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***The implementation of a quality performance system in the strategic situation faced by a small training business***

**Wendy Kennedy**  
**Chad Perry, Gibaran Graduate School of Business**

**Abstract**

Performance management can be an important part of a strategy but its use in SMEs is under-researched. The single case of a small, Australian registered training organisation provided an unusual opportunity to investigate this use of performance management. Three stages of data collection – literature, interviews and a survey- found that most registered training organisations had found it difficult to implement a quality system that consistently delivers the required outputs and outcomes. In particular, although most indicated little difficulty in understanding quality requirements, they found it difficult to get their people to take ownership and embed the quality standards into their performance as a quality system. In turn, the case adopted a process that produced evidence that an action learning cycle of continuous improvement is embedded into the organisation and that its registration audit requirements are met.

**Key Words:** performance management, quality management, quality assurance

**Introduction**

Performance management is central to gaining competitive advantage because performance management is the process through which managers ensure that employees' activities and outputs are congruent with the organisation's goals (Noe, Hollenbeck, Gerhart & Wright 2006). A foundation of performance management is a quality management system that incorporates objectives measures of achievement. To remain competitive, it is necessary for an organisation to develop a quality system that will ensure not only compliance with quality standards but also foster *continuous* improvement.

This importance of these quality management systems applies to small-to-medium enterprises (SMEs) as well as to large organisations. Governments can enforce this application. For example, the government in Australia requires *all* registered training organisations (registered training organisations), large or small, to have a quality approach (The Training System 2008):

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**Wendy Kennedy** is the Managing Director of Electus and the Chief Executive at eWorld Technologies  
**Professor Chad Perry** is the Chair of the Academic Board of the Gibaran Learning Group

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All registered training organisations must comply with national standards which ensure the consistent delivery of high quality training across Australia. In order to check this compliance, state and territory registering authorities may conduct regular audits of an registered training organisation's systems, processes and practises.

While some research about their quality management systems has been undertaken within large government-owned registered training organisations like Technical and Further Education bodies in Australian states (for example, Smith, Oczkowski, Nobale & Macklin 2007), independent SME registered training organisations have been given little research attention even though they are expected to meet the same standards as larger ones. SME registered training organisations could find it difficult to compete with the large training organisations because their resources are limited and the costs of compliance and change are high. The lack of information about human resources in these SMEs is problematic for theory, research, and practice. Current theory is often developed and tested in large organisations. Little information exists on benchmarking by smaller organisations, including financial or non-financial performance data relative to competitors. As a result, little is known about the extent to which the theory extends to smaller entrepreneurial organisations (Wright & McMahan 1992). Moreover, little is known about how to embed quality standards into the processes of an SME.

Thus the *aim* of the research is investigate a SME's organisational change processes when developing and implementing a quality management system to ensure the correct skills and competencies are developed in a sustainable way. This aim is achieved in examining how a case of a small registered training organisation within the Vocational Education and Training sector had to change to comply with the new regulatory environment of the 2007 Australian Quality Training Framework (AQTF 2007) standards. (DEST 2007a) In brief, the case SME, Electus, reviewed AQTF 2007 requirements, and then researched the characteristics and behaviours of stakeholders through interviews, focus groups and a survey of managers of similar organisations delivering nationally recognised training. Finally, it used its learnings to implement a system-wide approach to continuous improvement known as the RTO Quality Framework™ (Chalkport 2007 n.d.). This case report will benefit managers in the training industry and managers in other industries tasked with developing performance management systems.

This report has four sections. The first provides the conceptual background. Next, the case research methodology is justified and described, and its data analysed. Finally, the final performance management system used at Electus is described.

## **Background**

The conceptual or background issues that Electus had to address were performance management and quality management. Strategic planning is a process that involves describing the organisation's destination, assessing barriers that stand in the way of that destination, and selecting approaches for moving forward. The main goal of strategic

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planning is to allocate resources in a way that provides organisations with a competitive advantage (Addams & Embley 1988; Thompson, Strickland & Gamble 2006). A change in strategic goals and strategies puts pressure on the organisation to improve its products and services in order to remain competitive.

This strategic change can lead to performance management changes. When a company's strategy changes, the behaviour of its employees needs to change too (Noe et al. 2006). This change requires leadership concerned with the establishment of a compelling vision, direction and a plan for the future (Kotter 1990). A transformational style of leadership helps a leader raise employees to a higher level of functioning and is able to transform and motivate subordinates through an emphasis upon the importance of tasks and outcomes (Kotter 1995; Yukl 1994). In turn, action learning processes within an organisation offer a way to transform employees' behaviour (Altrichter, Kemmis, McTaggart & Zuiber-skerritt 2000).

Nevertheless, little is known about how a performance management and quality system can be established within the strategic framework of a SME. What systems need to be in place to help manage performance and best promote individual and organisational capabilities? The case SME had to address that gap.

### **The research setting of Electus**

The research methodology was single case research (Yin 1994) involving Electus, a small registered training organisation. Having only one case was justified on two grounds. Firstly, the case provided unusual access for academic research, and unless the case was investigated, an opportunity to investigate a significant social science problem may be lost. The researcher was the managing director of Electus and access to her own firm provided information that academic researchers can miss from a real story about a situation (like commercial-in-confidence information, power politics and human weaknesses).

A second justification for the single case is that a small registered training organisation in Australia provides a rare chance to investigate how a SME successfully can use performance management for a strategic purpose. The Australian government recognised the need to ensure quality in the national training sector and released the Australian Quality Training Framework essential standards in 2005, revising it again in 2007 to include voluntary excellence criteria for continuous improvement. All registered training organisations are required to focus on quality outcomes rather than compliance with regulations; a big shift in thinking for some of them. Electus is one of the few SMEs able to make the shift. Furthermore, performance management measurements are the core of its required change in strategy. The AQTf 2007 User Guide (DEST 2007a, p. 35) shows this requirement:

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A key requirement of the AQTF is ... to systematically monitor and improve. Monitoring and reviewing your management system as part of your continuous improvement cycle will help to ensure that your operation's management is effective. Strategies to monitor the effectiveness of your management system could include: establishing key performance indicators and monitoring organisational performance against them.

Electus is a computer application and professional development training provider, located in Adelaide, South Australia. It has been operating for over twenty years and is dominant in its market. As an SME, Electus has been dedicated to designing customised information, communication and technology training solutions to meet skills development requirements for corporate and government personnel, and for many years has been recognised as a 'best practice' provider. Systems and procedures have been designed to ensure clients receive quality training. However, until 2007 when it made a strategic change, Electus was not a registered training organisation and therefore, while providing its clients with a good service in single topic technology training, it could not offer a training pathway for national accreditation. Also affected by other changes in the workforce because of a national skills shortage, Electus identified itself as being in an unsustainable position and had to craft a new strategy in order to compete in the vocational education and training sector.

Through a SWOT analysis, Electus saw an opportunity. Government incentives for increased training opportunities and the strength of existing best practice reputation for delivery of non-assessed courses required a change in strategy which would include the use of management systems that would ensure compliance. After reviewing its position, a new strategy was crafted (Thompson Strickland & Gamble 2006). Work was undertaken to align courseware with the standards for nationally recognised training and apply for registration as a registered training organisation by complying with the newly released AQTF 2007 standards to:

- Provide quality training and assessment across all of its operations
- Adhere to principles of access and equity and maximise outcomes for its clients
- Maintain management systems that are responsive to needs of clients, staff and stakeholders, and the environment in which they operate.

Electus also chose to move beyond compliance and aspire to the voluntary 'excellence criteria' that are based on a set of validated best practice management principles contained in the AQTF 2007 to provide a set of guidelines designed to accommodate diversity and innovation. The criteria define the ways that registered training organisations may operate to achieve high quality outcomes (DEST 2007b).

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In brief, the challenge for Electus was to be able to continue offering a best practice service while also gaining ‘street-cred’ as a quality provider of nationally recognised training by building institutional status in a sector dominated by government-run Technical and Further Education bodies. New performance measurements congruent with strategic goals had to be set to align with the government mandated standards in the AQTF 2007.

### **Data collection**

The framework for an action learning implementation of a performance management system at Electus emerged from three different but related processes. Stage *one* was a thorough understanding of the requirements for AQTF 2007 standards and voluntary excellence criteria. The *second* stage involved findings from interviews and focus group meetings with managers and staff of Electus and other registered training organisations. Ten organisations provided data for analysis and fifteen individuals were interviewed. The *third* and final stage was an online survey presented in the form of an opportunity for all registered training organisations to benchmark their performance. Quantitative data collected was analysed and returned to each participating registered training organisation for in-house monitoring of the effectiveness of their management systems.

### **Stage one of initial reconnaissance**

Secondary research from three sources was the first step. The National Centre for Vocational Education Research is Australia's principal provider of vocational education and training research and statistics. It undertakes study of practitioners in order to determine levels of competence and identify skills gaps. It also provides guidelines and tools that can be used to develop managers and leaders to deliver higher quality training services nationally.

As well, the Australian Bureau of Statistics and the Australian Government Department of Employment and Workplace Relations provided information on: labour market characteristics, skill shortages, vacancy trends, future directions of various occupations, and vocational education and training participation.

These sources helped Electus to understand the task it faced to embed a quality system of continuous improvement as required by AQTF 2007 and take advantage of market trends and opportunities. But note that this research project about Electus is different from some of the research from those sources because most of The National Centre for Vocational Education Research's target is large public providers such as Technical and Further Education bodies, universities and large private registered training organisations.

**Stage two of interviews and focus groups.** The second stage of data collection was interviews and focus groups. Ten managers of registered training organisations, in particular their compliance managers, agreed to be involved. Usual procedures for conducting interviews and focus group research and content analysis of their data, were

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followed (Carson, Gilmore, Perry & Gronhaug 2001). The interviewees and focus group participants agreed to be involved because they all faced the research issues. Each interview was conducted by the researcher who ensured all ethical issues of informed consent were observed. Approval was granted by those quoted within the report. All quantitative data is reported collectively and data that could identify individuals or organisations was either not collected or not stored.

**Data analysis of this stage.** Discussions with managers of registered training organisations, in particular compliance managers, illuminated three significant issues of cost, change and benchmarking. The first issue concerns financial restraints on a small business. Implementing change in order to comply with government changes creates financial stress in the organisation. Many respondents said that finding the resources to train all staff in the new approach is impossible. In particular, trying to remunerate professional staff for their time to learn about AQTF requirements, when they are paid to train rather than for administration, is a problem. One manager participating in a focus group session talked about his situation as follows: “Time and money for inviting trainers to go to professional development is our biggest constraint”. Another participant expressed his frustration at having to implement a new system in order to comply with the AQTF 2007 standards but not being given enough information about how to fund or deploy such a system: ‘The irony is training organisations do not train their people well enough because they are under-funded’.

The curriculum and compliance manager from one of the registered training organisations said that they were in the enviable position of successfully winning external funding from the government’s Reframing the Future program, which enabled them to provide remuneration for their professional staff to undergo training. Rose Vallen of the Australian Institute of Management South Australia went on:

It would otherwise be very difficult to include these people because they are contractors who are not happy to take time from paid work to engage in team building or organisational development sessions without compensation. The funding from Reframing the Future enabled them to be paid and provided a unique opportunity for all our staff to be involved in training sessions

The second significant issue was that it is necessary to provide correct channels for people to learn, accommodating their various styles, the culture of the organisation and demands on time. The majority cited these *change management* issues as their biggest challenge. Getting staff to understand the importance of the changes and the implication to their own jobs was vital in gaining ownership of continuous improvement.

The third issue was *benchmarking*. The AQTF 2007 has introduced new standards which are based on a quality system framework. One way suggested by the AQTF guide (DEST 2007a. p. 35) to monitor and improve is by ‘benchmarking management systems and organisational performance with other registered training organisations’.

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SMEs have a lot to gain from both internal and competitive benchmarking. Electus was able to learn from the example of a well resourced larger organisation and the opportunity to receive candid information that peers of such larger organisations would be less likely to be given access to. SME managers are much closer to their customers, employees and competitors than managers of larger organisations, and so are informed of day-to-day activities; but they are disadvantaged by difficulties in viewing strategically and using performance feedback in a strategic way. Discussing the 'bigger picture' with auditors, a Technical and Further Education manager and employees in large registered training organisations gave insight into how performance management can assist best practice.

From the interviews and focus groups, Electus was able to use external benchmarking to identify areas of weakness and plan for improvement. Eccles, a champion of competitive benchmarking, says that having an 'externally oriented approach makes people aware of improvements that are orders of magnitude beyond what they would have thought possible' (Eccles 1991, p.132). In contrast, relying on internal comparisons can breed complacency through a false sense of security and stir up more energy for rivalry than competitive advantage. By selectively researching how similar sized organisations develop their current leaders, managers and staff to build greater levels of capabilities in their training organisations, Electus was able to benchmark externally and continuously improve to reach the excellence criteria of AQTF 2007.

### **Stage three of a survey**

An online survey was intended to give RTOs the opportunity to benchmark the impact of change management issues on their organisation. The survey was hosted by Chalkport (n. d.), an e-learning company that integrates leaning and technology expertise. Respondents were encouraged to participate to comply with the AQTF Users' Guide (DEST 2007b) advice that 'Strategies to monitor the effectiveness of your management system could include benchmarking management systems and organisational performance with other registered training organisations'. A simple questionnaire contained five questions and took about 10 minutes to complete. One response per registered training organisation was permitted. In return for completing the survey, which was only open for three days, each responding registered training organisation was emailed a one page analysis of the quantitative data including their individual response for in-house discussion. Confidentiality was guaranteed with no registered training organisation being identified to anyone else at any time.

The response rate of the online survey was high. Fully 250 registered training organisations from around Australia, provided insight into how registered training organisations could achieve the AQTF 2007- required outcomes and how difficult it is for them to do so.

**Data analysis of this stage.** Analysis of the survey results indicates that staff understand the AQTF 2007 standards and their requirements, as shown in Figures 1 and 2. For example, most administrative staff (63.9 percent) do not find it difficult to understand

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AQTF 2007 as a standards framework (question 2.1 in Figure 1), as do most trainers and assessors (58.1 percent in Figure 2). The picture is different for the need for management attention to actually implementing AQTF 2007, as shown in Figure 3. For example, most respondents (69.1 percent) rate keeping a systematic approach in place is difficult and requires management attention (question 4.1 in Figure 3), as do most respondents (59.2 percent) about ensuring quality performance of trainers/assessors (question 4.4 of Figure 3).

**Figure 1 On-line survey aggregated ratings of administrative staff’s understanding of AQTF 2007**

2. RTO ADMINISTRATIVE STAFF find it difficult to: (1 = Not difficult, 5= Very difficult)							
	1	2	3	4	5	Rating Average	Response Count
Understand AQTF 2007 as a standards framework	26.1% (60)	37.8% (87)	23.0% (53)	11.3% (26)	1.7% (4)	2.25	230
Understand the concept of a quality approach	35.2% (81)	38.7% (89)	14.8% (34)	8.3% (19)	3.0% (7)	2.05	230
Understand their role in implementing AQTF 2007	26.5% (61)	39.1% (90)	20.0% (46)	10.9% (25)	3.5% (8)	2.26	230
Change from old practices to meet current requirements	23.9% (55)	35.2% (81)	25.7% (59)	11.3% (26)	3.9% (9)	2.36	230
<i>answered question</i>							230
<i>skipped question</i>							20

Source: Analysis of survey data.

**Figure 2 On-line survey aggregated ratings of trainers and assessors’ understanding of AQTF 2007**

3. TRAINERS and ASSESSORS find it difficult to: (1 = Not difficult, 5 = Very difficult)							
	1	2	3	4	5	Rating Average	Response Count
Understand AQTF 2007 as a standards framework	21.1% (48)	37.0% (84)	30.0% (68)	8.8% (20)	3.1% (7)	2.36	227
Understand the concept of a quality approach	33.5% (76)	36.6% (83)	20.3% (46)	6.6% (15)	3.1% (7)	2.09	227
Understand their role in implementing AQTF 2007	22.0% (50)	33.9% (77)	27.8% (63)	12.3% (28)	4.0% (9)	2.42	227
Change from old practices to meet current requirements	19.8% (45)	36.6% (83)	25.1% (57)	13.2% (30)	5.3% (12)	2.48	227
<i>answered question</i>							227
<i>skipped question</i>							23

Source: Analysis of survey data.

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**Figure 3 On-line survey aggregated ratings of need for management attention to implement AQTF 2007**

4. Rate your opinion of the amount of MANAGEMENT ATTENTION needed for these tasks: 1 = No attention to 5 = Very extensive attention							
	1	2	3	4	5	Rating Average	Response Count
Keeping a systematic approach in place	1.8% (4)	7.2% (16)	22.0% (49)	<b>42.6% (95)</b>	26.5% (59)	3.85	223
Keeping continuous improvement in place	2.2% (5)	8.1% (18)	19.3% (43)	<b>39.5% (88)</b>	30.9% (69)	3.89	223
Ensuring prof. development of trainers/assessors	2.2% (5)	12.1% (27)	28.7% (64)	<b>39.0% (87)</b>	17.9% (40)	3.58	223
Ensuring quality performance of trainers/assessors	3.1% (7)	13.5% (30)	24.2% (54)	<b>35.9% (80)</b>	23.3% (52)	3.63	223
Consulting with industry in a meaningful way	4.5% (10)	13.5% (30)	23.3% (52)	<b>34.5% (77)</b>	24.2% (54)	3.61	223
Monitoring client feedback	6.7% (15)	16.6% (37)	28.3% (63)	<b>29.1% (65)</b>	19.3% (43)	3.38	223
Monitoring records processes	4.0% (9)	17.9% (40)	28.3% (63)	<b>31.4% (70)</b>	18.4% (41)	3.42	223
<i>answered question</i>							223
<i>skipped question</i>							27

Source: analysis of survey data.

After the three closed questions, two *open-ended* questions in the survey asked:

- 5 What have you found most frustrating from a management perspective about the implementation of AQTF 2007 in your organisation?
- 6 What do you think will be the most likely on-going challenge from a management perspective about staying AQTF 2007 compliant?

The responses to questions 5 and 6 confirmed the responses to the earlier questions. For example, a positive response to question 5 from one registered training organisation typified an approach that only some respondents provided:

The simplicity of AQTF 2007 has ensured a smooth transition from the old to the new. Our attitude was to review, implement and manage our 'business' in line with good business practices which ultimately ensured that the principles of AQTF 2007 were adhered to.

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However, the frustrations that were expressed by many other respondents proved there is confusion and uncertainty amongst registered training organisations about the requirements. Comments such as 'lack of clarity in describing how quality indicators are measured and what is realistically expected', or 'useless bureaucracy', show that many find the changes to be ambiguous and confusing. Time and cost was stressed as a factor causing frustration. Those who have previously used a quality management system found it much easier and less frustrating to implement the changes.

In turn, for question 6, a significant number of respondents articulated their concerns about 'proving' their operations actually maintained continuous improvement. For example, one dissatisfied comment was:

Ensuring the documentation accurately reflects our practices; Our practices are very good, but the paperwork to show this can be lacking; The amount of money to be spent on training staff so they understand the standards; Never feeling completely confident about being compliant; seems to be a lot of fear surrounding compliancy and audits; Time and Cost!

Another unhappy respondent said,

Simply understanding what all the crap is about and having the time to monitor it. There are little enough hours in the day now without having to wade through material that is not relevant for a small organisation.

It is evident from such comments that the importance of embedding continuous improvement into a quality management system will be necessary to reduce the costs and time of remaining compliant with AQTF 2007.

### **Outcome of the research**

After the three stages of data collection and analysis above, Electus knew that a performance system was needed but that installing it and making sure it was maintained had been difficult for many other organisations. Initially, Electus' administrative, support and sales teams were confused about expectations and found it difficult to proactively take on new tasks. Trainers were afraid the added complexity of compliance records would create an additional workload for which they would not be remunerated. By engaging all stakeholders in group sessions to assist in gaining an understanding of the impact change will have on each role and gain organisation wide culture of ownership, Electus was able to defuse much of the angst and encourage a mindset ready for change.

Electus' business processes are distinctive and therefore its quality system would need to be customised to both fit those processes and ensure compliance with AQTF 2007. The system needed to work for an organisation of any size - it needed to be able to scale to accommodate the expected growth. The system needed to be flexible and provide staff with a way to learn by accommodating their individual styles, time constraints and organisational culture. As well, the system had to provide effective control over

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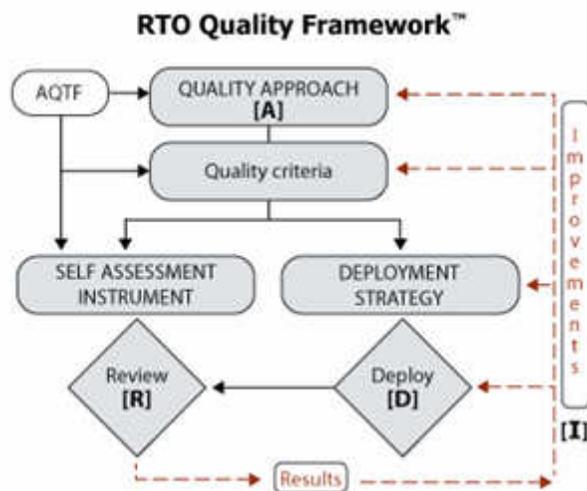
operations so that staff would continuously improve services and consistently operate within key performance areas, in accord with the standards of the AQTF 2007. And the online survey showed such a framework was hard to develop.

Electus found a answer that was generic enough to allow its existing systems to be embedded into it, and provided an action learning-like procedure to permit continuous improvement. Recommended by an interviewee at an Australia-wide training organisation, the RTO Quality Framework™ developed by Chalkport (n. d.) proved to be the sort of mechanism required. In brief, it is a quality system designed to assist an organisation to continuously improve operations to achieve quality outcomes and meet the requirements of AQTF 2007, and its elements could be adopted in a training organisation. A quality group of five people was nominated to implement the system so that its continuous review and monitoring of a quality system became embedded in the organisation.

There are six principles underlying this RTO Quality Framework™, as shown in Figure 4:

1. An organisation is a system (systems theory)
2. Continuous improvement is a cycle
3. A registered training organisation has a unique business process
4. Management systems provide infrastructure for the business process
5. Quality inputs and processes provide quality outputs and outcomes
6. AQTF 2007 standards provide the criteria for measuring quality

Figure 4 **Framework structure**



Source: Chalkport 2007 (n.d.).

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In more detail, the framework for the management systems can be related to the terms of an approach/deployment/ results/ improvement (ADRI) cycle, for the purposes of accountability. The cycle is similar to the action learning cycle of a work group: planning, acting, observing and reflecting (Stokes & Perry 2007). The four elements of the cycle are summarised in Figure 5 and are:

1. **Approach (A)** involves the factors which shape thinking and planning for the future. It also involves how this is embedded into organisational processes:
  - A documented systematic approach
  - A transparent business process
  - Seven management systems
  - Deployment strategy
  - Quality group
  - Annual strategic plan
  
2. **Deployment (D)** refers to implementing a training and assessment framework and compliance with legislation:
  - Calendar of key dates
  - Key procedures
  - Key documents
  - Monitoring checklists
  - Quality system induction
  - Staff compliance check
  
3. **Results (R)** are reflected in the outcomes of training and assessment as manifest in graduate performance:
  - Annual performance summary
  - Assessment validation
  - Competency completion data
  - Employer satisfaction surveys
  - Review meetings
  - Staff feedback
  - Training program review
  - Workplace personnel satisfaction surveys

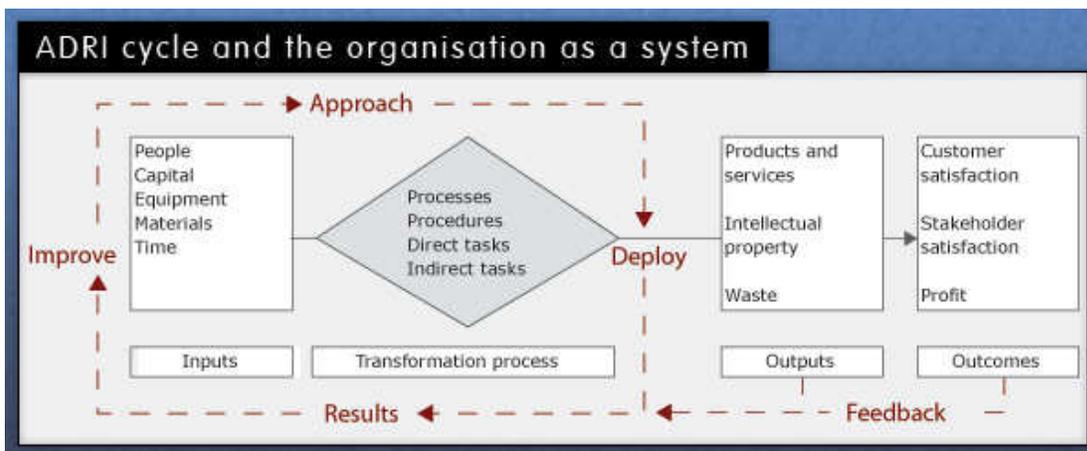
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4. **Improvement (I)** should be evidence based, taking account of the way students report their experience, feedback from other stakeholders (for example, government, industry and their associations, employers), and the extent to which standards established through benchmarking are met:
- Self assessment
  - Comments log
  - Improvements register

Finally, the RTO Quality Framework™ has key result areas (KRAs) and key performance indicators (KPIs) that are used in each turn of the ADRI cycle.

Figure 5 **ADRI cycle and the organisation as a system**



Source: Chalkport™ (n.d.).

In brief, the RTO Quality Framework™ allows Electus to address the *quality improvement* issues of the AQTF guide (DEEST 2007a, p. 6):

The standards focus on the quality of services and outcomes being achieved for clients. They allow RTOs some flexibility in demonstrating how they are meeting clients' needs in the context of the scope and nature of their business. Instead of asking, 'Have we got a process in place?' the RTO can ask 'What tells us we're doing well?' and 'What can we do better?'

At this stage, Electus is satisfied with progress towards its goals of quality improvement. The ADRI cycle is providing a mechanism for continuous improvement and the monitoring of progress in that direction.

## Conclusion

In summary, performance management can be an important part of a strategy but its use in SMEs is under-researched. The single case of a small, Australian registered training organisation, Electus, provided an unusual opportunity to investigate this use of

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performance management. Three stages of data collection found that the government's AQTF 2007 standards have been in place for almost twelve months but most registered training organisations have found it difficult to implement a quality system that consistently delivers the required outputs and outcomes. Most organisations found that financial constraints dominated their ability to engage the appropriate people within their organisations to make a transition from mere compliance to continuous improvement within a quality system. While most indicated little difficulty in understanding the requirements of AQTF 2007, they found it difficult to get their people to take ownership and embed the quality standards into their performance as a quality system. They did not understand the importance or the implications of not doing so. In turn, Electus adopted a process that produced evidence that an action learning cycle of continuous improvement is embedded into the organisation and that its registration audit requirements are met.

In conclusion, this research project showed Electus how and why to develop a quality and performance management system within a strategic situation. Its quality approach underpins all of the AQTF 2007 standards and allows Electus to put in place a balanced performance management system that helps it progressively aim at best practice in the national training sector.

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