

PROCESS APPROACH AND ITS APPLICATION IN STRATEGIC PERFORMANCE MANAGEMENT

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Abstract

The main objective of this paper is to analyse process approach in concept of strategic performance management.

The paper begins with a description of Process Management and with a shift in paradigm in Management. Paper analyses nature of process management orientation, its components and its contribution to management and strategic management of organization. Further paper analyse is strategic performance management in process-oriented organization, its main characteristics and application.

Introduction

The word „change“ is the main characteristic of current world. Changes are everywhere and in everything and management of organization is changing as well. Changes in organizations environment force managers to observe and look for new ways of solving problems. Managers are obligated to find the best suitable response and reaction to emerging problems and new situations.

Not every new approach is immediately bringing positive results; however, there is always strong motivation of managers to apply and verify new approaches and methods, which constantly puts pressure on the theory and practice of management.

Changes in style and approaches in management organizations have become a necessary requirement for competitiveness and survival of organizations in a difficult competitive environment. The organization must be sufficient prepared and prepared in advance for the future and new changes and here plays an important role strategy and strategic management.

Main objective of this paper is to focus on exploring ways of using the process approach in strategic management and in organization performance improvement.

Organization performance improvement is not a short term task and requires the application of strategic insights and strategic approach to the management organization. The intention of this

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paper is to examine in particular organization in terms of application of process approach to increase the effectiveness of the strategic management of the organization and thereby improve its performance.

1. Process management

For the long period, the use of the functional approach to management was the nature of the paradigm.

Paradigm in management is understood as the idea or concept of a managerial thinking and action, which is valid for a certain period. It is a contemporary interpretation of the subject or model of a complex phenomenon, which consists of a set of principles. The principles are indisputable and fundamental; i.e. they are considered as axioms in the complex sciences, don't need evidence. These principles serve as a basic truth, and some recommendations for managers.¹⁴

Lately, due to the changing environment, we can talk about the paradigm shift from the classical concept of functional approach to new approach called process management.

Concept of functional approach was based on the fundamental principle of division of labor and specialization, which was reflected in the organization and then penetrated into other management functions. The process management promotes a different perspective. Organizations are built on the principle of integration of activities into coherent business processes. This concept is based on the assumption that the cause of the unsatisfactory results of organization lie in bad functioning of business processes. Therefore, there is necessity to strengthen the management of process as a whole. Effective process management brings a number of advantages as improvement of the organization's ability to anticipate, manage and respond to changing conditions in the environment, and thus the maximum advantage of market opportunities, proper management of processes can also reduce the inefficiencies and errors resulting from the redundancy of information and business activities.

The nature of process management orientation lies in view of system of organization as the system of processes, sub-processes and activities. Process management system is an open dynamic system, whose essential elements are processes.

Process management focuses on processes rather than individual activities. For identifying a process, organization need to define the components processes as inputs, outputs, power supplies, regulators, process owner, process, customer, process supplier. Identification and development of processes are the basis for analysis and process improvement.

¹⁴ TRUNEČEK, J.: Znalostní podnik ve znalostní společnosti. Praha: Professional publishing 2003. s. 78 - 95. ISBN 80-86419-35-5

The process view allows the organization to get an overview of all its processes. Usually is this overview of all processes in organization called process map or process model. Processes doesn't have the same character, some processes contribute to fulfill mission of organization directly others indirectly. In the theory and practice of process management we can find a variety of classifications or typologies of business processes. Based on the criteria, whether the process has external customers, whether the process adds value and generates revenues, processes can be classified in the main/value-added, management and support processes.

Currently, there are several management methods and concepts that can be defined as the process management tools. These tools were created in different time, under different condition, thus they have advantages and disadvantages as well.

The most popular tools of process management are:¹⁵

- ABC (Activity Based Costing)
- ABM (Activity Based Management)
- Reengineering
- BSC (Balanced Scorecard)
- SCM (Supply Chain Management)
- Quality Management Systems (ISO, EFQM, Six Sigma, ..)
- CRM (Customer Relationship Management)

The process model of organization is a key tool of strategic management of an organization. Organization should not only prepare strategy but also apply the whole strategic management process, with all its basic stages: analysis of environment, strategy formulation, strategy implementation and strategic control.¹⁶

2. Strategic Performance Management in Process-oriented Organization

The performance of the organization is given by accumulation of the results of all processes and activities within the organization. Performance Management is a complex and important concept, whereby managers of organizations seek to discover and understand the factors that contribute to performance. Under performance of the organization we can understand ability of

¹⁵ PAPULOVA, Zuzana: *Process Approach and its Application in Strategic Performance Management*. [Dissertation Thesis] / Zuzana Papulova. – Comenius University in Bratislava. Faculty of Management. Department of Strategy and Entrepreneurship. Bratislava 2007. Supervisor: doc. Ing. Anna Pilková, CSc, MBA

¹⁶ PAPULA, J.: *Vývoj teórie strategického manažmentu pod vplyvom meniaceho sa prostredia*. 1. vyd. Bratislava: Kartprint, 2004. p. 62. ISBN 80-88870-40-2

organization to achieve its desired objectives. There is important to accurately set out the objectives, but at the same time to seek appropriate ways for their achievement. If an organization is interested in developing their long-term success and long-term performance, it must analyze and evaluate its performance and potential and set out objectives and choose appropriate ways of achieving them based on forecasts of environment development. Therefore, performance management is an important part of strategic management organization.

From the long term of view, the organization is performing well, if its predetermined goals, which are defined in the strategy, are achieved. If the strategy is properly chosen, the achievement of the objectives depend only on how the organization is able to implement the strategy

Performance management is associated with the strategies making, but also with strategy proper implementation. Problems that have a significant impact on the performance of organizations lie often in process of strategic management and not only in insufficient processing of strategy, but also in misunderstanding or insufficient involvement of employees with the strategy of the organization.

Implementation of strategy requires development of a strategic plan and its link to the annual plans, which indicate how we want to proceed in implementing strategy and achieving the strategic goals. Absence of these connections is one of the most common reasons of unfulfilled strategy, and hence not reaching of desired performance. Strategic plan and strategy should be based on common objectives and indicators to get accurate evaluation the success of their achievement. Performance Management process-oriented organization should be based on the following hierarchy:¹⁷

- Establishment of an ambitious vision
- Definition of mission and strategy and identification of strategic objectives
- Definition of key processes and key indicators of performance
- Assessment of process performance and setting out of priorities in improving performance
- Definition, evaluation and management of approved projects.

In this hierarchy (Figure 1), the dominating position has an ambitious vision, a definition of mission and a strategy and an identification of strategic goals.

Many of strategic objectives and tasks can not be effectively implemented without the existence of a flexible process model of organization. Process model defines activities and processes which are necessary to fulfill strategic goals

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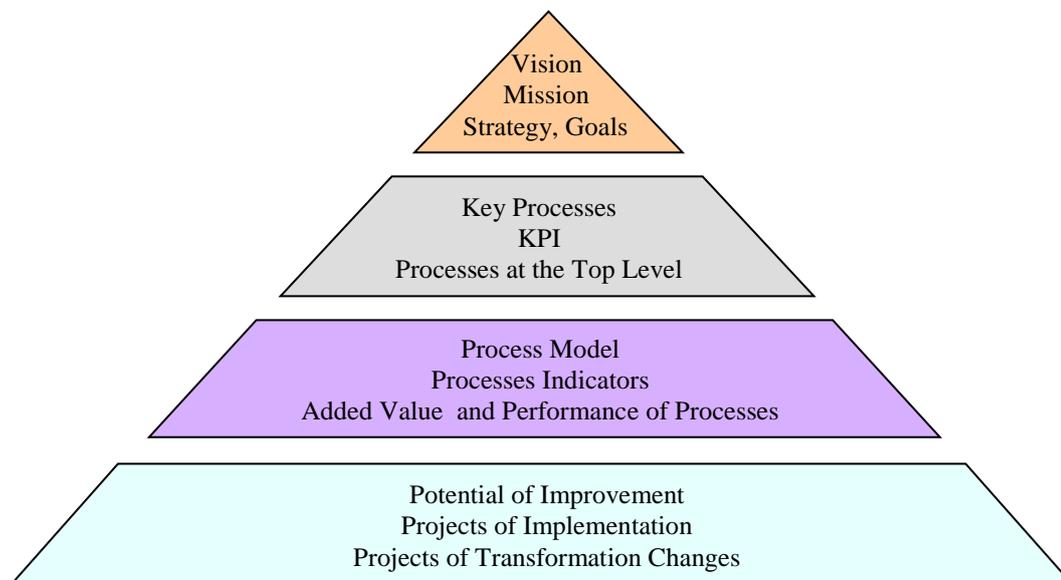


Figure 1: Strategic management in process-oriented organization¹⁸

Strategic performance management is a continuous process that relies on measuring and evaluating performance in organizations related to strategy and strategic objectives. Measurement and evaluation of performance is known as a preparation and dealing with key performance indicators (KPIs) to objectively evaluate the critical success factors in its activities and provide feedback which is crucial for the improvement and continuous improvement.

First step is to identify critical success factors (CSFs) which should be based on organization position, its characteristics and its vision and strategy. Next step follows with determination of KPIs which should be related to CSFs. KPIs describe the specific area at the best and give the opportunity for analyses and presentation of the potential impacts of changes in these indicators for feasibility of the strategy. KPIs objectively evaluate the success factors of organization and provide feedback, which is crucial for progress in the improvement and continuous improvement.¹⁹

KPIs should lead to continuing improvement of value of the organization and motivate managers to better results. Performance measurement through KPIs determines rate of achieved goals in comparison to defined goals and give us information, whether the way we planned to achieve the objectives, we pass correctly.

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¹⁹ HORNUNG, K., MAYER J.H.: *Balanced Scorecard k podpoře hodnotově orientovaného řízení podniku*. n: Výsledky pilotního projektu informačního zabezpečení vrcholového managementu společnosti. Controlling, Poin Consulting, č. 2., 2000.

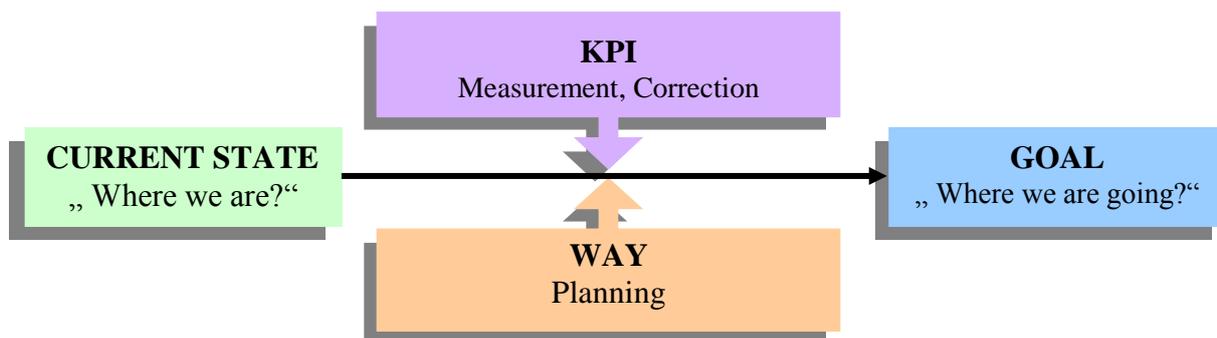


Figure 2 Performance Measurements and Key Performance Indicators ²⁰

Many of organization often measure the performance only with financial indicators. Using financial ratios to measure and evaluate the performance of the organization is considered as a traditional way of measuring performance. Performance management organizations based on financial indicators could lead to short-term solutions. Financial indicators may encourage managers to make short-term decisions affecting the performance of immediate results without link to long-term strategy. Financial indicators may sometimes lead against the implementation of strategy. For instance, if the strategy is based on improving human resources, financial indicators observe immediate increase in costs.

However, non-financial indicators provide important information about the performance of the organization and therefore new approaches of monitoring the performance of the organization enrich traditional system of financial indicators with non-financial aspects. Traditional financial ratios are therefore only part of performance measurement system.²¹

The need of organizations to achieve long-term competitiveness has created space for new methods of performance management. We can mention Balanced Scorecard (BSC). Balanced Scorecard and its instruments - Strategic Maps, are considered as important tools for strategic management. Balanced Scorecard provides a methodological framework by which an organization can describe its strategy, visualize it, and manage its implementation.

Balanced Scorecard uses ratios in four perspectives: finance, customer, processes, and learning and growth perspectives. Creating a strategic map provides visualization strategy and its easy communication.

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Balanced Scorecard removes a significant problem with strategy communication and motivation of staff to assist in its implementation. Presentation of the vision, strategy followed by operational objectives gives more motivation to employees to work in „right direction”. After implementation of this method, every employee should have access to information that primarily affecting him/her, and that resulting from the strategy. The strategy should be presented in the context of everyday activities.

There are also other systems and management concepts, based performance process management. Besides the already mentioned Balanced Scorecard, there are:

- Performance Measures
- Process Benchmarking
- EFQM Excellence Model (European Foundation for Quality Management)
- Baldrige National Quality Program
- Value Based Management (VBM).

One of the current approaches to performance management is monitoring the performance of organizations through performance measurement and evaluation of processes (Process Performance Measures). Processes provide an excellent basis for the arrangement of the measurement system and performance management. The process, which is controlled, ensures good performance. Conversely, processes which are without control or have a negative relationship with other processes, have worse or poor performance. The substance of process approach lies in focus on measuring process more than on outcome of output (as with the previous performance management system). Process Performance Measures is a concept that requires process-driven organization and performance management monitors process performance rather than the overall organization.

Based on the strategic goals, organization should determinate values of ratios for processes. First, we need to identify the processes that affect the achievement of strategic goals, main or key processes. For these processes we have to determine performance indicators by which are performances measured.

After the identification of processes, there should be carried out simulation and optimization of processes. Their purpose is to determine how the process will proceed and how it needs to change its structure or process attributes (creating variants of the process) to achieve the selected value performance indicators, and hence the value of strategic objectives. If we know the process definitive form (layout, resources, constraints, etc.), we can "run" the process and subsequently

measure and evaluate the process. Simulation and optimization take place mainly in the manufacturing processes. Their application to other processes in the organization is not a condition, however, increases the level of management.

3. Application

The application part of the work is devoted to development of the concept of strategic performance management organization based on process approach in non-profit organization, Faculty of Management, Comenius University in Bratislava. On this example we can point out the need to consider value orientation of the organization.

According to the research (doctoral dissertation 2004 – 2007)²² we proposed a general model of strategic performance management, reflected the conditions of faculty of public university.

This general model is developed in four phases (Figure 3).

Starting point is the definition and direction to organization performance. In this phase plays an important role application of VBM - Value Based Management approach, based on the requirements reflect the needs and interests of key stakeholder and conduct stakeholder analysis.

The second phase focuses on the running of the organization aligned with the defined objectives and it is based on the formation process model organization, defining critical success factors and identification of performance objectives.

The third phase of the model is based on the measurement of performance through performance indicators and final phase is designed to assess the results achieved and to propose changes aimed at improving company performance in terms of achieving the vision, mission, strategic goals and strategies. The proposed model used Parameter's approach to KPI and other performance indicators.

Conclusions of the research have been discussed with representatives from managerial praxis and can be considered as a basis for future cooperation in their practical application.

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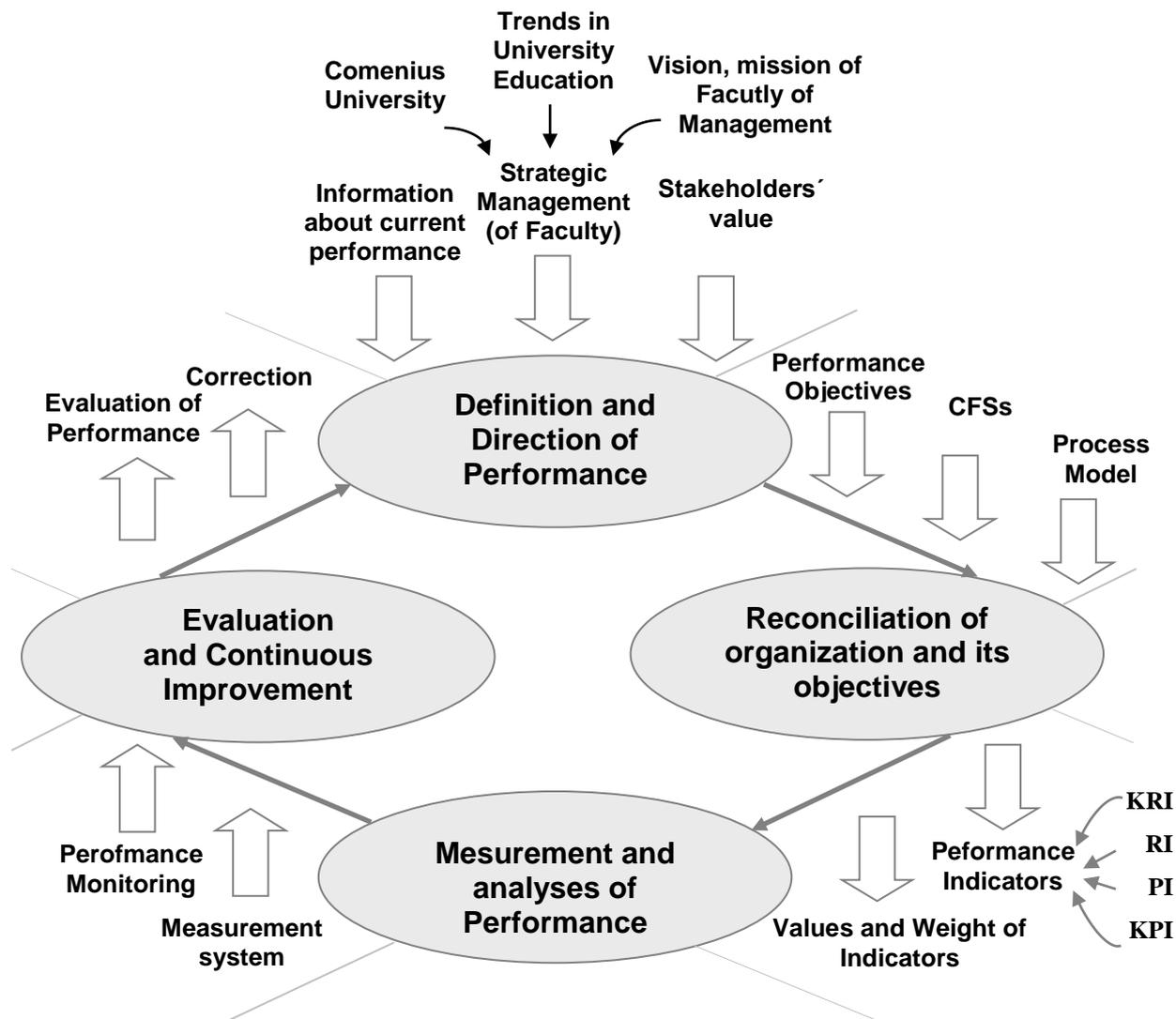


Figure 3 Model of strategic performance management of faculty ¹⁹.

Proposed model shows four phases of implementation of Strategic Performance Management in specific organization. This model respects the nature and characteristics of Slovak faculties and universities.

Conclusion

Paper focuses on possibilities of Process Approach application in Strategic Performance Management. In application part paper proposed a model of implementation of Strategic Performance Management and Measurement in process-oriented organization and non-profit organization. Proposed Model could be a recommendation and technique how to implement Strategic Performance Management concept in specific organization.

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