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Decision-oriented Performance Measurement Framework – An Emphasis on Rationality

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1 Introduction

Our study proposes the Decision-oriented Performance Measurement (DPM) framework in an attempt to incorporate multiple decision making criteria into the assessment of organizational performance. The decision making criteria are referred to as relevant goal systems which direct how the decisions should be made. It is the nature of performance that calls for the incorporation of decision making criteria into the measurement process. In its true sense, performance is never objective (Lebas 1995). Even performance criteria are not externally derived, but result from a choice which is inherently subjective. Consequently, organizational performance depends on how relevant parties define it. Only when relevant goal systems are considered, can performance measurement (PM) provide “a function of how well an organization achieves its objectives” (Piesse/Townsend 1995, p. 400). The prominent frameworks in literature such as the PM matrix by Keegan/Eiler/Jones (1989), the Performance Pyramid by Lynch/Cross (1991), the Results and Determinants framework by Fitzgerald et al. (1991), the Balanced Scorecard by Kaplan/Norton (1992) and the Performance Prism by Neely/Adams (2001) also commonly show attempts to incorporate goals from multiple perspectives into PM.

Our framework differs from current PM frameworks by explicitly accounting for specific rationality concepts when developing and structuring the decision making criteria to evaluate the organizational performance. The aim is to suggest a measure on the rationality of organizations. Taking rationality as the correspondence between means and ends, the DPM framework addresses the performance of organizations on their actual goals (which reflect the means to operationalize) against the key stakeholder values (which are stated as the ends to pursue) given motivational and cognitive constraints. A rationality-based structure of objectives consisting of not only primary objectives and necessary resources but also positive and negative side effects of actions is derived as the set of direct performance criteria. Furthermore, these objectives are modeled as value functions of input and output factors in the operating process of organizations. The framework thereby incorporates both the values and the operating aspect of organizational performance.

The underlying logic for the rationality orientation in PM is the limited knowledge assumption associated with measurement and the goal-orientation assumption associated with performance. On the one hand, it is impossible to determine whether performance is best (or worst) due to the imperfect knowledge, e.g. about possible alternatives. Therefore, performance must rather be judged against a rationality concept which takes such inevitable limitations into account. On the other hand, performance is presumed to be goal-oriented as “actions have an intentionality rather than being completely random events” (Broadbent/Laughlin 2009, p. 284). Performance thus should be taken as a discourse of rationalization of means-ends matching. The view that rationality criteria should be the key theme for PM also complies with the approach by Schäffer/Weber (2004) which generalizes the primary purpose of management control as to assure the rationality of economic actors in an organization.