

# *Placing Performance Measurement and Performance Management In Context Of Strategic Management Process: A Conceptual Framework*

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**Abstract**— This paper shows the importance of performance measurement and management within the strategic management process clearly; not through using one or more of the performance measurement tools and techniques such as (BSC or benchmarking). This deductive, explanatory, qualitative research criticizes several strategic management processes (SMPs) in order to introduce a new conceptual strategic management process (SMP) taking into consideration the findings of the SMPs criticism; and finally answers the research question “Where is the performance measurement and management process placed in the strategic management process?” This paper finds out that SMPs presented in this research have one or more missing elements that affects the SMPs' overall performance. Accordingly; the authors propose a new framework that reallocates Performance Measurement and Management process in relevance to the classical SMP. The research is limited to criticising SMPs that uses one or more of the Performance Measurement techniques or models not SMPs in general. Finally, the paper proposes an improved new conceptual SMP to help researchers and practitioners understand the consistencies between SMP and PM&M.

**Keywords** — **Balanced Scorecard, Benchmarking, Performance Measurement, Strategic Management**

## I. INTRODUCTION

Strategic management is the guide that directs enterprises throughout the environment in a highly competitive manner [1]. This importance led several researchers [2; 3; 4; 5] to divide the strategic management process (SMP) into several stages. These stages are different according to the researcher point of view; it was noticeable according to several authors [6; 2; 7] that Balanced Scorecard (BSC) and Benchmarking are important elements in the strategic management process.

In spite of the fact that [8] stated that arranging operational and management processes in line with performance indicators is the core process of successful strategy implementation; and the fact that BSC and Benchmarking are performance measurement techniques; performance measurement and management as a process and as a concept is not present in several SMPs [2; 3; 4; 5]. This shows the importance of having a newly improved.

strategic management process to show the importance of performance measurement and management within the strategic management process clearly not through using one or more of the performance measurement tools and techniques such as (BSC or benchmarking).

In this essence; this deductive, explanatory and qualitative pure research criticizes several SMPs, accordingly can introduce a new conceptual SMP taking into consideration the findings of the SMPs criticism; and finally answers the research question “Where is the performance measurement and management process placed in the strategic management process?”

## II. STRATEGIC MANAGEMENT PROCESS

External and internal environment of organizations highly influence its strategy [9; 10; 11]. It is also noticed that strategic management for several years has had a poor relationship to several problems faced by managers [12] accordingly; managers and leaders are in continuous need of sequential steps (SMP) that helps them in giving an effective decision making as strategic management has not been just planning anymore [10]. This caused researchers [2; 3; 4; 5] to divide organizations' SMP into several steps according to different perspectives.

This section presents several SMPs introduced by a number of authors and giving a criticism about them.

### A. Classical SMP

Several authors [13, 14; 15] divide the SMP into three main stages:

- Strategy Formulation,
- Strategy Implementation
- Strategy Control

Figure 1 represents the Classical SMP.

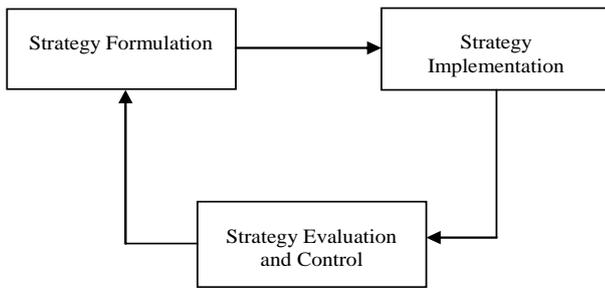


Fig. 1: Classical SMP

1) Where the *Strategy Formulation Stage* is concerned mainly by the planning function and consists of 3 phases:

- a) *Setting Strategic Direction*: mainly about defining the business which shows the aim and details of the business such as the generic strategy used and the targeted customers, in addition to the vision and mission of the business.
- b) *Strategic Analysis*: concerned by scanning the organizational external and internal environment using several strategic planning tools (for example: SWOT analysis)
- c) *Action Planning*: constructing an action plan based upon the first two phases in order to attain the organizational goal through setting SMART (Specific, Measurable, Achievable, Reliable, Timeliness) objectives.

2) The *Strategy Implementation Stage* shows the importance of organizing and leadership as managerial functions in implementing a strategy also it focuses on the usage of BSC and Benchmarking in maintaining competitive edge of the organization and therefore helps in implementing the strategy and attaining the strategic goal set in Strategy Formulation stage.

3) The *Strategy Control Stage* is the stage where several controlling methods (Premise Control, Strategic Surveillance, Special Alert Control and Implementation Control) are used to ensure the attainment of the strategic goals and that the plan is on track as set in the Strategic Formulation stage.

However, to set a more accurate SMP, performance should be measured and managed to signal any needed changes in the formulation area before deciding the controlling action needed [16; 7].

This opinion is enhanced by several authors [6; 2; 7] who proposed different models of strategic management and added the aspect of performance to it either explicitly or through adding BSC or benchmarking in an indirect indication to performance measurement and management.

#### B. Chen (2005) Framework [4]

Figure 2 was proposed by [4] as a four stages conceptual framework for SMP:

- Situation Analysis
- Strategy Planning
- Strategy Implementation
- Strategy Evaluation

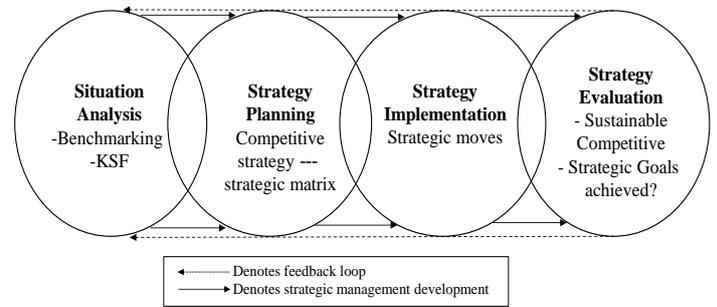


Fig. 2: Strategic Management Conceptual Framework

The framework proposed by [4] is based mainly upon external analysis and internal analysis of the organization this is presented in the "Situation Analysis" phase. This is similar to a part of the strategic formulation phase in the classical SMP. He further states that the external analysis is analyzing the industry environment through identifying the firms that can be a benchmark for the organization in a certain industry and selecting their success modes such as the Key Success Factors (KSFs).

This shows that [4] framework ignores other levels of external environment such as the operating environment and the remote environment [13] which makes the analysis very focused without considering other aspects that may affect the organization. On the other hand [4] suggested the usage of only the benchmarking as a tool of measuring performance while he did not mention other tools such as the BSC or the Activity based costing [17; 18] that may give a broader spectrum of analyzing the external environment and the measuring the organization's performance.

The authors agree with [4] that when carrying internal analysis, managers should identify the internal resources and capabilities so that in order to form the basis of the organization's internal competitive advantages.

The Strategic Planning (SP) phase of SMP also have the same issue as in the "Situation Analysis" phase that is only concerned with benchmarking in the industrial environment to show the competitive advantage; in the addition to the fact that the SP phase concentrates on the fact that the competitive advantage is only developed in the internal environment while the competitive advantage can be developed in the external environment through using appropriate tools such as the Four Corners Analysis and the Five Forces analysis [13; 14].

Accordingly this will affect the implementation of the strategy in the "Strategic Implementation" and "Strategy Evaluation" phase.

#### C. Andre' A. de Waal (2007) Model [7]

Figure 3 is a proposed Strategic Performance Management Development Cycle by [7].

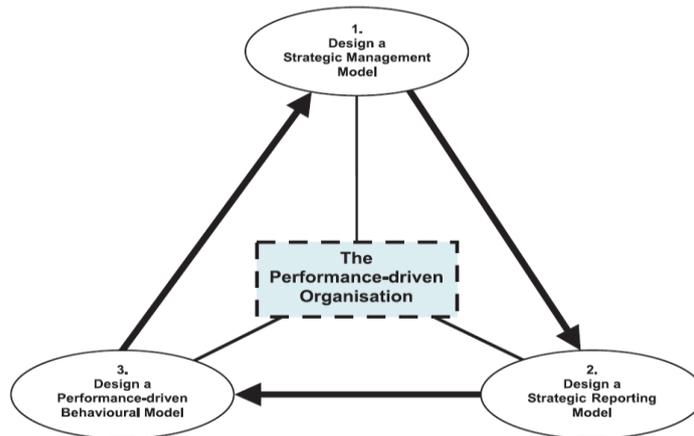


Fig. 3: Strategic Performance Management Development Cycle

Figure 4 is a further illustration of Figure 3 in a project plan proposed also by [7].

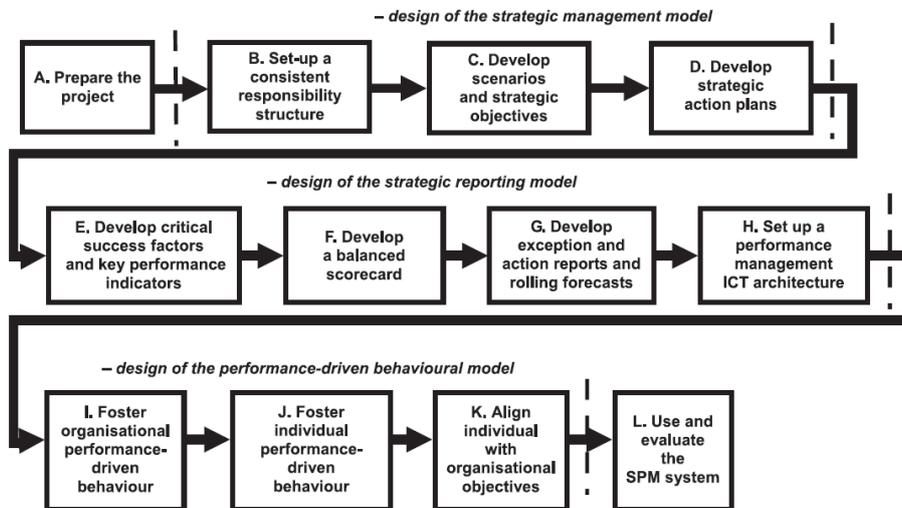


Fig. 4: Plan for applying Strategic Performance Management Development Cycle

The authors agree with [7] in the concept of the importance of performance management in business world and in the strategic management process. In addition to agreeing that performance management is important for a competitive strategic management process.

Literature of strategic management (SM) divides the strategic management process (SMP) into three main areas: formulation, implementation and evaluation and control [13; 14].

From the authors' point of view; [7] substituted the formulation phase in the SMP by "Design a Strategic Management Model" phase in Figure 2. The "Design of the Strategic Reporting Model" phase as shown in Figure 3 is all about performance measurement and management through using performance measurement techniques such as Balanced Scorecard [17; 18] and then reporting the performance for managing it.

The last phase in [7] model although took into consideration an aspect that is not much tackled in strategic management process which is the "performance driven behavior" but on the

other hand the model in Figure 3 neglected the control stage in SMPs.

#### D. Gonçalves (2009) Model [6]

This model is based on the Classical SMP. Meanwhile; [6] puts the foundation of literature for his model based on the description of the control and evaluation stage SMP to be conducted by means of measuring performance, in order to ensure the achievement of the objectives and goals. This understanding of the Controlling stage in an SMP is therefore different than the Strategy Control stage in the Classical SMP as performance measurement techniques (BSC and benchmarking) in the Classical SMP is used in the implementation stage and other types of control are used in the Control stage.

Figure 5 shows that [6] used BSC to measure the performance after "Definition of Objectives and Targets" stage which is correspondent to the "Action Planning" phase in the Strategy Formulation stage shown Classical SMP. Consequently, the quality of the Strategy planning stage (strategic formulation) in order to ensure the quality of objectives and targets before implementation.

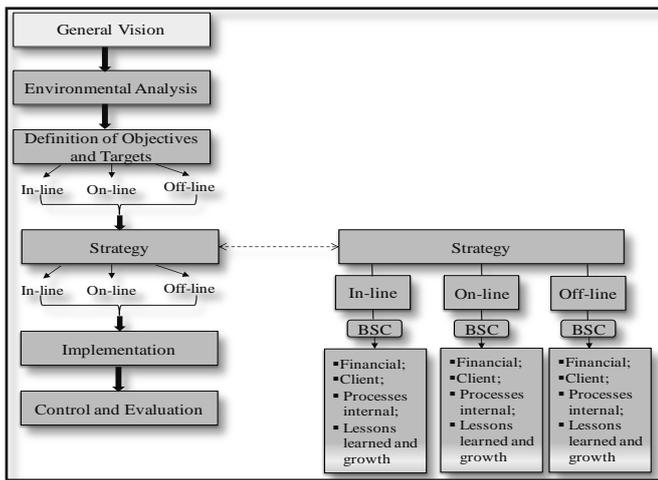


Fig. 5: The Proposed Strategic Model Planning

The authors agree with [6] the performance should be measured during the strategic management process and that ensuring quality of objectives and targets before implementation will help in qualifying the planning process. However; the SMP needs to have another performance measurement after implementation to ensure quality for the whole process not only the planning stage. As concluded from previous discussion; performance measurement and management is an important aspect in conducting a well structured SMP. Section III shows a brief literature about the PM&M process that is proposed for usage in this paper.

### III. PERFORMANCE MEASUREMENT AND MANAGEMENT PROCESS

Performance measurement is simply comparing what are the really attained goals to what goals should have been attained [17]. On the other hand, performance management is defined by some researchers [17; 18] as using the data gained from the performance measurement process and manage it to improve performance which leads to attaining the targeted goals. Performance Measurement and Performance Management therefore are the logical sequence to each other as effective performance measurement is essential for an efficient performance management [17].

Figure 6 is a PM&M process introduced by [19] that illustrates a detailed performance measurement and management process.

This performance management process is implemented through the following steps:

- Collecting data about the project goals and performance of team members from responsible parties according to the measures identified through the performance measurement process until a database is well arranged.
- This data will be analyzed and reported to know the actual performance.
- This report will be used to compare actual performance to targeted goals.
- If a variation is detected between the actual performance and the targeted goals then a corrective action should take place to reach the targeted goals.

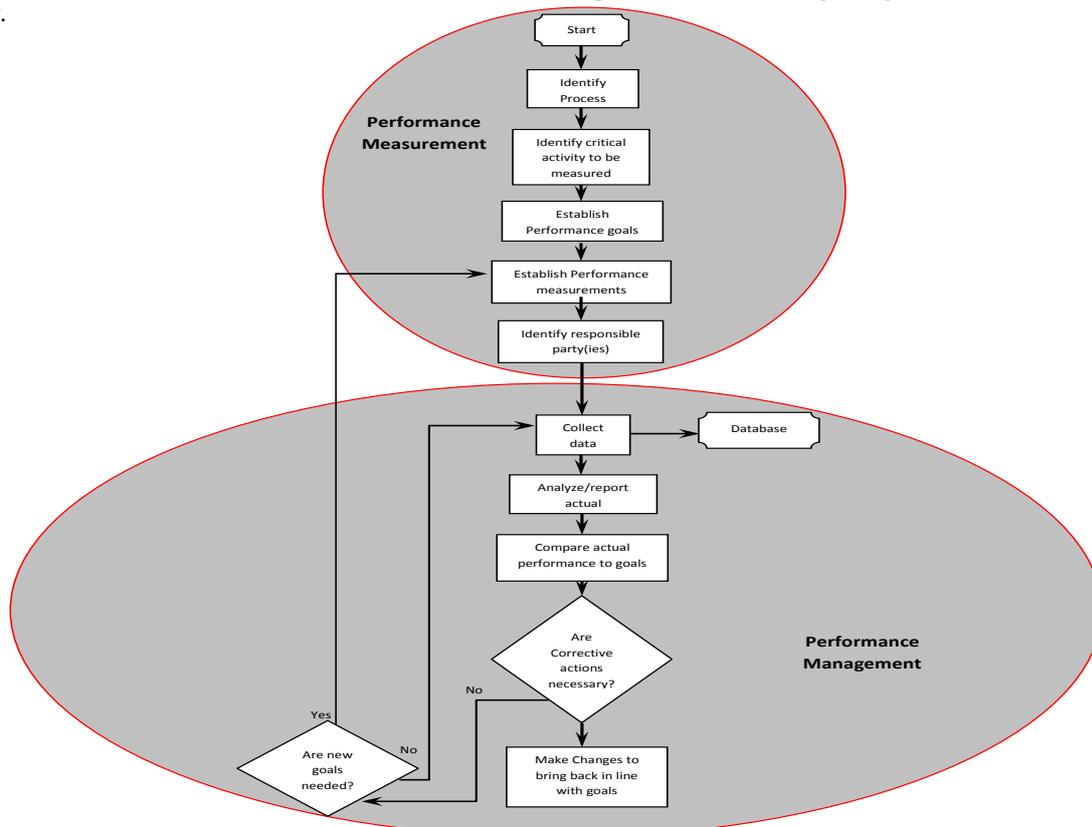


Fig. 6: Performance Measurement and Management Process

- If there is no variation then either new goals are set and consequently new performance measures and the cycles keeps going on; or there is no need for new goals which means that collecting data and evaluation shall be done again periodically to ensure reaching the targeted goals.

During the PM&M process techniques are use to measure performance and point out problems giving indicators for solving it [18; 19].

The following is a brief explanation of only some of the performance measurement models and frameworks to fulfill the purpose of this section:

#### A. The Strategic Measurement Analysis and Reporting Technique (SMART) model

The strategic measurement analysis and reporting technique (SMART) system was developed by Wang Laboratories, Inc. as a result of dissatisfaction with traditional performance measures such as utilization, efficiency, productivity and other financial variances. The objective was to devise a management control system with performance indicators designed to define and sustain success [17].

#### B. Benchmarking

Benchmarking tends to involve taking a largely external perspective, often comparing performance with that of competitors or other best-of-breed practitioners or business processes. This kind of activity is frequently pursued as an

exercise to generate ideas for, or obtain commitment to, short-term improvement initiatives rather than to design a formalized performance measurement system [17].

#### C. Activity-Based Costing (ABC)

ABC is a performance measurement costing method that helps managers gain information about each customer's contribution to the overall profitability [17].

#### D. The Balanced Scorecard (BSC):

According to [20] cited in [21], "The Balanced Scorecard should translate a business unit's mission and strategy into tangible objectives and measures". The most famous is the Kaplan-Norton "balanced scorecard" which is used to incorporate a business methodology in order to define and relate both financial and non-financial indicators of performance [20].

The next section shows the authors' proposed conceptual framework placing PM&M process in the SMP.

### IV. PROPOSED STRATEGIC MANAGEMENT FRAMEWORK

According to the discussion in the previous sections the authors can conclude that every model presented in this paper may have one or more missing elements that affect the SMPs overall performance. Table I shows these missing elements and the contribution of the proposed SMP:

TABLE I: MODELS vs. SMP STAGES:

Model Name	Formulation Stage	Implementation Stage	Controlling Stage	Performance Measurement and Management Stage
Classical SMP	√	√	√	Implicitly Exists
Chen (2005) Framework	Partial (Only internal environment and remote external environment)	√	√	Only Benchmarking (Concentrating on the competition that is based on internal environment)
Andre' A. de Waal (2007) Model	√	√	Neglected	Only BSC
Gonçalves (2009) Model	√	√	√	Only BSC
Proposed Model	√	√	√	√

Figure 7; accordingly; is the new SMP framework proposed by the authors:

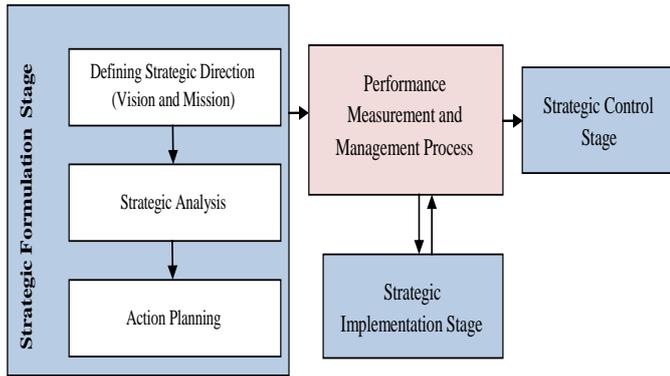


Fig. 7: The Proposed Strategic Management Framework

This Framework presents the three stages of classical SPM where the new SMP consists of four main stages:

- 1) *Strategic Formulation Stage* which is divided three phases as discussed by [6; 13; 14]; these phases are:
  - a) Setting organizational direction (defining the business, vision and mission)
  - b) Conducting Strategic Analysis (scanning organizational external and the internal environment using several Strategic tools).
  - c) Setting SMART (Specific, Measurable, Achievable, Reliable, Timeliness) objectives that help in attaining the organizational strategic goal and constructing an Action Plan
- 2) *Performance Measurement and Management Stage* as agreed with [6] where the organization shall revise the action plan and the decisions taken to ensure its adaptability to the external and internal environmental changes.
- 3) *Strategic Implementation Stage* where the strategy need to be implemented taking into consideration several aspects such as the organizational structure, organizational behaviour and culture. In addition to that the leadership managerial function is needed for optimum implementation of the organizational plan and attaining organizational goals.
- 4) *Performance Measurement and Management Stage* once again need to be conducted in order to ensure the organizational processes are in place and that all processes are doing their role in attaining strategic goals and objectives of the organization and that no new trends, technologies and/or organizational changes are introduced.
- 5) *Strategic Controlling Stage* using several and different types of controlling according to environmental changes in order to ensure the attainment of the strategic goals and objectives.

## V. CONCLUSION

In order to answer the proposed research question; “Where is the performance measurement and management process placed in the strategic management process?”. This paper shows that PM&M process needs to be placed in the SMP in two places first after the formulation and the second is after

the implementation stage in order to maximize the opportunity of reaching a successful Organizational Performance.

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