PM 2000 Summary

PM2000, the second international multi-disciplinary academic conference on Performance Measurement, was held at Robinson College, Cambridge on July 19, 20 and 21. The Conference attendees, which included some 150 academics from 26 different countries, heard keynote presentations from Professor John Kay, Professor Claus Fornell, and Professor Andy Neely.

John Kay spoke about the need for seamless integration between the three roles of measurement, which he identified as external reporting, internal control and internal analysis. He argued that the external reporting function could best be covered by shareholder value measures. The internal control function could best be covered by balanced scorecard type measures, and the internal control function could best be covered by activity based costing. His major theme was that the requirements for external reporting should be derived from the measures used for internal control which in turn should be based upon the measures used to complete internal analysis. Hence the seamless link between these three roles of measurement.

(Continued on page 3)

PMA - Update

At the launch of the Performance Measurement Association at PM 2000 Conference in July we received positive feedback on the need for an association which focuses on bringing together such a wide variety of disciplines and countries with the common interest of performance measurement and management. We came away with some good ideas for what the PMA could offer its members and what structure it should take. Since this time we have been busy getting some of these ideas off the ground. Of note is the establishment of the web site for the PMA - www.performanceportal.org - which comprises some of the resources for PMA members and which will be added to continually. (For more information on the latest developments on the PMA web site please turn to the last page of this newsletter.) Another key development of
Editors Details

Perspectives on Performance is edited by the Centre for Business Performance at Cranfield School of Management. It is the newsletter of the Performance Measurement Association, and will be circulated to all members. The objective of the newsletter is to provide members with information regarding current and recent research in the field of performance measurement. For the newsletter to reflect the broad range of research that is currently being undertaken, the editors would greatly appreciate contributions from members of the Association concerning their research and other significant pieces of recent research.

If you have any comments or suggestions or would like to contribute in any way please contact Angela Walters at the Centre for Business Performance.

Centre for Business Performance
Cranfield School of Management
Cranfield University
Cranfield Bedfordshire
MK 43 0AL

Tel: +44 (0)1234 751122
Fax: +44 (0)1234 757409
Email: pma@performanceportal.org
Claus Fornell, one of the world’s leading experts on customer satisfaction, presented data that had been gathered as part of a longitudinal study, using the American customer satisfaction barometer. During his presentation Claus presented some compelling evidence that illustrated the links between customer satisfaction and a company’s financial performance.

Andy Neely presented the results of a research study sponsored by Anderson Consulting, which explored what the dot.coms should measure and contrasted this with what they are measuring. Andy also introduced a new performance measurement framework, the Performance Prism, which addresses some of the shortcomings of existing measurement frameworks.

In addition to these three keynote presentations a further 90 papers were delivered by academics from a wide variety of management disciplines, including accounting, finance, general management, marketing, and operations management. Particular streams at the Conference, focussed on critical perspectives of performance measurement, a major theme in which was what worked and what did not work with measurement systems. Other streams focussed on intangible assets and intellectual capital, the reasons why measurement initiatives fail and performance measurement in the public sector.

Overall, the Conference was extremely well received and illustrated the vast interest and diversity that exists within the field of Performance Measurement. Many thanks to all of you who helped make it such a success, and we hope to see you all again at PM 2002.

Professor Andy Neely, PM 2000 Chairman

Time For Business to Value the Brand

A recent survey of Finance Directors and their views of marketing found:

- 82% of the Finance Director’s found it difficult to measure the effectiveness of their companies’ marketing efforts.
- 29% felt that after people, brands were the most important assets a company held.
- 32% admitted the marketing budget would be the first to cut if business costs were under pressure.

The article points out that fewer than 1 in 5 companies have a Marketing Director on their main board and argues that one of the reasons for this is it is so difficult to measure performance and hence contribution to marketing.

The article goes on to say that this is changing, partly with the Internet revolution, as this has opened the eyes of people within organisations to the importance of brands. ‘According to David Haigh, of Brand Finance, a brand valuation consultancy, more than 70% of city analysts want more information in companies annual reports on how they value and support brands and how much they spend on them.’

Corporate governance is a growing area of international interest and concern, as new issues emerge throughout corporations, agencies and NGOs in a rapidly globalising world. A new journal, published by the MCB entitled "Corporate Governance: The International Journal of Effective Board Performance" aspires to contribute to the international debate on board effectiveness by featuring practical and real-world discussion of current, and future concerns of board membership and performance. It is envisaged that articles will be based on theory and research and praxis, but with the emphasis placed on practicality and application within organizations. (http://www.mcb.co.uk/cg.htm)

The latest figures suggest that R&D spending has increased by 8.5%. The 576 companies on the scoreboard invested £13 billion in R&D during 1999. "A share portfolio of consistently R&D intensive companies, started in 1995, showed much faster growth than the stock market in general. Its valuation was £25,000, compared with £7,500 for a FTSE 100 tracking portfolio".


Only 3% of companies ranked shareholder demands as one of their three most important factors for future success of their business in a survey carried out by CIMA (Chartered Institute of Management Accountants) for Global Business Management Week. Customers fared even worse, with only 1% of companies identifying customer focus as a key issue for business planning.

Top of the list was finding and retaining quality people (50%), followed by speed of change (17%) and intellectual capital (8%). The survey also found that advancements in communications technology increased workload, 60% of respondents indicated that technology had increased their workload. The survey involved senior executives from leading businesses in the UK, Europe, Asia the Middle East and the USA and was conducted by CIMA as part of its Global Business Management Week initiative. Further information: www.cimaglobal.com

“Pension funds and their investment managers, by contrast, have become slaves to single benchmarks... This may not have produced a bad result, but we cannot be completely sure until we examine performance through a prism that offers alternative perspectives” – Donald Brydon, Chairman of the Fund Managers Association, quoted in the Financial Times, 17 July 2000.

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Some facts and figures about M-Commerce:

- Data Monitor, a market research company, forecasts that the European mobile phone market will have more than 270 million users by 2005.
- Ovan, the technology and telecoms research company, says that by the end of 2005 there will be almost 500 million M-Commerce users worldwide, generating more than $200 billion in revenues.
- 75% of all (on-line) shopping baskets are abandoned.

by George Cole, Financial Times, Wednesday April 12th, 2000, page 15
Fifteen managerial recommendations into strategic performance measurement are made in a report published by Sedecon Consulting, Finland. They are:

1. **When developing a strategic management system start from strategy**
   Too often, companies copy their performance measurement system from what other companies are measuring. Measures should be developed from strategy and tailored to match the specific organisational context and structure.

2. **Think about what you want from your measurement system**
   Is the measurement system to be a tool for controlling the operations or an instrument of strategic learning? These require different approaches and a decision should be made about the goal of the measurement system before the project starts.

3. **The measurement system must develop with the strategy**
   The measurement system isn't static; it should change and adapt as the strategy changes. It is important to keep the measures and strategy in line or the strategy will prove difficult to implement. An important task is to decide who is responsible for continuously developing the performance measurement system.

4. **Enable learning - start measurement early**
   It is important to get into the habit of measuring early and to gather the information you want. The initial measures may not be correct, but they can always be changed. This changing gives the signal that the system is flexible and dynamic and helps the measures live within the organisational setting.

5. **A measurement system creates a common language**
   Measures should be used as a mechanism for strategic dialogue. It enables all levels of the organisation to discuss the same topic and contribute to the same goals.

6. **The shift of power caused by a measurement system can result in politics**
   Combining the two too early can cause a problem. Early indicators may well be poorly defined, and attaching reward at an early stage may cause anomalies and undermine the credibility of the performance measurement system.

7. **Combining measurement information requires cautionness**
   Combining individual measures into a single indicator should be done with caution. The combined index loses its effect as its contribution is soon forgotten. Further, deterioration in one dimension of the index may be obscured by improvements in another. Before combining indicators, it is important to understand the loss of information this causes and to have explored all the alternatives.

8. **Preserve the understanding of the relationships between indicators and the dynamics of the numbers**
   Don't let people follow the indicators blindly, it is important that they continue to understand what the indicator is measuring and what it is not measuring.

9. **Include all important interest groups in the strategic measurement system**
   The needs and requirements of all the important stakeholders should be included. If these are not known, they should be established, perhaps through a survey.

10. **Setting target levels for indicators is a fundamental part of crystallising the strategy**
    Too often strategy is simply a wish list. Performance measurement quantifies the objectives so everyone understands what is to be achieved by when. Further, trade-offs often have to be made, between short and long term, between the needs of the customer and the requirements of the company. Performance measurement helps makes these trade-offs explicit, so crystallising the strategy.

11. **Combine measurement with rewarding only once measurement works in practice**
    Combining the two too early can cause a problem. Early indicators may well be poorly defined, and attaching reward at an early stage may cause anomalies and undermine the credibility of the performance measurement system.

12. **Measurement observes what has already happened - the challenge of the measurement system is to forecast development**
   All measures record past performance. The trick is to use the measures to plan and predict the future through understanding trends and the relationships between the different indicators in use.

13. **The functionality of a measurement system can be tested**
   It is important to test empirically the assumptions made about the interrelation between the measures. If management are acting on assumptions, these assumptions should be checked for statistical significance.

14. **Prepare for the "valley of death" as the measurement system development project progresses**
   The design phase of a performance measurement project can be achieved with little resource. However, implementation requires greater resource and projects can stall at this stage. Overcoming this problem may be solved by including a wider range of people at the start of the project.

15. **Concentrate on the essential**
   The greater the number of indicators, the more the business is measured. However, this leads to a lack of focus. Ideally a measurement system should have a limited set of measures as this reduces the administrative cost of measuring and enables the measurement system to clearly express the chosen strategy by focusing on the few key objectives.

Sedecon Consulting, (1999), Strategic Performance Measurement, Sedecon Consulting, Revontulentie 6, FIN-02100 Espoo, Finland.
Myths That Hamper Employee Retention Efforts

This article reports that two new surveys by US based HR consultants – Development Dimensions International – which found that many companies still labour under a number of myths about employee retention.

The study cites the following 10 myths:

1. The employee retention problem is going away: More than 3 in 10 were either dissatisfied or neutral about their jobs and over 4 in 10 HR professional reported higher turnover this year.
2. Companies are doing everything they can to keep employees: 98% of HR professionals admitted that companies need to do better.
3. Employee satisfaction equals employee retention: While only 10% said they were dissatisfied, 25% said they planned to look for a new job next year.
4. HR departments understand employee needs and motivations: ‘Finding meaning in work’ was ranked second most important by employees and ranked last by HR professionals!
5. It is all about money: Employees ranked this at 5th – after, ability to balance work with social life, meaningfulness of work, trust, and relationship with their supervisor.
6. Employees have stopped caring about organisation trust and loyalty: 99% of employees said this is important but only 29% said it was there.
7. Companies have embraced new retention tactics: More than half the companies surveyed had tried no new tactics.
8. It doesn’t cost much to hire a replacement: The US department of labour estimates that the replacement cost amounts to 30% of the employee’s annual salary.
9. The only real problem is in the high-tech fields: Accounting and finance professions were found to have the highest turnover, followed by IT and then, sales professionals.
10. More effort is put into retaining managers: 41% of companies with a retention policy use it to retain employees with special skills, whereas, only 26% use it to retain managers and executives.

Source: Clark, R., Wisdom does not come from age, Customer loyalty, V 7, No 9.

Staff Turnover Falls As The Cost Of Replacing Employees Rises

A UK Government task force has found that a quarter of companies cant recruit people with the skills they require. Acute problems were at supervisor / line manager level - positions vital to the success of projects, particularly in IT. 40% of skills shortages are in technical and craft areas. Key findings were that 7 million adults are functionally illiterate, a quarter are functionally innumerate, and that 2 million can't do their jobs properly.

By addressing this problem the task force predicts that 0.1% increase productivity could lead to an extra £10 billion income generation. The government suggested that employers put more effort into training their staff to help them acquire the skills needed for their jobs.

The research was based on interviews with 23,000 employers, undertaken by Department for Education and Employment Skills Task Force http://www.dfee.gov.uk/skillsforce/

A survey by the Chartered Institute of Personnel and Development (CIPD) [1] suggests that the difficulty in finding skills is reflected in the cost of replacing employees that leave. Their research suggests that the average cost of replacing employees has risen by 10% to £3,500 in recent years whilst in the cost of losing staff is even higher in sectors such as IT, law and engineering where the cost can rise to £7,000 per employee.

There is evidence that the difficulty of replacing staff is causing employers to increase efforts to retain staff. The CIPD survey found that employee retention is increasing whilst a survey by The Industrial Society [2] found that more than half of the 270 firms approached used benefits packages to retain staff. The most common options offered were healthcare, extra holidays, and company cars.


DOTCOM’S FUEL BATTLE FOR STAFF: ‘Three quarters of companies believe the war for talent between established businesses and newcomers such as dotcom’s, is increasing.’ A poll of 100 senior executives from blue chip companies found that 80% believe the situation will worsen as enterprises compete for scarce talent. 95% told researchers that talent management was a key source of competitive advantage.

The shortage has got so severe for some companies that organisations such as Entranet, which build web business for the financial services sector, have started to offer £3000 bounties for each successful referral of potential employees. Carlos Grande, Financial Times, Thursday 13 April 2000, Page 6.
Sparks at Marks

On 1st November 2000, the Money Programme on BBC 2 gave viewers some insights to the rise and fall of the UK retailer, Marks and Spencer (M&S), as the company went from industry idol in the early 1990s to an investors’ nightmare, with its shares down to a quarter of their original value and rumours of a takeover.

During the early 1990s, Marks and Spencer could virtually do no wrong. Sales grew and so did profits. Their Chairman and Chief Executive, Sir Richard Greenbury, was knighted and voted “Retailer of the Year”. Their profits grew year on year until 1998, when the bubble burst. Then sales fell, profits plummeted and the myth was shattered.

But why did this happen?

The programme showed how M&S had survived the recession in the early 1990s by tight cost control. These cost controls continued, resulting in the numbers of shop-floor staff being strictly controlled after the recession had ended and at a time when competitors, such as Tesco, were investing in staff to provide better service. Store managers, apparently, were concerned about their inability to provide the level of service they felt their customers now expected, but were prevented from doing so by the strict cost control regime.

Apparently, M&S did survey its customers and measured their satisfaction. In 1998 (their record year for profits came in May of that year) customer satisfaction for service dropped. Whereas in November 1995, 71% of customers rated M&S’s service good or better, in March 1998, this percentage fell to 62%. Similarly, customers were asked to rate M&S’s value for money, in 1995 69% responded that they considered this good, but in 1998 this had dropped to 57%.

The programme left viewers to draw their own conclusions, but it would be difficult not to come to the conclusion that there was some relationship between shop-floor staffing levels and levels of service perceived by the customer and between measures of customer satisfaction and financial performance in the next period.

Companies Fail to Heed Complaints

A report by the Institute for Customer Service confirmed that British customers complain less than those in other countries especially the US, but companies are still failing to adequately deal with the complaints that they receive.

44% of customers now complain regularly, up from one in four 10 years ago. 51 - 66 year olds complain most. Under 20s complain least, preferring to take their business elsewhere.

'As customers become more sophisticated and exposed to a wider range of products and international companies, they feel more confident about lodging a complaint' said the survey of 3,000 employees of 44 leading companies.

Customer complaints cost customers in total £8.2 billion per year and more than 10 times that amount to companies.

The study found that many complaints are not handled properly because staff are not given clear instructions from their managers on how to handle them. 75% of employees surveyed said they had not been properly trained to handle complaints. Employees interviewed complained that management were unsupportive and complaint procedures were cumbersome, restrictive and inflexible. Institute of Customer Service http://www.instcustserv.com/
ABC in the UK’s Largest Companies

Summary of paper by Innes, Mitchell and Sinclair

In the September 2000 issue of Management Accounting Research an article entitled ‘Activity-based costing in the UK's largest companies: a comparison of 1994 and 1999 survey results’ by John Innes, Falconer Mitchell and Donald Sinclair reviews the results of two UK surveys of activity-based costing (ABC) in the UK’s largest companies. These provide an opportunity to assess the changes that have occurred in the ABC adoption status of companies over a recent 5-year period. For the ABC users, some comparative information is provided on the nature of the ABC systems in use, their designs, the uses to which they have been put and the levels of success and importance that participants attribute to them. For the non-users, the reasons for their lack of commitment to ABC are explored. The survey results show that the use of the activity-based approach for 'performance measurement and improvement' has increased from 61% in 1994 to 74% in the 1999 survey.

Innes, J; Mitchell, F; Sinclair, D; 'Activity-Based Costing in the UK's Largest Companies; A Comparison of 1994 and 1999 Survey Results' Management Accounting Research, (2000), 11, 3, 349-362

Institutional Perspective on Performance Measurement and Management in the ‘New Public Sector’

Summary of paper by Brignall and Modell

During the 1990s, in what has become known as “The New Public Sector”, many services in advanced economies such as those of the UK and Scandinavia have come under pressure to become more efficient and effective so as to reduce their demands on taxpayers while maintaining the volume and quality of services supplied to the public. To achieve this they have been subjected to the introduction of various “private sector” management techniques and the frequent adoption of some form of neo-market system in which the purchasers and providers of public services have been split and frequently required to contract with each other. In this paper we explore the implications of institutional theory for the successful implementation of multi-dimensional performance measurement and management in the public sector. In particular, broadening the two-party, funders and professional service providers framework of traditional institutional theory to include purchasers of public services allows us to analyse the likely impact of purchaser:provider splits on multi-dimensional performance measurement systems in the public sector. We show that the differing nature of the interrelationships between these three key stakeholders will influence the extent to which performance measurement in the focal service-provider organisations will be balanced and integrated. We also discuss the influence of these core concepts on the possibilities of achieving some balance between the stakeholder interests examined in the overall control of provider organizations. Five research propositions are advanced, three relating to the relationships between the focal organizations and funders and professional service providers respectively, and two concerning the focal organization’s links with purchasers. Future empirical research in this area should take the form of longitudinal case studies to track differing paths of development and their effects through time.

Brignall, S; Modell, S; 'Institutional Perspective On Performance Measurement And Management In The 'New Public Sector' Management Accounting Research, (2000), 11, 3, 281-306
BAM Performance Management Special Interest Group

The British Academy of Management Performance Management Special Interest Group was established at the BAM conference in 1999, initiated by Richard Thorpe (MMU), Tony Beasley (MMU) and Jacky Holloway (OU) as part of BAM’s development of SIGs as a service to its members. The primary reason for its establishment was a growing recognition of the need to make sense of the volume of literature and consultant activity taking place under the title of Performance Management. Such was the enthusiasm of the attendees at the first workshop held at the Open University in May 2000, that the SIG quickly became more formalised and further workshops were planned. The group has since met up at the BAM 2000 conference in Edinburgh and has two more events arranged for this academic year.

The most recent workshop was held at The Manchester Metropolitan University Business School on November 22nd. Those attending represented the broad range of groups that we aim to involve in the SIG – postgraduate students, practitioners, and full-time academics from a variety of disciplines. The group began to explore the contrasting disciplinary perspectives on performance management within the academic literature and discussed the possibility of mapping a ‘meta-analysis’ of the performance management literature. Our guest speakers for this workshop were Tony Bovaird and Richard Greatbanks, who presented contrasting papers on ‘objective mapping’ and ‘SMME performance’.

The second seminar in this series (14th February 2001) will be practitioner-based, and we will be joined by six speakers from industry and consultancy who have had broad experience of implementing performance management initiatives. A third event is planned for late spring 2000, to consolidate ideas arising from the previous events.

If you would like to become involved in the SIG, or would like to reserve a place at the two forthcoming workshops, please contact Sophie Hogg (s.hogg@mmu.ac.uk, tel. 0161 247 6796). Attendance at the workshop is free.

Trends in Corporate Reporting

In October PricewaterhouseCoopers published their ValueReporting™ Forecast 2001, which reports developments in corporate reporting. PwC’s ValueReporting™ research is based on the premise that the true value of organisations will only be realised if it is effectively communicated to capital markets. Their Forecast 2001 highlights increasing concerns about markets’ ability to provide accurate market values given traditional reporting practices. The forecast highlights the need to change the reporting model to reflect non-financial drivers of market value. For example the research found that firms that generate 80% of their turnover from products introduced in the last 4 years double their shareholder value over the same period.

The report highlights the growing importance of the internet as a corporate reporting tool. Many organisations have used the internet to communicate with investors. For example on their website Microsoft provide a ‘what if’ model for investors to do their own forecasting. The report also highlights the development of eXtensible Business Reporting Language (XBRL), an adaptation of XML for the corporate reporting information, which enables faster and easier extraction and analysis of data from multiple sources. XBRL will enable the user to dynamically develop a document to satisfy their individual needs at the click of a mouse rather than through manual and time consuming processes. The ValueReporting™ Forecast 2001 also contains examples of best practice corporate reporting and the associated web site also contains a self-assessment tool.

For further information visit: www.pwcglobal.com/valuereporting

SHODDY SERVICES COST £8 BILLION A YEAR

Defective goods, shoddy services and poor information cost British consumers £8.3 billion a year, according to the Office of Fair Trading. They suggest that nearly £3 billion of that comes from lost earnings and wasted personal time sorting out the mess. Data suggests that consumers spend more than £1 billion a year putting things right, £600 million on replacements and almost £1.2 billion on telephone calls, stamps, stationery, travel and legal costs in pursuit of redress.

The Office of Fair Trading data is based on a survey of 2000 people. It suggests that nearly 1 million cases a year are dealt with by local authority trading standards, but that these are only a small part of the problem, as 85 million consumer problems occur annually. The most frequent complaints are related to junk mail (80 million cases a year), and to door-to-door selling, cold calling and telephone sales (7.7 million).

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The survey also identifies which areas provide most problems. Food and drink are the most common with 3.9 million complaints a year. Next clothing, shoes and jewellery at 3.5 million. Household appliances at 2 million and T.V., video, hi fi, radios and personal stereos at 1.9 million. (Copies of the report are available at www.oft.gov.uk).
Service Quality and Security Hampers eCommerce

Poor quality of service and concerns regarding security are considered to be the main barriers to the further expansion of shopping on the internet and yet many online retailers still fail to address these key consumer concerns. A survey by the Trading Standard’s Institute [1] in the UK found that shopping on the internet is often slower, more expensive and more hassle than buying goods in a shop. The survey of test purchases from 102 companies found that 38% of orders did not arrive at the specified time and 17% did not arrive at all. Chief executive of the Trading Standards Institute, Allan Charlesworth, said many internet companies were letting their customers down. He commented that "There are still too many internet traders who are either not aware of their obligations to their customers or, worse still, don't care."

Bigger, well-known retailers were deemed among the worst offenders, while smaller companies often appeared to try harder. Further research undertaken at London Business School [2] found that established retailers using the web as an additional channel found it difficult to match the service levels that they could achieve through traditional channels. The data, which showed similar trends to research undertaken in the United States, showed that 41% of those selling on the web either did not reply to email queries or took longer than a week to do so. However there was a marked difference between click and mortar and dot com traders. Travel agents were typical of the general finding with half of high street (click and mortar) travel agents failing to reply to requests compared to a quarter of internet only (dot.com) companies. Over half of internet only companies replied within six hours.

The trust required to encourage more consumers to purchase over the internet is further compromised by concerns over security. The trading standards survey found problems including a firm that took credit card details then vanished and a national flower delivery chain that failed to deliver the bouquet but took the cash anyway. The survey also found that 25% of the sites tested were not secure, meaning that credit card details and other data could be accessed by hackers.

A further survey of 800 online retailers by Experian (global information solutions company) [3] revealed that online retailers do either no checking or rely almost totally on manual fraud prevention measures.

- almost 50% do not use external data when verifying customer details before authorising the transaction
- two thirds said it took more than a month before credit card crime was detected
- less than 10% of internet thieves bother with a redirection service at the goods delivery address
- only 10% have a false telephone account
- even when detected the analysis suggests 9 out of 10 fraudsters are getting away with it.
- only 9% of frauds reported by online retailers to the police lead to prosecution.
- 20% of online retailers are experiencing fraud chargeback levels in excess of 1% of sales, some as high as 10%.


Customer Satisfaction Measurement

A survey of more than 1000 UK manufacturers found that 30% of them do not measure customer satisfaction at all; another 30% use on-time delivery as a measure of customer satisfaction, although 35% of them cannot guarantee on-time delivery 90% of the time. Most of those surveyed (60%) believe that all employees should share responsibility for customer service... however, 40% of employees deny their personal responsibility in this area. 36% see customer service as the problem of the board or chief executive, or dedicated customer service departments.

Among scapegoats for poor customer service, 51% say that ineffective communications are a barrier to improvement, and 45% blame a lack of accurate information. 13% blame the customers, describing them as "overly demanding".

Manufacturing Engineer, News Digest, Volume 78, Number 6, December 1999, page 227.
In this article, the authors argued that in the rush to build Internet businesses, many executives concentrate all their attention on attracting customers rather than retaining them. They added that this is a mistake and that the unique economics of e-business make customer loyalty more important than ever. Their key findings were:

- Without the glue of loyalty, even the best designed e-business model will fail.
- Contrary to the common view that web customers are fickle by nature and will flock to the next new idea, the web is actually a very sticky space in both the B to B and B to C spheres.
- Most on-line customers exhibit a clear proclivity toward loyalty. Web technology, used correctly, reinforces that inherent loyalty.
- Loyalty is still about earning the trust of the right kinds of customers - customers for whom you can deliver such a consistently superior experience that they will want to do all their business with you.
- The general pattern of early losses, followed by rising profits, is exaggerated on the internet. In e-commerce, attracting a new customer is more expensive than in an ordinary retail outlet.
- Referrals are even more powerful on the web since "word of mouse" spreads faster than "word of mouth".
- Loyal customers themselves tend to be those who joined through referrals, whereas, those who tend to find sites through browsing tend to be less loyal.
- At Ebay, cost of supporting referred customers was found to be much lower than other customers.
- Prices don't rule the web. Trust does - even in the web, or indeed - especially in the web - given its perceived insecure nature of transactions.
- Many major e-com players such as Amazon and Vangurad treat trust as their number one asset.
- Convenience is a greater driver than price for those who purchase on the web.
- Selection of right customers to serve is crucial - in trying to be all things to all people, to accommodate all levels of technical expertise, all service requirements, all price sensitivities, all brand preferences, the company must constantly add new features to the web site. This makes the site slower and more complicated thus negating the most important driver of net purchasing - convenience.
- Although it is very easy to study the on-line customer in great detail, many companies don't do that. Many are concerned most about expanding web capacity, increasing visitor counts, "click throughs", and on line sales. AOL is an exception. They meticulously measure customer loyalty and purchase patterns and uses that information to guide its decisions about strategy, marketing and site design.
- Dell computers, after studying data on customer retention found three key drivers of loyalty: order fulfillment, product performance, and post-sale service and support.
- A general study of repurchase patterns at different companies showed that loyalty does not consist of "technological bells and whistles", but on old-fashioned customer service basics: quality customer support, on time delivery, compelling product presentations, convenient and reasonably priced shipping and handling, and clear and trustworthy privacy policies.
- Finally, web is a tool. Not a strategy, It improves communication, understanding of customers, increases responsiveness, reduces transaction costs, and enhances convenience.

Impact of Effective Performance Measurement on Customer Satisfaction

This exploratory study – as part of the International Service Study consisting of 181 US service firms - compared the business practices of service firms experiencing increasing customer satisfaction level (Group 1) and those of firms experiencing decreasing or stagnant customer satisfaction levels (Group 2). The study found significant differences between the practices of the two groups of firms. These practices encompassed an array of managerial dimensions related to leadership, people, service processes and performance measurement. The empirical results reported in the study offered compelling evidence for the need to excel in multiple practice domains where service leadership is a critical competitive benchmark and increased customer satisfaction is of strategic importance.

Indeed, it is notable that the most significant difference between the two groups of global service firms was in the firms’ effectiveness in implementing its performance measurement system. What this shows is that a global service firm’s ability to effectively implement a performance measurement system can have a direct association with its customers’ level of satisfaction.

IFIP (International Federation for Information Processing) was founded in 1960 under the auspices of UNESCO, following the 1st World Computer Congress held in Paris the previous year. An umbrella organisation for societies working in information processing, IFIP’s aim is two fold: to support information processing within its member countries and to encourage technology transfer to developing nations. IFIP Working Group 5.7, *Computer Aided Production Management*, belongs to IFIP Technical Committee 5. The aim of WG 5.7 is to promote and encourage the advancement of the field of computer systems for the production management of manufacturing, offshore, construction, electronic and similar and related industries. Further information on the WG 5.7 may be found at http://www.plym.ac.uk/research/ifipwg57.htm

The Performance Measurement Special Interest Group (PM-SIG) was formed following the Group’s annual meeting in 1999. The SIG is chaired by Dr Umit S Bititci (Centre for Strategic Manufacturing, University of Strathclyde). The objective of the SIG is: (i) To facilitate transfer of knowledge between its members, (ii) To continually review R&D needs in the field of performance measurement and develop research agendas, and (iii) To facilitate formation of research consortia with the intention of securing research funding from the EU or IMS. So far the PM-SIG has 40 members and the membership is growing steadily. Since its inception, the group had 4 meetings. As a result of these meetings the following research agenda was developed:

- Adaptive performance measurement systems - i.e. PMS's which are sensitive to changes in the organisation's operating environment and which change in real-time to reflect the impact of the changes on the organisation.
- Product performance measures - how to measure performance of products - is there a methodology to identify performance measures for a product
- Performance measures for innovation - i.e. how do we measure innovation.
- Leading indicators - it was felt that the whole area needed better researched.
- Strategic fitness of the company - i.e. leading indicators which indicate the fitness of the business.
- Fitness of the strategic processes - how do we measure the fitness of the strategic processes?
- Performance measurement in the service sector - it was considered to be a broad title - but emphasis was placed on the health sectors, eg. Hospitals.

At its last meeting, which was held in August 2000, Basel, Switzerland, the SIG decided to have a two-day focused workshop in Glasgow, in the spring of 2001, where participants full research present papers. The papers would be rigorously reviewed and offered publication in one or two of the journals in the field. The workshop will be structured such that the authors would receive valuable feedback on their paper, which will then be revised/updated for publication in the selected. The fees for the workshop will be £85 to cover the costs. This will include lunch and refreshments as well as a visit to Alcan Foil Europe for a presentation on and demonstration of the Intranet based performance measurement system, which provides real time data.


Six years after Robert Kaplan and David Norton published their first book ‘The Balanced Scorecard – Translating Strategy into Action’ they have written a new one to demonstrate that the Balanced Scorecard concept has evolved and is still highly relevant to companies in the New Economy. Filled with case studies from many early adopters of the Balanced Scorecard the book puts forward five fundamental principles for organisations to become strategy focused. The book discusses each of the five principles of a strategy-focused organisation in detail:

1. **Translate the Strategy into Operational Terms** - Strategy has to be described in a way it can be understood. This is especially the case in the knowledge economy where most sustainable value is generated from intangible assets and it is often difficult to see how these link back to the overall strategy. Strategy maps provide a tool to visualise the cause-and-effect relationships between measures and therefore explains how intangible assets might drive internal processes, customer satisfaction and finally overall financial performance. The book introduces a strategy map template and demonstrates with many examples how to build such strategy maps in organisations; it further includes an extra chapter on how to produce strategy scorecards for non-profit, government and health care organisations.

2. **Align the Organisation to the Strategy** - The strategy should align resources, departments and business units of the entire enterprise. The Balanced Scorecard ought to be used as a tool to clarify the value each business unit adds, as well as the headquarters, in order to make the whole organisation more than just the sum of the individual business units. This part of the book is divided into how to create business unit synergy and how to create synergy through shared services in organisations.

3. **Make Strategy Everyone’s Everyday Job** - This third principle is all about communicating the vision to everyone within the organisation to create awareness and making sure that the

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The Strategy Focused Organization Cont...

employees understand the strategy. The next step is to get
the “buy-in” of the workforce and make them “strategy mis-
sionaries”. A good way of achieving the strategy aware-
ness among employees is to define personal goals and team ob-
djectives. Further the authors recommend eventually linking
compensation towards the BSC – by introducing ‘The Bal-
anced Paycheck’.

4. Make Strategy a Continual Process - This fourth princi-
ple communicates the important cognition that strategy has
to be an ongoing and never ending process. The authors
suggest that an important step in this direction is linking
the budgeting process to the strategy. A second vital step is
to revise the Scorecard into a ‘double-loop’ learning process
that continuously questions the validity of the underlying
overall strategy.

5. Mobilise Change through Executive Leadership - The
last of the five principles suggests that leaders have to drive
transformation and not just small-scale change in order to lead
towards a strategy-focused organisation. This transformation
process has to be driven by senior executives and by far the
biggest part of this is leadership, whereas only a small propor-
tion of it is management. Leaders need to create the sense of
urgency for change and eliminate any controlling mentality
to create cross-functional teams that deliver performance instead
of numbers.

This book provides an opportunity to understand the Balanced
Scorecard by taking advantage of the experiences of success
as well as failure demonstrated by the many case studies. Each
argument is accompanied with practical examples from or-
ganisations, such as Mobil, CIGMA Property & Casualty,
Store 24, AT&T Canada and City of Charlotte, that have al-
ready been through the process of implementing a BSC.

Design in Business

The Design Council recently published a book with facts, figures and quotes relating to de-
sign in Britain for 2000 - an annual guide to the position of design in the UK and the role
it plays in business, education, and government. There follows some key extracts from
the publication.

DESIGN AND STRATEGY: A study by Price waterhouse Coopers found that three-quarters of the top 25 per-
cent of performers, based on return on capital employed, gave design a high level of strategic importance,
whereas 90 percent of the bottom quartile gave it a low level of strategic importance. Source: Innovation and
Growth - A Global Perspective, PWC 2000

EXPORTING AND SUCCESS: Research by British Trade International found that exporters are, on average,
more competitive than non-exporters and spend more on innovation. Businesses see a jump in productivity after
beginning to export and exporting results in faster growth in sales and employment. Source: BTI Research by NI-
ESR, 2000

INCREASE IN MANUFACTURING INNOVATION: There is a growing trend toward faster development of
internal process and new products according to new research from the CBI. The study showed that there has been
a shift since 1996 from 68% of manufacturing companies taking less than two years to develop a new process to
86% in 1998. This increase was also found in the development of new products, from 60% in 1996 to 66% in
1998. In many companies a drop from 37% to under 10% was seen for the life expectancy of internal processes

RESULTS OF INNOVATION: In a survey from 3M nearly three-quarter of British business leaders said that
innovation brings competitive advantage. Just under half said it brings efficiency and cuts costs, but only just un-
der one third say it introduces new products. Source: MORI/3M Captains of Industry Survey, 1999

INSPIRATION: A survey of chairmen, managing directors, financial directors from the FTSE 500 companies
found that their best ideas came to them in unusual places; 39% said inspiration came to them whilst travelling,
whereas 23% reported that ideas tended to come out of office hours. 18% admitted that in bed was where they
were most inspirational, whereas 12% each were found to be in the bath and whilst playing sports. Only 11% named
their most inspirational place as the office. Source: MORI/3M Captains of Industry Survey, 1999

KNOWLEDGE AND THE BUSINESS: An Ernst & Young survey found that knowledge is valued among
British entrepreneurs, although few are actively sharing knowledge. It found that 50 percent of those questioned
in the UK survey said knowledge was either one of the most important or the most important asset. However,
only 16 percent had knowledge sharing initiatives in place, with 52 percent having plans at preliminary or well-
advanced stage of implantation. Source: Ernst & Young: Enterpriser Survey, 2000

SUSTAINABILITY AND ECONOMIC GROWTH: Preliminary conclusions from a pilot analysis from the
World Economic Forum suggests that environmental sustainability is compatible with economic growth. The
study aims to find a single indicator for environmental sustainability as a measure of an economy’s success, based
on growth achieved without threatening the environment. Source: World Economic Forum website, July 2000
Evidence that the economy is becoming increasingly revitalised was seen in this years Best Factories Award competition. The competition (for UK companies) is organised by Management Today in association with Cranfield School of Management, and in partnership with Investors in People (IIP) and the Engineering Employers' Federation (EEF). Familiar characteristics from successful entrants were good people management, determination not to be second-best, an ability to concentrate on harnessing the resources to the mission of the factory and to the customers. New trends were also observed in the more successful companies, one of which was excellence in the supply chain as well as the manufacturing processes. Strong exponents of the ‘visible factory’ were seen in many of the winners, resulting in a clarity of purpose which improved performance.

Overall Winner: The overall winner of the best factory of the year was Unilever's Elida Faberge plant in Leeds which emerged as one of the best factories the judges had ever seen. It is one of the most complex factories within Unilever, with a portfolio of 30 brands in 400 variants and sizes. There were several distinguishing factors which made this factory the winner. The judges thought that the operative-based total productive maintenance was the best they had ever seen and were also impressed with the human-resources management initiatives in place. These benefited the factory in a number of visibly ways, such as yield and productivity improvements, set-up reductions, continuous improvement, workplace management and environmental benefits. Additionally the judges were impressed with the correlation that was seen between the plant's manufacturing performance and its safety record.

Electronics and Electrical Factory: Krone (UK) Technique was judged as the best electronics and electrical factory, which is widely recognised for its manufacturing excellence. The company manufactures telecommunications connectors and cable assemblers. Several initiatives were seen in the plant which impressed the judges, such as having one single office which contains everyone involved in satisfying the customer, from production controllers to sales personnel. Quick changeover tooling, good use of Kanban systems and constant reviewing and upgrading of the assembly lines were commented on by the judges.

NEC Technologies was also Highly Commended in this category. The factory works to increase the time to market for mobile phones, debugging and fine-tuning the processes involved in manufacturing - at which point the manufacturing of the phones is moved elsewhere. Know-how, understanding and improved processes are as important to the plant as the phones it makes. The workforce can be moved from one task to another easily, and there are flexible kanban-based cells in place as well. State-of-the-art mass-production improvement methods, such as five-S techniques have been adapted as required and there is a ‘visual factory’ approach in evidence.

Engineering Factory: The winner of the best engineering factory was Leyland Trucks, which has a staggering command of complexity, seeing themselves in the 'mass-customisation' business. The factory achieves this complexity by utilising information technology in part, and also by adopting a 'can-do' attitude, which was seen in all employees at the plant. Responsive suppliers, slick scheduling systems and a willing attitude have created a world-beating flexible factory.

The challenge at Ryobi Aluminium Casting, the winner of the Highly Commended factory in this category, is to produce more products, have more customers, produce more variants, whilst installing capacity ahead of orders. The factory specialises in die-casting technology and techniques, which includes some patented processes. The factory was noted as having an ability to master new skills and made the difficult processes involved in die-casting appear effortless, which has been rewarded in a number of ways, including the increase in customer base from a single customer, Ford, to five new customers.

Process Factory: Wrafton Laboratories has become Europe’s leading contract manufacturer of over-the-counter medicines and was awarded the winner of best process factory by the judges. The tight entrepreneurial focus that contributed to the success of this factory has in turn given rise to a number of other initiatives. There is a zealous focus on waste elimination, with aspects of the business as wide-ranging as packaging, supplies and electricity consumption being rigorously reviewed. There is a focus on producing the maximum volume and variety from the plant’s 36 production lines and changeovers are engineered to conserve capacity.

Small Factory: Hamilton Acorn are producers of premium DIY paintbrushes and are the winners in the best small factory category. The company has invested in developing manufacturing innovations and is now ahead of many of its competitors in manufacturing technologies. There are highly automated assembly cells which produce 65% of the products. There has also been an
effective process of product rationalisation, intended to minimise inventory levels whilst manufacturing efficiencies. The judges also noted effective individually based incentive schemes in place, although a move is now being made within the factory towards a group-based scheme.

The factory which was highly commended in the small factory category was Custom Interconnect, a small electronics subcontractor. The judges witnessed Japanese-style micro-engineering excellence and space utilisation at the plant, where everyone has two, if not three, jobs. A number of the products that Custom Interconnect produce could be considered very difficult to produce, in terms of volume and profit, and required very skilled operatives. The factory puts part of its success down to knowing when to use automation and when not to. Also a key factor has been in frequently redesigning the products to aid manufacture. They have made good use of benchmarking and have benefited from a Kaizen continuous improvement programme. In order to secure supplies for their products the company is now utilising e-procurement portals and search engines.

**Most Improved Factory:** Guiness Packaging won the award for most improved factory, partly through its achievement in creating a dynamic enthusiasm for change and continuous improvement among a mature workforce at a 30-year old site. Also its ability to achieve world-class levels of up-time and through-put on high speed canning and bottling lines. This factory was also highly commended in the best household and general industry category. The factory has developed to such a degree that it now serves other breweries. The efficiency achieved at the plant is due to various improvement projects, many of which originated from the factory floor. The plant has increased capacity by using the existing base more efficiently and by being able to innovate.

The factory which was given the award as highly commended in this most improved category was Federal-Mogul Friction Products, an automotive components company. A recent change in ownership has brought challenges and opportunities to the company. The plant knows that to survive in the automotive industry there needs to be a relentless focus on cost control, productivity, quality and innovation. The judges also noted that there was a willingness to go the extra mile to satisfy customers. Since 1990 the factory has replaced the hierarchical structure with a flat structure, introduced team-based incentives and introduced kanban-based scheduling, the rules for which have been revised over the years. There now exists consistent year-on-year improvements in profitability.

**Special Award Winner:** Castrol (UK) won the judges special award, which recognises world-class levels of achievement in particular areas of a factory's overall performance. The factory's blending operation achieves a remarkable 99% right-first-time performance, due to a combination of information technology, empowered operatives and sensible disciplines. The diversity at the plant in Stanlow, is greater than that achieved by any of the other 56 Castrol plants worldwide. The factory has also achieved a 35% reduction in production costs per tonne over the past three years.

*Best Factories 2000, Management Today, November 2000*

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“There’s an old saying in business – what gets measured gets done. What’s happening today is the flip side of that. Measurement has become a tyranny that ensures that nothing gets done” – Fast Company, issue 35, page 168.

“Approximately 80% of companies efforts to flatten their organisations through initiatives like the Balanced Scorecard end up failing, and I think it is because these companies leave the traditional budgeting systems in place” – Jack Welch, CEO, GE.
Management Masters Survey

A survey of leading graduate schools of business in the US was recently conducted. The objective was to identify the most important ideas in management. The 10 most powerful topics were identified along with the original authors on each subject: Change, Teams, Culture, Motivation, Focus, Individuality, Leadership, Breakthroughs, Relationships, Performance.

General conclusions on the Current State of the Art were:

- management makes the difference
- there are no new management ideas
- there has always been the perception of overwhelming change
- don’t forget common sense

What’s it going to take to be a high-impact manager in the new economy?

- A High Level of Self Awareness
- Knowledge of Human Motivation
- Established Knowledge and Learning Networks
- The Ability to Analyze and Package Complex Information
- The Willingness to Be Flexible, the Capacity to Be Fast
- The Ability to Make Decisions in Conditions of Extreme Ambiguity
- The Ability to Allocate Limited Resources Perceptively
- A Well-Developed Personal Vision and the Ability to Sell It
- A Well-Developed Set of Personal Values
- The Capacity and Willingness to Think Boldly
- The Ability to Develop Effective Professional Relationships Quickly
- A Commitment to Community

The rest of the survey is available at www.managementmasters.com.

Hand-to-Brand Combat

An article in the Guardian recently reported on Naomi Klein's new book, "No Logo", which explores the issues of anti-corporatism and the new politics. Lots of examples of global brands that have suffered at the hands of the protestors. The article includes some insightful quotes, including "Nike paid Michael Jordon more in 1992 for endorsing its trainers ($20 million) than the company paid its entire 30,000-strong Indonesian workforce for making them". The resultant public outcry and demonstrations resulted in Phil Knight, Nike's CEO, to confess in 1998 that his shoes have become synonymous with slave wages, forced overtime and arbitrary abuse". Source: Guardian, Weekend, 23 September 2000

www.performanceportal.org

The web site for the PMA has now been established! From the feedback received from PMA members there was a general consensus that a dedicated web site of resources for the field of performance measurement and management would be valuable, especially in trying to unite researchers and practitioners from such diverse locations. The initial site is now live - www.performanceportal.org On here you will find a number of resources. There is the directory of researchers database - which has over 300 researchers details available to search - please use the online submission form to update/submit your details as necessary. A set of 50 key references in performance measurement are listed, with plans to have a database of over 1000 references available online. There is a section dedicated to conferences and workshops on performance measurement and management - please help us to keep this up to date by submitting details of any conferences you are aware of/involved in. A links page is available, with a large number of links to web sites which are relevant to the subject - this is a section that we hope to develop further shortly - again please keep us informed of links and pages you think should be included.

The web site for the PMA has the potential to be a great asset for its members, so please do contribute where you can and let us know if you have any ideas for how the site should develop. Please spread the word about both the PMA and the web site.