

4.1 Measurement, Analysis, and Improvement of Organizational Performance

Purpose

This item asks how you select and use data and information for performance measurement, analysis, and review in support of organizational planning and performance improvement. The item serves as a central collection and analysis point in an integrated performance measurement and management system that relies on financial and nonfinancial data and information. The aim of performance measurement, analysis, review, and improvement is to guide your process management toward the achievement of key organizational results and strategic objectives, anticipate and respond to rapid or unexpected organizational or external changes, and identify best practices to share.

Commentary

Aligning and integrating your performance management system. Alignment and integration are key concepts for successfully implementing and using your performance measurement system. The Criteria view alignment and integration in terms of how widely and how effectively you use that system to meet your needs for organizational performance assessment and improvement and to develop and execute your strategy.

Alignment and integration include how measures are aligned throughout your organization and how they are integrated to yield organization-wide data and information. Organization-wide data and information are key inputs to organizational performance reviews and strategic decision making. Alignment and integration also include how your senior leaders deploy performance measurement requirements to track work group and process-level performance on key measures that are targeted for their organization-wide significance or for improvement.

Big data. The challenge, and the potential, of ever-increasing amounts of and modalities for data lies in choosing, synthesizing, analyzing, and interpreting both quantitative and qualitative data, turning them into useful information, and then acting operationally and strategically. This requires not just data, but knowledge, insight, and a mindset for intelligent risk taking and innovation.

Information analytics. For operational improvement, analysis of data comparing two important measurement dimensions (e.g., productivity, profitability, ROI, customer satisfaction characteristics and their relative importance) is usually sufficient. A third dimension, such as time or segmentation (e.g., by customer segments), might be added. In the strategic domain, more advanced information analytics can provide a three-dimensional image, with a fourth dimension of current state and desired or predicted future states of organizational performance, technologies, people, and markets served. From those data-based, fact-based pictures, organizations need to develop strategy or strategic scenarios.

The case for comparative data. The use of comparative data and information is important to all organizations. The major premises for their use are the following:

- Your organization needs to know where it stands relative to competitors and to best practices.
- Comparative information and information obtained from benchmarking often provide the impetus for significant (“breakthrough”) improvement or transformational change.
- Comparing performance information frequently leads to a better understanding of your processes and their performance.
- Comparative performance projections and competitors’ performance may reveal organizational advantages as well as challenge areas where innovation is needed.

Comparative information may also support business analysis and decisions relating to core competencies, partnering, and outsourcing.

Selecting comparative data. Effective selection of comparative data and information requires you to determine needs and priorities and establish criteria for seeking appropriate sources for comparisons—from within and outside your industry and markets.

Reviewing performance. The organizational review called for in this item is intended to cover all areas of performance. This includes not only current performance but also how you project your future performance. The expectation is that the review findings will provide a reliable means to guide both improvements and opportunities for innovation that are tied to your key objectives, core competencies, and measures of success. Review findings may also alert you to the need for transformational change in your organization's structure and work systems. Therefore, an important component of your organizational review is the translation of the review findings into actions that are deployed throughout your organization and to appropriate suppliers, partners, collaborators, and key customers. **Use of comparative data in reviews.** Effective use of comparative data and information allows you to set stretch goals and to promote major nonincremental ("breakthrough") improvements in areas most critical to your competitive strategy.

Analyzing performance. Analyses that you conduct to gain an understanding of performance and needed actions may vary widely depending on your organization's type, size, competitive environment, and other factors. Here are some examples of possible analyses:

- How product improvements or new products correlate with key customer indicators, such as satisfaction, loyalty, and market share
- Return on investment for intelligent risks that you pursue
- Cost and revenue implications of customer-related problems and effective problem resolution
- Interpretation of market share changes in terms of customer gains and losses and changes in customer engagement
- Trends in key operational performance indicators, such as productivity, cycle time, defect levels, waste reduction, carbon footprint, and new product introduction

SOURCE: 2019–2020 Baldrige Performance Excellence Framework Criteria Commentary - This commentary provides brief summaries of the Baldrige Criteria for Performance Excellence categories and items. It also includes examples and guidance to supplement the notes that follow each Criteria item in the Baldrige Excellence Framework booklet. For additional free content, and to purchase the booklet, see www.nist.gov/baldrige/publications.

- Relationships among learning by workforce members, organizational learning, and the value added per employee
- Financial benefits derived from improvements in workforce capacity, safety, absenteeism, and turnover
- Benefits and costs associated with education and training
- Benefits and costs associated with improved organizational knowledge management and sharing
- The relationship between knowledge management and innovation
- How the ability to identify and meet workforce capability and capacity needs correlates with retention, motivation, and productivity
- Cost and revenue implications of workforce-related problems and effective problem resolution
- Individual or aggregate measures of productivity and quality relative to competitors' performance
- Cost trends relative to competitors' trends
- Relationships among product quality, operational performance indicators, and overall financial performance trends as reflected in indicators such as operating costs, revenues, asset utilization, and value added per employee
- Allocation of resources among alternative improvement projects based on cost/benefit implications or environmental and societal impact
- Net earnings or savings derived from improvements in quality, operational, and workforce performance
- Comparisons among business units showing how quality and operational performance affect financial performance
- Contributions of improvement activities to cash flow, working capital use, and shareholder value
- Impacts of customer loyalty on profit
- Cost and revenue implications of new market entry, including product-line and geographic expansion
- Market share versus profits
- Trends in economic, market, and stakeholder indicators of value and the impact of these trends on long-term organizational success

Aligning analysis, performance review, and planning. Individual facts and data do not usually provide an effective basis for setting organizational priorities. This item emphasizes the need for close alignment between your analysis and your organizational performance review and between your performance review and your organizational planning. This ensures that analysis and review are relevant to decision making and that decisions are based on relevant data and information. In addition, your historical performance, combined with assumptions about future internal and external changes, allows you to develop performance projections. These projections may serve as a key planning tool.

Understanding causality. Action depends on understanding causality among processes and between processes and results. Process actions and their results may have many resource implications. Organizations have a critical need to provide an effective analytical basis for decisions because resources for innovation and improvement are limited.