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Redefining Organizational Performance
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Abstract

Economists have always held that pecuniary gains are an 'accurate expression of success' (Schumpeter) in business. Visionary industrialists (Ford, Tata, Matsushita) have repudiated this outlook, to no avail. The hold of money markets has only gotten more unshakeable each day. In contrast, Drucker (1955) called profit as a goal 'irrelevant', and advanced a set of eight metrics that describe a company's performance.

In parallel, TQM Gurus and practitioners set their own paths. In 1961, control-item tables figured in Teijin's Deming Prize citation. The origin of the now-familiar QCDSM metrics is informally attributed to Mizuno. Juran's 1964 book Managerial Breakthrough showed how to set control items and manage them as an 'executive instrument panel’. In the 1980s, Yokogawa Hewlett Packard transferred its system of Business Fundamentals Table, a range of metrics, to its parent U.S. company. In 1990, Art Schneiderman, the quality head of Analog Devices, announced the first Balanced Score Card. In a Harvard Business Review article in 1992, Kaplan and Norton - both finance professors - popularized it, and made it attractive to business schools and consultants.

The problem is that these approaches are not enough anymore. Performance cannot be equated with measurable results alone. It should be defined both by infrastructural elements (capability) - and superstructure elements – results that include product and brand power (Hino). Capability should include technology as well as managerial capabilities to maintain, improve and transform. Besides, organizations should build momentum internally, and become both adaptable and resilient. The subjective is legitimate in judging performance.

Even more is required. Thus far, planet earth concerns have been swept under the carpet. Societal quality now includes avoidance of harm to society through chemicalization, depletion of resources, hazards, and climate warming. Organizational performance measures must be redefined to address these. This paper will propose a model for doing so.

Keywords: Control Point, Performance, Capability

Profit as Performance

For most economists and all of the financial markets, this is a no-brainer. While distinguishing their function from robbers, Joseph Schumpeter (1911) asserted: “Pecuniary gain is indeed a very accurate expression of success (of businesses).” Some American business writers have been especially aggressive in their viewpoint, with that ‘legendary marketing scholar’ Theodore Levitt (1958) declaring: “Welfare and society are not the corporation’s business. Its business is making money, not sweet music.” He thought that “this aspect of purity and service” was “nightmarish,” a “corrosive distraction’. The Nobel laureate Milton Friedman (1970), in the spirit of laissez faire (let do), chided businessmen who talked of social responsibility for being “unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades.” Creating Shareholder Value, a book by Alfred Rappaport (1986) made the phrase almost canonical, what with the advocacy of the redoubtable Jack Welch of GE.
From ancient times, governments have responded to the profit urge with caution. They brought in regulations to trammel the power of businessmen. Kautilya in his political treatise *Arthashastra*, which is ascribed to 4th century BCE, (Rangarajan, 1987) advised fixing the profit margins for local goods at five percent, and imported goods at ten percent. Making undue profits was to attract heavy fines. In most parts of the world, usury was considered a crime. Adam Smith (1776), the great advocate of free trade, reports in *The Wealth of Nations* the upper limits of interest fixed by successive monarchs in UK, from Henry VIII through James I to Queen Anne.

Against the current of the great Utilitarians, John Ruskin, whose book *Unto This Last* had profoundly influenced Mahatma Gandhi, contended that “…the merchant’s function… is to provide for the nation. It is no more his function to get profit for himself …than it is for a clergyman to get his stipend … (or) his fee is the object of life to a true physician.”

Notwithstanding all that, profit maximization as the purpose of a business has been a dominant religion. Numberless articles on effectiveness of management approaches, including quality management, continue to be measured by profits and growth, and not by their own objectives.

**Society as Purpose**

Great businessmen have never stood for profit maximization. Jamsetji Tata, the man who set up Tata Steel in an Eastern Indian village over a century ago, is quoted (Funabashi, 2009) as saying, at the turn of the twentieth century: “In a free enterprise, the community is not just another stakeholder, but is in fact the very purpose of its existence.” Henry Ford (1926), the illustrious car-making pioneer, wrote: “When anyone attempts to run a business solely for profit and thinks not at all of service to the community, then also the business must die, for it no longer has a reason for its existence.” Konosuke Matsushita, in a string of books, states his priorities thus: “Any business which abandons its real mission in society and makes the accumulation of profit its sole objective cannot be defended.” He regarded profits as a “reward an enterprise receives from society…”

Mahatma Gandhi developed the concept of trusteeship - that a businessman was to act as a trustee to the society. The highly successful entrepreneur and Gandhi-follower G.D. Birla, wrote in Gandhi’s journal *Young India* on 29 December 1929 that the businessman had the “duty of production and distribution, not for personal gain, but for common good. Capitalists… must exist… but as servants of society.”

**Another Role for Profit**

That profit is necessary for a company’s existence but is not its purpose is another angle. “(Start) out to render a certain amount of service and let the profit take care of itself,” wrote Ford, regarding “profit as the inevitable result of work well done.” Critical of financial markets, he called it “nonsense, … when mere money brokers endeavour to manage productive business.” Matsushita, forthright about the necessity for profits, wrote: “... one can say that a company which does not make a profit is acting against the best interests of society.” More forcefully, he admonished: “… you must have the firm conviction that to lose money on any business operation is evil.”

Thus, the issue is not whether profits should be made, for clearly profits are the lifeblood of an enterprise. The dispute is over where profits fit into the scheme of running a business.

It was Peter Drucker (1955) who made the definitive move towards the role of profits in business. In his classic book, *The Practice of Management*, he declared that profit as a goal “is irrelevant.” Profitability “is not the purpose of business… but a limiting factor on it.” He assigned three roles to profit: 1. It is a test of validity of business decisions, 2. It should cover the risk of staying in business, and 3. It must assure funds for future innovation and expansion. All these three, he reasoned, were “minimum concepts, not maximization of profits.”
Notwithstanding his fame, Drucker was not too successful in getting the business world to accept his argument. The financial markets have got stronger by the day, despite the ‘holocaust’ of 2008. “Jim, this is not the time to talk about quality and the future,” Deming (1982) quotes a banker as advising his client, “This is the time to cut expenses, close plants, cut your payroll.”

Drucker argued that the first duty of a company is to survive. A small rural company in France, FAVI, exemplifies this thought. Its symbol is the oak tree in front of its plant. What is the purpose of an oak tree? To exist. FAVI has built an incredible philosophy around this thought. Many New Age companies may not have the aim of continuing to exist, they may be designed for a quick exit. The argument can be sustained therefore only for companies that intend, in principle at least, to exist in perpetuity. Drucker posits risk premium “that covers the cost of staying in business – replacement, obsolescence, market risk and uncertainty” as one component. The need to ensure funds for future capital for growth is the other component. Even Adam Smith wanted that the “lowest ordinary rate of profit must always be something more than what is sufficient to compensate the occasional losses to which every employment of stock is exposed.”

For some time, the concept of ‘Economic value added’ (EVA) held sway. In substance, it demanded that corporations make a surplus over their weighted average cost of capital, a system which costs debt at a much lower rate than equity. The equity cost is the return that the equity market provides multiplied by Beta, which is calculated from regression to measure the deviation of how a company’s stock moves vis-à-vis the market (Investopedia website). This model emanates from the theory of some economists that markets are efficient in determining price, even though there are enough arguments against it. Moreover, EVA is based on average returns, and therefore it invalidates everyone below the average as ‘destroying value’. It also tends to favour borrowing, the risks of which can end up threatening survival itself, especially in bad times.

There is an altogether better model to evaluate the survivability of a company. Satoshi Hino (2002), writing on Toyota, draws on the publication Nikkei Sangyo Shimbun for calculating the survivability potential of companies.

\[
\text{Survivability potential} = \text{Actual business profits} - \text{survivability profits}
\]

\[
\text{Survivability profits} = \text{Dividends} + \text{Officers’ bonuses} + \text{Corporate taxes} + \text{Interest costs and discount charges} + \text{Risk charges.}
\]

\[
\text{Risk charges} = \text{Standard deviation of the previous ten years’ business profits before interest payments on total capital} \times \text{total capital} \times \text{average of initial and final capital}
\]

**Figure 1: Survivability Potential**

This is a good way to quantify item no. 2 in Drucker’s purposes of profit, the risk premium.

The problem is that targeting profit maximization can, paradoxically, come in the way of survival. This is an intuitive point, but one that has registered well with some business leaders. Ricardo Semmler (1993) did declare that “no company can be successful, in the long run anyway, if profits are its principal goal.” But then he is his book’s title – a *Maverick*. The final U-turn is from Jack Welch himself. In a 2009 interview (Financial Times) he called the pursuit of shareholder value as strategy “a dumb idea.”

**Towards a Holistic View of Performance**

It was for Drucker again to outline in 1955 the first comprehensive scorecard for a business organization. His eight measures of enterprise performance were: 1. Market Standing, 2. Innovation, 3. Productivity, 4.
Physical and financial resources, 5. Profitability, 6. Manager performance and development, 7. Worker performance and attitude, and 8. Public responsibility. This is wide in scope. Some of it comes from the thinking of the era (like worker ‘attitude’) but these can be remedied. And social responsibility is in. We have the basis for looking at the performance of a company inclusively.

Drucker reformulated the concept of Management by Objectives (MBO). The term probably originated at DuPont, though this company was better known for its then unique financial charting system than for MBO. General Motors called it ‘MBO and self-control’. MBO expected managers and employees to agree to objectives. No means are specified, as these are left to each individual. These objectives were meant to challenging but achievable. In this regard, it is different from the spin that aggressive consulting firms place on the term ‘stretch’ – which is not meant to be achieved, only striven for. Consistency between objectives of departments were however hard to achieve, as the system had no mechanism to manage the deployment in this way. The financial slant in the objectives did not recede either.

MBO caught on as a method in many companies. It faded away slowly, because although the Business Policy faculty in business schools was teaching Drucker, the accounting faculty taught management control systems. They too were measuring performance, but their system was based on management accounting, and the metrics were almost entirely financial.

Meanwhile, a churning was going on in Japan, following the visits of Deming and Juran in the 1950s. The abbreviated list of outcomes that must be managed came out as QCDSM. It was probably Shigeru Mizuno who coined it, but this is not certain. The five letters stand for Quality (from the points of view of customers as well as processes and inputs), Cost (Price, profit, costs, wastes), Delivery (quantity, cycle times), Safety (now including health and environment), and Morale (employee motivation and development). This list became better known in the 70s and the 80s. The struggle was on to measure outcomes – ‘control’ items they were called.

Teijin Limited did not succeed in its Deming Prize challenge in 1960, but won it in 1961, after doing some pioneering work on ‘control items’. Takeshi Sato (1964) of their Iwakumi plant reports that they diagnosed the problems as duplication in control, gaps in control items, and lack of priorities. It was decided that managers should introspect on their roles and organize their respective control points. This included understanding of responsibilities and authorities. Cautions and check methods of managers were included, apart from the check points of subordinates. Deployment was carried out from the plant head down, and adjustments were made. One positive effect was that confusions in the line-staff demarcation got sorted out. The Control Points Table had the headings: 1. Basic function, 2. Content of the function, 3. Objective and will for control, 4. Control point/Focus point, 5. Importance, 6. Method of control (name of material, standard, control chart etc.), and 6. Authority. One consequence of such tables was enhanced role clarity. The Teijin system has since been refined, but fundamentally, the tables used under Daily Management systems remain nearly the same.

Another parallel development was Hoshin Kanri, inexactly translated as Policy Management, first initiated at Bridgestone in 1958, and taken to a level that became a sterling specimen in the literature on the subject by Komatsu in 1964, when it sought to fight competition from Caterpillar. In some companies, Hoshin Kanri carried nearly all the burden of improvement, though current practice favours its use for difficult and strategic priorities, while improvements in large numbers are carried out through Daily Management. Together, the two systems, now entrenched in the TQM way, provide a formidable array of well deployed metrics that run down and across the organization, and these define organizational objectives with a clear sense of priorities.

Japan probably got its concept of control from Joseph M Juran during his visits there in the 1950s. His 1964 book Managerial Breakthrough is called ‘the classic book on improving managerial performance.’ His definition of control as ‘preventing change’ is akin to Daily Management today. He laid out a
‘panoramic view’ of control, with a sensor that measures the control subject against a standard, which enables decisions regarding countermeasures. He called it the ‘executive instrument panel’ - akin to the term dashboard which is more in vogue today. He brought in the concept of delegation through self-control. But his central theme is breakthrough, “a dynamic, decisive movement to new, higher levels of performance.” His control subjects were not confined to financial measures, but dealt with his trilogy of planning, control and improvement, covering areas such as developing new markets, processes and products, and quality, besides costs. Unfortunately, Juran too was not followed in America.

A formal system of ‘Daily Management’ probably originated in the Deming Prize winning Kansai Electric. Control item tables had stabilized by then, with QCDSM parameters. The reverse flow of the system to the US took place through Yokogawa Hewlett Packard to its parent company in the US. Hewlett Packard (HP) had already been practicing MBO. It was but a step away from introducing Hoshin Kanri which has strong process and participatory tones to it, and a cross-functional outlook. HP now developed a Business Fundamentals Table. Wichter and Butterworth (2000) describe it as concerning “those basic processes that directly contribute to the creation of value: they are those things directly underpinning competitive success and viability.” The table covered customers, people, products, internal processes, and partners, in short, all the things that a company had to always do well. It is thus a Daily Management table, finely balanced.

Art Schneiderman, learning from the HP table, applied these concepts in Analog Devices. In 1988, Schneiderman (1987-2000) presented a QIP Strategy, which included QIP goals such as market leadership, customer rating, defects, lead time, on-time delivery, time to market, process ppm and yield. His work from 1987 to 1992 led him into what he named the ‘balanced scorecard’. He also developed the concept of half-life – the time it takes to reduce any undesirable measure by half, based on organizational and technical complexity - an invaluable contribution to the practice of setting appropriate targets. It is another story that Kaplan and Norton (1992), drawing from, though not acknowledging the work of Schneiderman, announced their Balanced Scorecard in the Harvard Business Review, and the term is known after them rather than its originator. Besides, the Kaplan method arises from the stable of financial controls, which is reflected in its structure.

Another development away from finance-centric evaluation of companies has been the business excellence models. Of course, the Japanese Deming Prize, which started with a limited quality focus in 1951, kept evolving into a model that today judges the customer-centred management of the business as a whole. Deming Prize went overseas in 1989 when Florida Power & Light won it. In its latest edition, (JUSE 2017) it includes fulfilling societal concerns too. Meanwhile, the U.S. awarded the first Malcolm Baldrige National Quality Awards in 1989, based on a model that included leadership and business processes, besides results for multiple stakeholders. Europe followed suit, announcing its first European Foundation for Quality (EFQM) Excellence awards in 1992. A recent development is the announcement by EFQM of a Global Excellence Award. Winners will be recognized in each of eight categories which include creating a sustainable future, managing with agility and succeeding through the talent of people.

For companies that have taken the award examinations and assessments, one big benefit has been that all departments and levels align and work cooperatively, for a while at least, bringing unprecedented momentum, and a cross-functional purpose. These awards have contributed to the evolution of a more wholesome model of organizational excellence.

**Who Owns a Company?**

Max De Pree (1989) divides ‘investors’ into two groups. The first “invest mere cash.” The second, who “have dedicated their working years to the corporation, invest their lives and gifts...”
Stockholders cannot be regarded as the only owners of a corporation, with the belief that they are entitled to the maximum, while employees and customers are but means to creating profits. No distinction is made in this thinking between entrepreneurs who have not only invested cash, but as promoters have nurtured their organizations through thick and thin versus those who trade in stocks. Some distinction is needed.

**Shareholders:** The promoter/entrepreneur is generally not interested in the swings in the stock price because he is not in it to cash out. His first goal is to ensure that the enterprise survives. He wants reasonable returns over a long period of time. And he wants to earn respect in society, both as a promoter and as a company. (See Table 1) Other long-term stockholders may not have the need to earn respect from their investment, but they share with the first group the need for financial results. For short-term traders in shares the expectation is quick returns, and the company is a mere name, an instrument to satisfy their quest for money. To them, the corporation possibly owes nothing except transparency. This view may represent a major shift in thinking.

<table>
<thead>
<tr>
<th>To a business, these stakeholders</th>
<th>Are related as</th>
<th>And must get</th>
</tr>
</thead>
</table>
| Entrepreneurs, promoters of long duration | Financial and emotional owners | • Respect in society  
• High prospects of survival of the business  
• Profits to cover return and risk, over the long run |
| Long-term investors in shares     | Financial owners | • High prospects of survival of the business  
• Profits to cover return and risk, over the long run |
| Short-term traders in shares      | Nothing!        | • Transparency                                    |

Table 1: Stockholders

**Customers:** A business, comprising all those who work in it, has nothing more important to do than to fulfill the requirements of customers, today and tomorrow. Customers include not only the immediate purchasers, but all the end users and other ‘beneficiaries’. Existing and new customers expect value for money, and could use some pleasant surprises too.

<table>
<thead>
<tr>
<th>To a business, these stakeholders</th>
<th>Are related as</th>
<th>And must get</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers, users</td>
<td>Customers, the purpose of the business</td>
<td>Value for money, new offerings, more desirable features, with some pleasant surprises, now and in the future</td>
</tr>
</tbody>
</table>

Table 2: Customers

**Employees:** They are the emotional owners of a company, devoting more of their energy and time to the organization than any other stakeholder would. They have genuine motivation in ensuring the survival of a company. Employees have all the needs in Maslow’s hierarchy, starting with safety, and experiencing fairness and justice and a pleasant work environment. They also have the need to be learning in their work, and an inalienable need and right to contribute meaningfully. They have, besides, the need to grow as persons. Corporations have to create space for happy employees!
To a business, these stakeholders | Are related as | And must get
--- | --- | ---
Employees (Includes managers!) | Emotional owners of the business | • Safety, fairness, respect, pride, joy of work  
• Learning, contributing, realizing potential  
• Growth and economic well-being

Table 3: Employees

**Partners:** Suppliers, dealers, or joint venture partners are partners of the company. They have a stake in the company in as much as they serve it in some form or the other and are served by it. One fundamental need of this group is to experience long-term relationships rather than expendable short-term ones. There is also a need to experience fairness (for example in prices) and ethical dealings.

To a business, these stakeholders | Are related as | And must get
--- | --- | ---
Suppliers, Dealers, JV partners | Partners | • Long term relationships  
• Fair and ethical dealings

Table 4: Partners

**Society:** It is never to be forgotten that a firm exists in the form it does only because the society so permits it. Society here should include Government, which needs its taxes and legal compliance. In most countries, society expects companies to create jobs. Last but not the least, corporations must not harm planet and people.

To a business, these stakeholders | Are related as | And must get
--- | --- | ---
Society, Government | Those who permit the system in which a business enterprise can function | • Taxes, transparency, obedience to laws  
• Survival that ensures steady jobs  
• Averting bio-extinction, climate warming, diseases, pollution and future scarcity

Table 5: Society

The definition of performance has to name the stakeholders and their needs, and the foregoing is one possible template.

**Models for Judging Organizational Performance:**

In the world of business, the pressure is all on individual performance, which too is defined with no great precision. Organizational performance is evaluated in the financial markets using their own metrics. Whether it is at the individual level or at the organizational, performance ought to be viewed as producing outcome as well as building capability, treating the two as inseparable twins. Profits made without building capability tend to be short-lived.
Does ‘business excellence’, a term used especially in American and European awards, equal organizational performance? Does the phrase signify a state or does it measure performance? Award models evaluate both enablers (and processes) as well as results, and so it might be claimed that capability is judged implicitly. The Western models judge results to which they attach sizeable weightages, but do not explicitly demand that these results are shown rigorously to be the outcome of the enabling processes. Deming Prize criteria, on the other hand, stress ‘effects’ – making clear that results per se do not count, they have to arise from following TQM, and thus should demonstrate PDCA.


Turning away from the models of enablers or processes matched with results, Satoshi Hino (2002) interprets Toyota’s model as comprising an infrastructure and a superstructure, the latter representing the visible outcome of product and brand power, and the former the underlying systems and the paradigms, going into the DNA of the company. (Figure 2) This model has the seeds for a more comprehensive construction of an organizational performance model.

One more issue remains though. The Western approach is to ignore the subjective (as unreal) and hence crucial information is lost, and results get separated from processes. Deming had listed ‘running a company on visible figures alone’ as Deadly Disease # 5. He quotes Lloyd Nelson, statistical officer of Nashua Corporation as saying that “the most important figures that one needs for management are unknown or unknowable,” but successful management must nevertheless deal with them. Shoji Shiba (2001) demands that management learn to ‘see’ the invisible. Gopalakrishnan (2007), a former director of the Tata Group, also asks that the manager listen to the inaudible. The invisible and the inaudible infrastructure therefore has to form an indivisible, integral part of organizational performance, something that is predictive of the future of the enterprise.
Kaneko and Iizuka (2014) describe an organizational capability profile as “the totality of the identified capabilities or characteristics that an organization must be equipped with to establish competitive advantage.” An excellent company is obviously one which accumulates these capabilities over time, and rises in level through stages of organizational capability (Ramanathan, 2006), as has been written about many authors.

Figure 3 is a proposed model of organizational performance. It has three parts. The bottom part is the invisible and inaudible infrastructure or foundation, beneath the surface, not discernible readily to outsiders, and perhaps not even known to perfunctory managers. The superstructure is visible outside and is what even outsiders can see to a measure, though the financial markets seem to recognize only the ‘C’ part of QCDSM objectives and results. The satisfaction of stakeholders figures in the superstructure. Sustained results build the power of the enterprise, that is, the strength of its name, its financial muscle and the sway it has over society. Common to both the foundation and the visible structure is the relatively new role of causing no harm to the planet earth, and to society at large. It belongs to both structures because there is a lot of invisible work that the enterprise must carry out to make the contribution in this regard stand up. There is a vast body of evidence that some of the top-rated companies of the world might not come up high on this count. Here it must be emphasized that common ‘CSR’ practices, though welcome, do not normally address the question of harm-avoidance through processes and products.

**Infrastructure:** An organization must be strong both in its core technology and in its management. The two go hand in hand. Management ability is defined by the degree to which the organization is able to maintain what it has, improve it, develop new products and services as well as systems, and innovate and transform itself periodically. It means reinventing the company from time to time. In parallel, core technology should be developed continually to stay ahead, applied skillfully and transferred wherever necessary. Given these two competences, the organization needs to have built momentum and resilience.

**Superstructure**

<table>
<thead>
<tr>
<th>Power</th>
<th>Stakeholder satisfaction results</th>
<th>QCDSM Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand, Financial and Societal</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Infrastructure**

<table>
<thead>
<tr>
<th>Resilience, Adaptability and Innovativeness</th>
<th>Managerial</th>
<th>Core Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Momentum</td>
<td>Maintain, Improve, Develop, Transform</td>
<td>Develop, Apply, Transfer</td>
</tr>
</tbody>
</table>

**Causing no harm to earth and society**

Figure 3: Hierarchy of Organizational Performance

Momentum is a concept from Physics, meaning the product of mass and velocity. In an enterprise, the participation of people connotes mass – if everyone is involved in making improvements, offering opinions, and working together, then the company has mass. Velocity is a vector comprising both direction and scalar magnitude. Alignment to a direction means acting together on a shared vision, being committed to purpose, and adopting a common management way. Without alignment, people tend to cancel each other out, and no matter what the effort is, the organization does not move. This is why Deming said that if everyone did his best, there would be complete chaos. On the other hand, if everyone is involved and aligned, even a small speed in the desired direction will produce momentum. Speed increases as people learn and develop their abilities. It cannot compensate for lack of mass or alignment. It is as easy to spot a company where there is momentum as it is to spot one where there is not. Both tend to manifest themselves for the discerning observer inside a company.
Resilience is another ability – in this case, to weather adverse situations and disruptions without caving in. Resilience is built through what Matsushita called ‘buffer’ management, building cushions in every aspect of management. If there are no reserves with which to fight back, adversities can overwhelm a business. Orthodox managers tend to chip away at buffers thinking they are cutting costs. Dervitsiotis warns: “The elimination of redundancy of system components to reduce operating costs proves dangerous in conditions where we want systems to be flexible and adapted in a rapidly changing environment.” Most great companies keep a lot of cash reserves, for instance. General Electric, Toyota, Microsoft, Apple, Bosch are examples. Shareholders tend to pressure their companies not to keep ‘idle’ cash, not realizing that the cash buffers make their companies strong. Companies also need to possess some surplus talent, especially at junior levels, so that in crises, quick promotions can fill gaps for running the business while the seniors are fighting their fires and strategic battles. They also need some surplus capacities to manage peaks. Management schools and stock markets do not like bench strengths, thinking that these are wastes, not realizing the cost of losing resilience. Companies operating in uncertain environments also build frameworks and processes to tackle unforeseen shocks.

Finally, adaptability is another great strength to have. Adaptability at one extreme can be seen as ‘functional fit’ – a popular phrase among system theorists – a view that denies the subjective realms altogether. It is often also regarded as strategically countering risk and instability or even uncertainty, that is, as a way to succeed even in hard circumstances., which is really resilience. Adaptability is better defined as working effectively in an evolving world, which includes segments waiting to evolve, for this makes adaptability a proactive aspect, as against resilience which is defensive in nature.

Resilience and adaptability incorporate elements of innovativeness and the ability to gather up the tacit knowledge of the company. Nonaka and Takeuchi (1995) talk of the role of redundancy in information sharing in the knowledge-creation process. They also advocate creating variety or diversity in the organization as means. In Toyota, product development often involves parallel development of alternatives, which might seem a waste to efficiency-driven managers. In this way, both redundancy and diversity are characteristic of resilient and adaptive organizations that are innovative as well. Without always having to run parallel organizations, managers must learn to be ‘ambidextrous’, managing efficiency and buffers simultaneously.

Superstructure: Performance must always include process measures, whether in manufacturing or in product development, or sales or purchasing. The control points table is customarily designed as a structure of outcomes, outputs and in-process results. TQM companies have role templates, or objectives and performance indicators (control points) for every managerial or supervisory person. These are tracked, and reviewed, and abnormalities are tackled by attacking their causes. It is the business fundamentals table carried to everyone. It is what is called Daily Management. In addition, when policy management kicks in, a range of objectives and means are cascaded down the organization ending with hard-nosed projects. The means for realizing objectives address process issues as their deployment goes down.

Each company should set objectives along the dimensions of QCDSM outputs and outcomes. Together, they form an even-handed, well-adjusted set of measures that evaluate the outcomes from running a business. They are the visible side of performance, wherein stakeholders appear in the picture.

Continued results in QCDSM should line up with perceptions of satisfaction among multiple stakeholders, according to their needs. A good outcome is for customers, new and existing, to gain ever increasing satisfaction, with pleasant surprises thrown in. This in fact is at the core of highly successful companies like 3M, or Toyota. Employees should find satisfaction at all levels of their need-hierarchy, and increasing numbers work closer to their potential. Partners – suppliers, distributors, JV associates should enjoy productive, long-term relationships. At least long-term stockholders must expect to get stable and excellent, returns that not only exceed the survivability base, but also leave enough for
investing on progress. Besides, they can take pride in the company they own financially. And society gets more jobs, an ethical organization in their midst, one that helps preserve the earth rather than damage it.

Sustained results and stakeholder satisfaction together with capability building yields a certain command over products and services. The products create a pull in the market space. When enough products of power have been experienced by customers, the brand itself acquires a certain dominance. At this stage, even new products are bought because of trust in the brand. This is a high outcome indeed for any enterprise. Financial power should be expected to gather impetus as this happens. For tomorrow’s enterprises this is not enough. There must be societal power – society recognizing and wanting the enterprise to exist.

Still more is needed. The tolerance for causing harm to society and damaging the planet is wearing thin, at least in some countries. The financial markets ignore this aspect, but regulations in the coming years will prevent untrammeled impairment to people and planet. The world can no longer esteem a company that does harm, no matter how well it does otherwise.

Organizational performance is thus redefined as the degree to which the enterprise has an ongoing record of maintaining, improving, developing and transforming itself managerially even as it develops, applies and transfers its core technologies, has built up momentum, resilience, adaptability and innovativeness, helps preserve the earth, at least by not causing harm to the society or the planet, and produces outstanding QCDSM effects reflected in fulfilling the needs of all stakeholders, and accumulating brand, financial and societal power.

This proposed redefinition of organizational performance can be used for self-diagnosis by the companies themselves. It provides an accurate picture of the effect of years of developing an organization. The judgment of a company on subjective criteria requires high skills, but to drop subjectivity out of the evaluation is to truncate the concept of performance to meaninglessness. Also, the model is not meant to be evaluated by scholars judging its effectiveness financial results, negating its whole purpose, and taking the discussion back to square one.

Conclusion:

Financial performance does not equal organizational performance. Results alone do not equal performance either. Excellence models combine enablers and results. The present model on the other hand requires a linked combination of capability-building and effects. Further, it lays down the rule for planet and societal issues. Its scope is far-reaching. It affords clarity to organizations about what is wanted from them. It redefines organizational performance.

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