a firm has a profit margin of 20 percent in 2011. This might sound great on the surface. But suppose that the firm’s profit margin the year before, in 2010, was 35 percent and that the average profit margin across all...
firms in the industry for 2011 was 40 percent. Viewed relative to these two referents, the firm’s 2011 performance is cause for concern. Using a variety of performance measures and referents is valuable because different measures and referents provide different information about an organization’s functioning. As well, many commonly used measures, including accounting ratios, are highly past-focused. These indicators show stakeholders the end-results of past decisions, but do little to predict future firm performance. Strongly managed organizations must develop a deep understanding of what events or actions support strong(er) performance (i.e., increased product training for sales force leads to increased sales the following quarter), and then ensure these measure these as well.

You may want to challenge this exercise:

1. How might you apply the balanced scorecard framework to measure performance of your college or university?
2. Identify a measurable example of each of the balanced scorecard dimensions other than the examples offered in this section.
3. Identify a mission statement from an organization that emphasizes each of the elements of the triple bottom line.