# SPOTLIGHT

# The challenges of performance measurement

*Andy Neely in conversation with Sarah Powell*

**Abstract** *An interview with Professor Andy Neely who talks to editor Sarah Powell about the challenges of performance measurement, the role of the Centre for Business Performance, aims of the Performance Management Association and advantages of The Performance Prism.*

## Spotlight on Andy Neely

Andy Neely is Professor of Operations Strategy and Performance, and Director of the Centre for Business Performance at Cranfield School of Management. He has been researching and teaching in the field of business performance measurement since the late 1980s.

Professor Neely chaired the first two international academic conferences on performance measurement in 1998 and 2000, respectively, and will be chairing the third, which will be held in Boston, MA this year. He also co-ordinates the PMA, an international network of academics and practitioners with an interest in performance measurement and management.

Prior to joining Cranfield School of Management, Professor Neely held a lecturing position at Cambridge University where he was a Fellow of Churchill College. He has completed numerous research and consulting projects and has authored over 100 books and articles, including *Measuring Business Performance* which was published by The Economist Books and *The Performance Prism*, which will shortly be published by The Financial Times/Prentice Hall. Andy Neely has consulted to and worked with a wide variety of organizations including 3M, Accenture, Aventis, British Aerospace, British Airways, British Telecom, CHL, Diageo, Hogg Robinson, KPMG, NatWest, Pilkington, Posten, Reckitt and Colman, Rolls Royce Aerospace and Schering.

## Spotlight

When was the Centre for Business Performance formed and what was the main driver for this?

## Andy Neely

The Centre was initially established in 1996 at Cambridge University as a joint initiative between the Judge Institute of Management Studies and the Department of Engineering and it was relocated to Cranfield School of Management in 2000 when a number of colleagues and I moved there. The CBP aims to be an internationally recognized centre of "thought-leadership", engaging in academically rigorous and practitioner-relevant research, education and consulting in the field of performance management. A key goal is to ensure that, as a group, we tackle subjects and material of interest to the academic community that can be rigorously researched but, equally, that are of relevance to the practitioner community.

The Centre has established strong links between research, education and consulting/practical application and much of the work that we do involves helping organizations to develop and improve their performance measurement systems, which gives us insight into some of the challenges arising from the design and implementation of measurement systems. This insight is reflected in our research work which, in turn, feeds into work and training with managers to help them overcome similar challenges within their own organizations.

Many organizations have still not sorted out their performance measurement systems. There is still a tendency to measure things that are easy to measure and often to measure too much. In addition there are problems of implementation giving rise to what I call the "dark side of measurement", i.e. a negative reaction to measurement resulting from a sensitivity to or fear of measurement because it is perceived that it might be critical of individuals.

This latter problem is a management issue. Disappointing performance data are often used by management in a judgemental, intimidating way which encourages defensive behaviour. That same information, presented as a basis for discussion to throw up suggestions of where improvement might lie, is far more likely to lead to a positive outcome. Supportive management is the key to success here. In far too many cases, performance data are considered to be a source of power or a control device. But measurement is all about understanding what is happening inside the organization and working out, how to introduce improvement.

The challenge arising from this "human" dimension has been recognized in both the academic and the practitioner community. My own interest in the subject was stimulated by the very fact that performance management is not only science-based but also people-based. This combination fascinates me.

The other rationale behind the creation of the Centre for Business Performance was the recognition that no single individual could possibly keep up to date with such a fast-growing field, simply because of the sheer number of books and articles being published. It was clear that there needed to be some form of research group or team to undertake this. In addition to research, our group also wanted to build relationships with other organizations with complementary skills and we have created partnerships with companies such as Accenture, the consulting business and Gartner, the information systems research specialists. We also have strong links with conference organizations and publishers, such as Business Intelligence and IIR. The basis of these relationships is collaborative research and dissemination.

A similar rationale underpins the founding of the performance measurement association (PMA), which is an international network of academics and practitioners with an interest in performance measurement and management. We launched this Association in 1998 at a multi-disciplinary conference at Cambridge University, which brought together academics from across the spectrum of business disciplines. The PMA was primarily conceived to combat the frequent failure of communication between people in different functional communities working on performance measurement. The inaugural conference attracted some 200 delegates from 30 countries and was followed by a second conference in 2000. A third conference[1] is to be held in Boston in July this year when speakers will include Bob Kaplan of Harvard and Baruch Lev of the Stern School.

**Spotlight**

What do you see as the main challenges in design and implementation of performance measurement systems?

**Andy Neely**

I tend to think in terms of the four fundamental processes of performance measurement: measurement system design, implementation, managing through measurement, and "refreshing" the measurement system. They all pose different challenges.

In design, the challenge lies in choosing the right measures. In the late 1980s and early 1990s the problem in many organizations was that they measured the wrong things, notably things that were *easy* to measure, many of which were financial and historical in orientation. Today the nature of this measurement crisis has changed and in many businesses now the problem is excessive measurement. There is a desire to quantify absolutely everything. If the focus is on the customers, there will be proposals to measure customer complaints, satisfaction, loyalty and profitability, returns, rejects and warranty claims – and the list goes on and on. So the current challenge is not necessarily identifying what you could measure, it is identifying what you need to measure so as to concentrate on what is absolutely vital.

Where implementation is concerned, the challenges are two-fold. There is the data access issue, i.e. the need to get access to the right data, and the political and cultural issues, notably people's fear of measurement and the games they consequently play to try to manipulate target-setting to ensure targets are achievable and no blame can be attributed. To combat this people inside organizations need to be educated to understand the purpose and use of the measurement system.

The challenge in managing through measures requires a cultural shift in many organizations. The focus needs to be firmly on targets. The problem is that, in many organizations, managers are presented with raw performance data and left to draw their own conclusions. They can lead to time-consuming and largely unnecessary debate to justify individual figures while the focus should be on the current situation, what can be learned from it and, more importantly, how targets can be achieved. Education is required in how to present data to encourage such discussion.

The real challenge arises when it comes to what we call "refreshing" the measurement system. Inside the organization, individual managers can, if they wish, introduce performance reports in response to a specific problem. However, this leads to constant introduction of new performance reports while those that have become obsolete, because problems have been solved, are rarely deleted. To ensure that as the organization changes the measurement system keeps pace, there needs to be a named performance manager whose role is to manage the measurement system.

**Spotlight**

How can the impact and contribution to ROI of performance measurement systems be measured?

**Andy Neely**

This really, is one of the great unanswered questions and it is one of the issues that we are working on within the Centre for Business Performance. How indeed do you answer the question: "Is this worth it?" There is very little research completed on this

topic to date, partly because there are so many other factors that influence the overall performance of the business. This makes it incredibly difficult to isolate the role of the measurement system and to identify its contribution, particularly in any kind of ROI calculation. I see this as an area for academic research.

While I cannot give an exact answer on ROI, I do think that there are a number of things that are valuable about performance measurement. A major value lies in the pure power of measurement. First of all, the act of deciding what to measure forces people to clarify what is important in their organizations. If, for example, a key goal is happy customers, the management team will need to determine what it means by happy customers and how to measure whether or not customers are happy. This forces the management team to be far more articulate about their goals. In terms of happy customers – are they talking about people who recommend the business to others, or repeat purchasers, or perhaps people who score the organization well on their customer satisfaction surveys... etc.? This sort of questioning forces senior management teams to be clear about real objectives, to air differing opinions, and to use precise language to define how they want to assess performance towards these goals.

Second, when appropriate measures are in place the organization will have an invaluable means of communicating to their people a clear framework for working towards the organization's targets. This provides a means of influencing behaviour, ensuring the right things are being done.

Third, when the appropriate measures are in place and the management team has established the right targets, it can check whether or not objectives are being achieved. The measures act like a "route map"; the organization knows where it wants to go and has the data to tell it whether it is moving in the right direction.

Finally, measures or rather measurement data can be used to challenge the organization's strategy. When you design a measurement system, you need to view it as a system rather than focus on individual measures. What is important is to understand the links between the different measures, seeing the whole as a "strategy map". This map outlines your theory about how the business works. If, for example, in a manufacturing company you want to increase the profitability of your business, you will aim to increase your market share and improve operating efficiency. To do the latter, you need to reduce inventory levels. To do this you need to move products through the factory more rapidly, which entails reducing lead times. To achieve this you must reduce batch sizes, which requires reducing the time needed to set up a machine, etc.

If you have measurement data that can tell you whether you are achieving all of this, you can see where the effects of the measures have been successful and where there are still hold-ups. This in turn enables you to identify where problems lie and to see if this is as expected or elsewhere. What you are doing is using the measurement data both to show you what is happening inside your organization and to confirm your theory about how your business is running. That is an incredibly powerful role for measurement.

So, when I talk about any ROI from measurement, I tend to talk about five notable contributions: clarifying objectives, communicating them to people, influencing behaviour to be consistent with them, checking whether or not objectives are being delivered, and challenging theories about how the business works. There is tangible value in all of these.

**Spotlight**

What impact do national or organization cultures have on the take-up of performance measurement or the design of performance measurement systems?

**Andy Neely**

Both exert an impact. The evolution of the balanced scorecard, which is currently the most popular measurement framework, gives some indication of the impact of the former. The balanced scorecard concept took off in the late 1980s/early 1990s in the USA, becoming popular in the UK and then throughout Europe in the mid-1990s/early 2000. It was slower to catch on in Asia, however, only really becoming popular within the past 18 months or 2 years. While it is difficult to say whether this comparatively slow take-up reflects particular measurement issues, we know that many traditional Japanese companies would question the need to measure customer satisfaction, for example, pointing out that if you are close enough to your customers, you will know whether they are satisfied, obviating the need for formal measurement systems.

Organizational issues are of particular interest to me and, notably, public/private sector differences. In the private sector, interest in measurement tends to be driven by sensible management practices. However, in the public sector I perceive a real challenge because it is not clear what role measurement plays for many public sector organizations. Many of these have measures imposed on them by the government. Take the police force in the UK. Thames Valley Police, for example, has in the region of 200 key performance indicators, i.e. 200 things that they are told by the government to measure. You could argue that they should use these to compile information to demonstrate to the public how they perform against them, which makes the force accountable. Certainly, if all the police forces in the country had similar sets of measures they could then share best practice, comparing their strengths and weaknesses and learning from one another.

However, my concern is that the real driving force in many such public sector initiatives is simply justification of existence. When there are spending or funding reviews, the public sector organization, in this case the police force, selects from its 200 performance measures the ones in which it is performing well. This enables it to make a strong case to the treasury for a decent budget. I consider that performance measurement in the public sector has become more of a political "gaming process" than a genuine management process.

That said, the same thing also occurs in private sector organizations. I have received many requests from central service-type functions such as IT, personnel and marketing to design measures to help them to demonstrate to the rest of the business how they add value, i.e. to help them to justify their existence. Again this is purely defensive. So if we talk about cultural impacts, these are not solely national, nor is there a straight public/private sector split. There is also the question of micro-cultures within organizations.

**Spotlight**

What is the advantage of The Performance Prism developed by the Centre for Business Performance compared with "traditional" performance measurement frameworks?

**Andy Neely**

Undoubtedly the most popular of the measurement frameworks, which include the Business Excellence Model, the Baldrige Award, the Deming Prize and many others, is the balanced scorecard developed by Bob Kaplan and David Norton. This adopts four perspectives: financial, customer, internal, and innovation. When I reviewed this and the other frameworks I was concerned to note that none is broadly focused on stakeholders. The balanced scorecard, for example, with its four perspectives, completely omits the employees inside the organization – despite the fact that most organizations talk of their people being their most important asset. Suppliers are similarly ignored even though they and alliance partners are increasingly important now that organizations are outsourcing more and more of their non-core activities and relationships are crucial. There is also no mention of regulators despite the fact that they are extremely influential in many industries.

Our Performance Prism deliberately adopted a much broader stakeholder view. Its opening question is not: what is the organization's strategy and therefore what should it be measuring? It is: who are the stakeholders to whom this organization must deliver value? And then: how important are they? Who takes priority and what does the organization need to do to satisfy the competing needs of different stakeholders?

The Performance Prism deliberately separates what we call stakeholder satisfaction from stakeholder contribution. I see this as a very important distinction. The two sides of the relationship have completely different requirements. In terms of the customer/organization relationship for example, the customer requires satisfaction from the organization while the organization seeks loyalty and profitability from the customer. Hence the customer's contribution is loyalty and profitability but what gives him or her satisfaction is the quality of service received.

The concern I had when I looked at many of the existing frameworks is that they fail to make explicit this stakeholder relationship notion of contribution and requirement. The same is true for employees, suppliers and regulators. It is also true vis-à-vis the owners of the business if we consider their position from an investor perspective. All stakeholder relationships hinge on a combination of stakeholder satisfaction and stakeholder contribution. The Performance Prism is the only framework that makes this explicit.

**Spotlight**

How can the Performance Prism specifically boost M&A success?

**Andy Neely**

It comes back to the question of relationships. These are absolutely crucial in mergers and acquisitions. This is because an acquisition or a merger is very disturbing for the people inside the organizations concerned, and particularly so in the company that has been acquired, i.e. the junior partner. The acquirer needs to consider both what is needed from the company acquired and what that company needs from the acquirer. Reflection on the requirements of both parties must be included in the design of the measurement system. The question to ask at that time is not about what needs to be measured but about what the organization wants to achieve. The goal is to establish a framework for thinking about what needs to be done and whether or not targets are being met.

**Spotlight**

Do more independent ways of working, e.g. outsourcing, homeworking, etc. and growing globalization pose a challenge to performance measurement design, implementation and effectiveness?

**Andy Neely**

They do and it makes measurement even more important. Once you have used the measures to clarify what you are trying to achieve, you will have an excellent way of communicating that to people, which is really vital when people work at a distance from the organization.

Whether people are working remotely or within the organization, the challenge is about establishing the right measures and then communicating them in the right way, so that people do not feel threatened, but actually see the data as a way of understanding what is working, what is not and what they need to do differently in the future. If a measurement system is used as a way of getting people who are working at a distance to engage with the organization and what it is trying to achieve, then it can be a very powerful communication medium.

**Spotlight**

We have just talked about two of the challenges facing organizations today – mergers and acquisitions and independent ways of working. Looking forward, what other challenges do you see for organizations in general and for performance measurement specifically?

**Andy Neely**

That is a very interesting question. I think one of the most significant challenges facing managers today is the availability of data. Note the use of the word data rather than information or insight. The information systems that exist in organizations today give managers access to vast quantities of data. Data overload is a real issue. The problem facing them is that they have to convert these data into information and insight that inform them about what to do next. We need to give people better ways of doing this – of managing this "data to information to insight conversion cycle". Many of the tools and techniques exist. The problem is that they have not been brought together into a coherent and accessible set for the practitioner community. One of the projects that we are running in the Centre for Business Performance – our Best Practice Business Performance Roundtable – is seeking to do exactly this. The roundtable is a collaborative venture with some of the world's leading organizations. Members include people like Astra Zeneca, Belron, DHL, ICI, Nestle, Shell and Six Continents Hotels. We are working with these organizations to develop something we are calling The Performance Planning Value Chain, which essentially seeks to provide a structure for converting data into insights.

*The full version of this interview appears in Emerald Now at www.emeraldinsight. com/now*

**Note**

1. For details of PMA 2002 – Performance Measurement and Management: Research and Action Conference, visit the PMA Web site on www.performanceportal.org/

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