

Corporate performance management

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Abstract Focuses on the changes in performance measurement, following research conducted with executives in a number of leading European companies. Found that there is a growing trend towards managing performance improvement through focusing on the underlying drivers of performance, whether improvements in the processes or the underlying resources that give these processes capability. The past obsession with pure financial performance is decreasing and there may be a recognition that there is a trade off between hitting today's financial results and sustaining the capabilities and competences that allow companies to compete effectively in the future.

Keywords Performance management, Organizational change

Introduction

It is now over ten years since Robert Kaplan and David Norton wrote their first *Harvard Business Review* article on the balanced scorecard. Since then, much has changed in performance measurement and now there is a growing trend to extend this approach in what is becoming a new wave of corporate performance management.

Performance management is a term widely used within HR and has a specific meaning associated with reviewing and managing individuals' performance. However, there is also a growing concern in performance measurement that measuring performance is not enough. Measurement has to lead to insight and insight to action – hence the term corporate performance management has been born to differentiate between management at the level of the individual and the corporation.

Over the last 12 months we have spent time visiting and discussing the latest practices in performance measurement and management with executives in a number of leading European companies including Belron, Borealis, DHL, Ford, KLM, Marks and Spencer, Schering, Shell, Siemens, Statoil and Svenska Handelsbanken. This has been done as part of a wider research project sponsored by the Engineering and Physical Science Research Council and SAS. In this article we will reflect on what we believe are the emerging trends in corporate performance management and highlight some of the best practices we have observed.

Changes in focus

It has been argued in much of the academic literature that traditional performance measurement was too financially biased, focusing only inside the organization on cost and budget variance



data. The balanced scorecard literature widened the concept of performance measurement by making executives look externally, at how customers and shareholders see the business, as well as internally at process performance and the source of innovation and learning.

More recently, the concept of multiple stakeholders has come to the fore. Companies can no longer be satisfied with only considering shareholders and customers. Employees are also seen as important stakeholders, as are suppliers, regulators and the community at large and these stakeholders need to be incorporated into the performance measurement system. Companies have adopted different approaches to this challenge. Shell has produced, for a number of years, an annual report on people, profits and principles, covering many issues of interest to environmentalists and members of society at large. Similarly, Borealis have created a separate focus on “winning through our people”, which they manage in addition to their drivers of business success.

There is now an explicit multiple stakeholder framework – the performance prism (Neely *et al.*, 2002, see Figure 1). This framework starts with stakeholders’ wants and needs, and not with strategy. The argument made is that organizations exist to satisfy stakeholders, so their wants and needs should be considered first. Having developed the stakeholder requirements, strategies can be developed to meet these needs.

These strategies are then cascaded to business processes and the capabilities and resources that underpin them, and finally the contribution from stakeholders.

So, one of the changes we are observing is that companies have moved from purely internally focused performance measures through multiple dimensional frameworks to having measurement systems that include in their focus the wants and needs of relevant stakeholders.

Summary

Companies are now focusing in a wider range of stakeholders to ensure they pay attention to all the important facets of performance.

Changes in dimensions

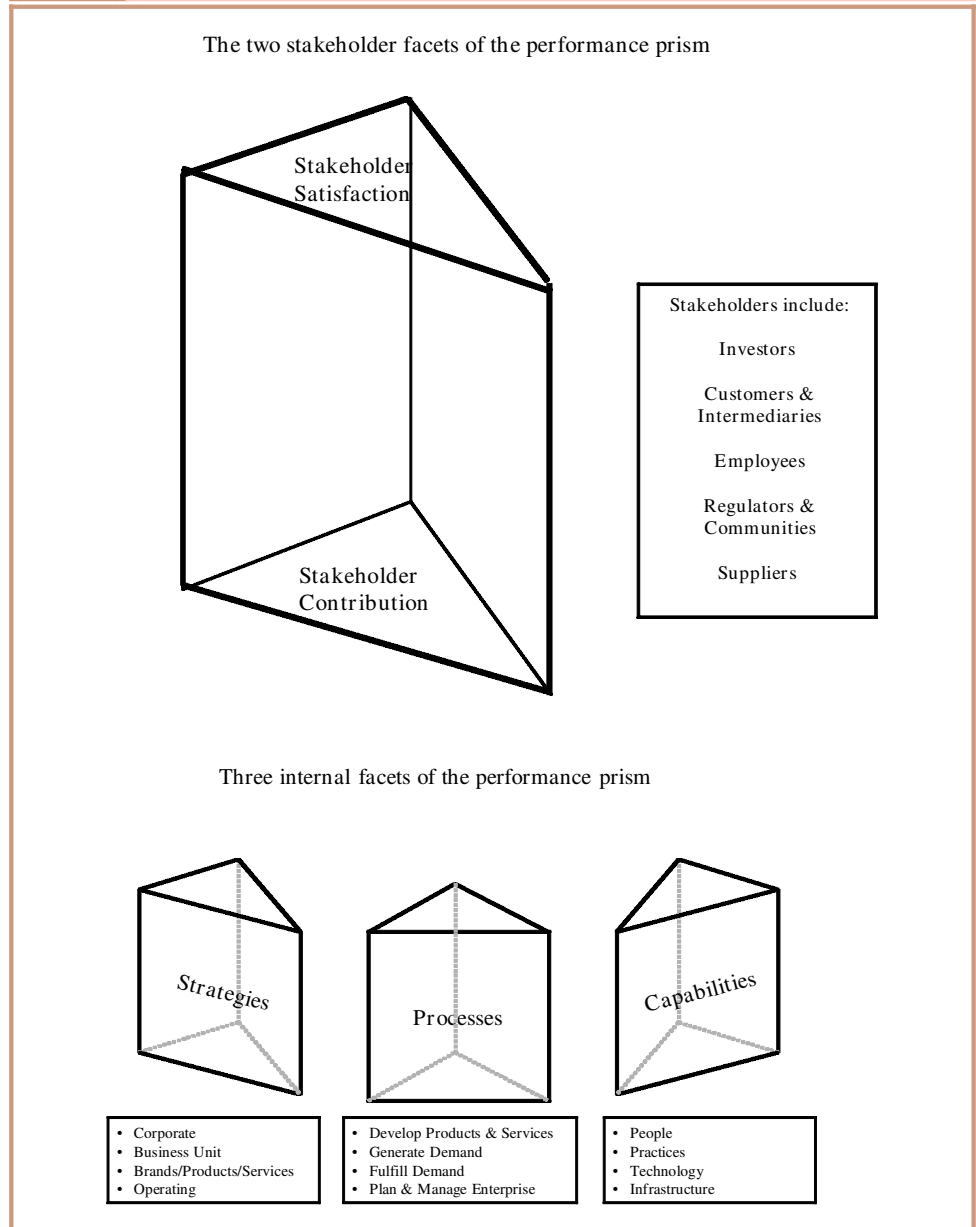
Traditionally, performance measurement systems were uni-dimensional – focused purely on financial measures. The balanced scorecard initially created four dimensions, but then evolved to incorporate the concept of “business models” (Eccles and Pyburn, 1992), “strategy maps” (Kaplan and Norton, 2000) or success maps.

Success maps are diagrams that show the logic of how the objectives of the organization interact to deliver overall performance (see Figure 2). These success maps have a great advantage in communicating both “how” objectives are to be achieved and “why” objectives have been developed.

Taking Figure 2 as an example, in this organization the immediate goal is to improve the return on capital employed. How will this be achieved? Reading the diagram, the success map suggests that the keys to improving returns are through better sales margins and increased operating efficiency. At the next level down, we now have an objective to improve operating efficiency; how is this to be achieved? The diagram suggests that this is achieved through greater adherence to process standards. In this way the cause and effect relationship between objectives and how they can be achieved is easily communicated.

The success map is an excellent vehicle for communicating direction, but a number of organizations are going further. Not only have they created a success map, but they are also testing the success map using information from their performance measurement system. The best known case is Sears Roebuck and Co, (Rucci *et al.*, 1998, see Figure 3) who created a link between employee satisfaction, customer satisfaction and financial performance. In the mid 1990s Sears measured the correlations. This allowed them to calculate the impact of an improvement in employee satisfaction on customer satisfaction, and the impact of this improved customer satisfaction on revenues. Our observation is that although there are few published examples of this approach, a small but growing number of organizations (such as Shell) are

Figure 1 The five facets of the performance prism (Adapted from Neely *et al.*, 2002)



using data to test their business assumptions. Some other organizations, such as Marks and Spencer, accept this model and are about to use their data to test the assumptions. There are however, other companies who just accept the model and although they obtain benefit from this, they are not necessarily getting the real insights that they would get from using their own data.

Therefore, the second of the changes we are observing is that companies have moved from multidimensional views of performance to building success maps that link these views together and that the best are now empirically testing the relations in the success map.

Summary

Companies that test their assumptions using their own data tend to find counterintuitive relationships that give them greater insight into how to better manage their business.

Figure 2 An example of a success map

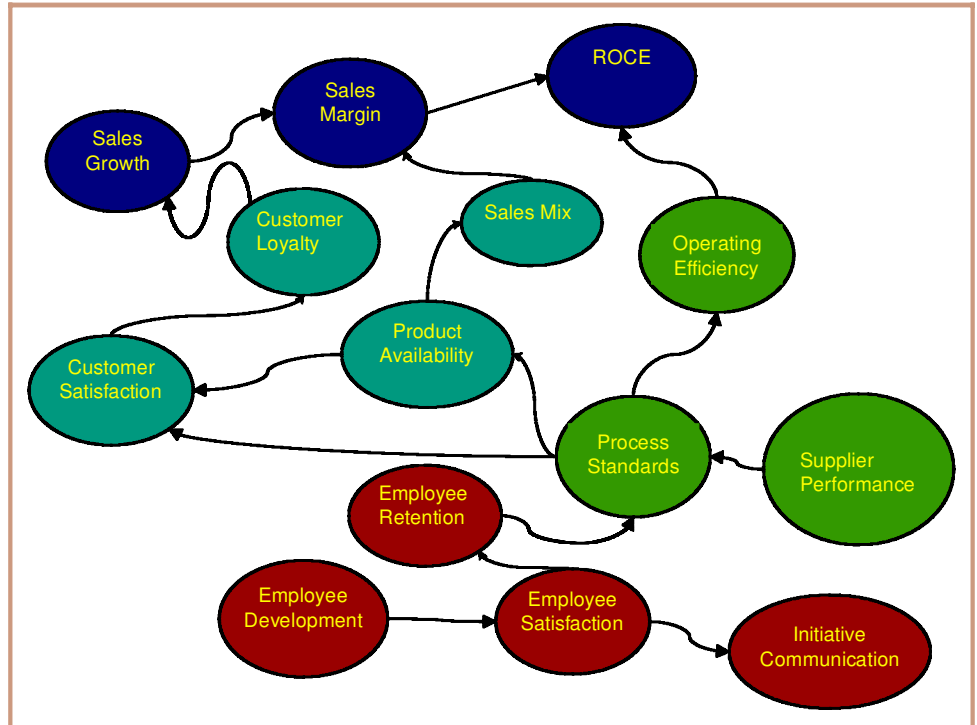
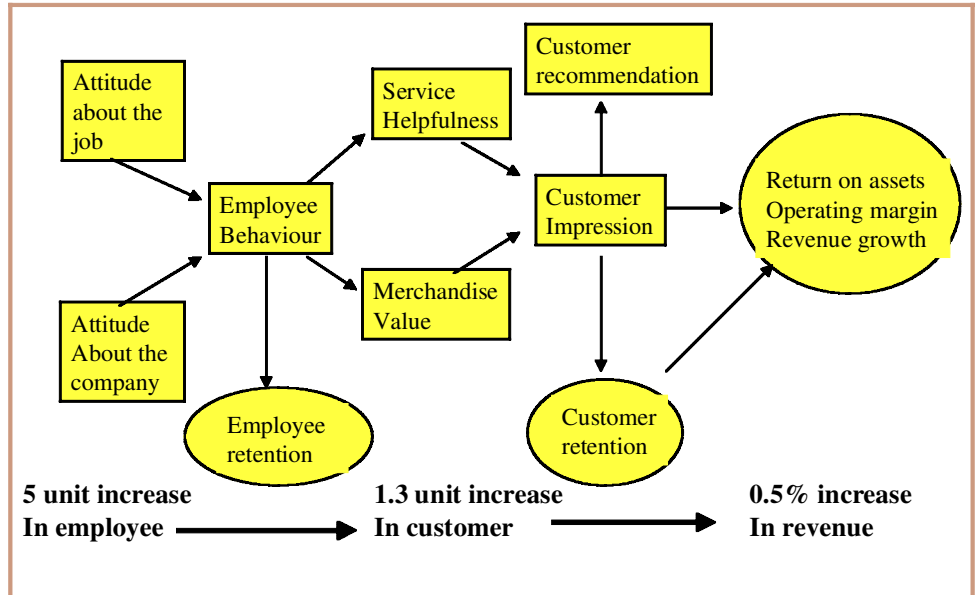


Figure 3 The employee-customer profit chain (adapted from Rucci et al., 1998)



Change in drivers

Traditional performance measurement systems were highly cost driven and one of the main criticisms of measurement in the 1980s was that it focused on cost reduction at the expense of achieving competitive performance. The scorecard introduced the concept of “innovation and learning” as the driver of longer term profitable growth. Some of the best examples we have

observed go beyond measuring indications of innovation and learning, companies are managing future performance through developing their process capabilities in conjunction with their underpinning resources.

Figure 4 is a simplified illustrative example of a drug company's new product development performance management system. The idea of managing new product development in this way has been understood for years in the pharmaceutical industry. There is a discovery and development pipeline with large number of initial compounds being reduced to a small number of potential products through trials and testing. In fact, city analysts assessing the future revenue flows based on this concept, drive much of the movement in share price.

However, the best examples of corporate performance management we have observed occur when companies have not only specified the capabilities of the process, but developed an understanding of the resource required. Some are now developing their models of the links between these resources and their impact on process performance.

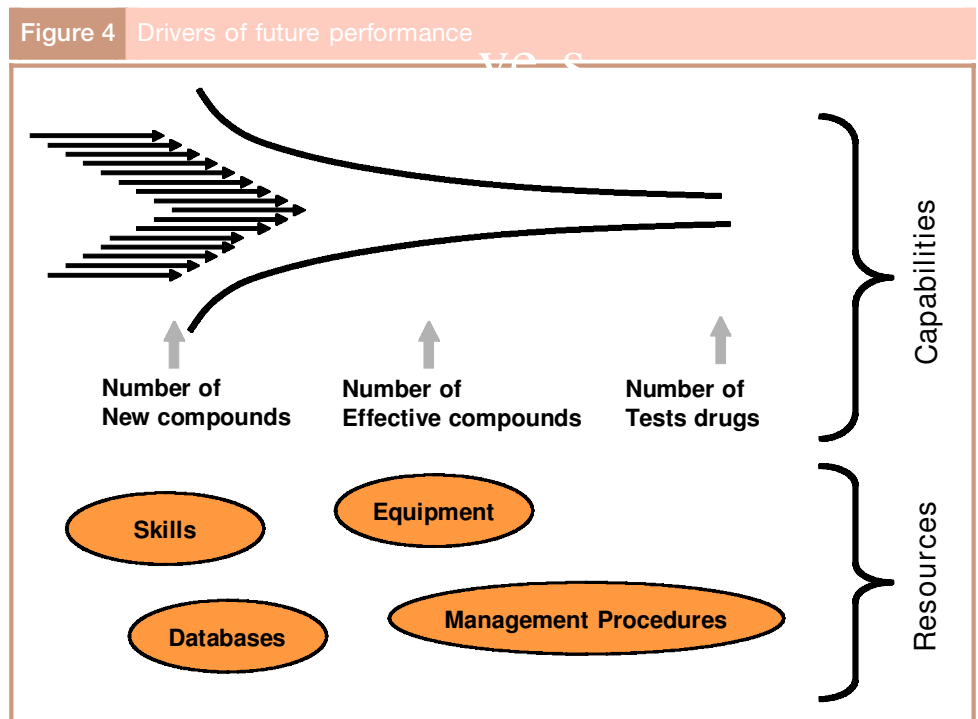
Summary

An effective way of managing the future health of the business is through the development of process capability through the improvement of the underlying resource base.

Change in targets

The fourth change we have observed is in target setting. There is a move from traditional financial targets to a mixture of financial and non-financial targets, and in some organizations a move to comparative rather than fixed targets.

Target setting is always a difficult process and can have a significant impact on motivation and business performance. Setting arbitrary targets based on last year performance can be dangerous as changes in the economic environment, such as interest rates and oil price, can make them unattainable.



Borealis extensively use external benchmarks as their way of identifying comparative levels of performance. This has driven cost and productivity improvements beyond that which they would have achieved through year on year improvement. Svenska Handelsbanken have a policy of not setting targets, their philosophy is to beat the competition. As a result, each branch within the bank's network can compare their performance against their peers. The bank itself aims to produce higher returns than its competitors and the staff bonus is only paid when this occurs.

Summary

Comparative targets maintain management and employee focus in good times as well as bad.

Changes in desired benefits

The focus of traditional financial performance measurement was cost control. The advent of the balanced scorecard, and particularly success maps, moved this emphasis to communicating strategy and direction, aligning activities with objectives.

Under corporate performance management, we have seen a much greater emphasis on business process improvement. Process re-engineering and six sigma improvement initiatives are being used to improve performance of operations. In the past, many of these business process improvement initiatives have been conducted in isolation and rarely linked to strategic objectives. Some of the best practices we have observed occurred when performance measurement success maps and improvement programs were integrated. By linking both approaches, organizations are integrating the top down cascade of goals and objectives with the bottom up business process improvement activities (Table I). As a result, these organizations are reaping the benefit of having their business improvement activity prioritized and focused on the key objectives.

Summary

Linking objectives from the success map with process improvement initiatives creates sustainable improvements in performance.

Table I Summary of the changes observed			
Changes in	Traditional performance measurement	Balanced performance measurement	Corporate performance management
Focus	Internally focused	Internally and externally focused	Focused on the needs of relevant stakeholders
Dimensions	Single dimension	Multi dimensional	Less focus on dimensions and greater emphasis on assumptions and links across dimensions; Empirical testing of assumptions and challenging success maps
Drivers	Cost	Innovation and learning	Improving process capabilities through the development of underpinning resources
Targets	Financial	Financial and non-financial	Comparative – external and against the competition
Desired benefits	Cost control	Communication of strategic direction	Sustainable performance improvement through focused business process improvement

Summary and conclusions

In our visits and discussions we have tried to identify the best practices in performance measurement and management. There is a growing trend towards managing performance improvement through focusing on the underlying drivers of performance, be they improvements in the processes or the underlying resources that give these processes capability. The past obsession with pure financial performance is decreasing and there may be a recognition that there is now a significant trade off between hitting today's financial results and sustaining the capabilities and competencies that allow companies to compete effectively in the future. Companies are increasingly being asked to explain not only what their profitability is, but also how they have achieved it. Companies that cannot do this are having their share price marked down.

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