

Performance measurement: learning from the past and projecting the future

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Abstract

Purpose – This paper aims to review the developments in performance measurement over the last 20 years, reflecting on the past and projecting into the future.

Design/methodology/approach – The author presents a personal reflection on research and practice.

Findings – The paper identifies seven issues for management, seven issues for research and three enduring dilemmas.

Originality/value – The paper highlights a number of areas where developments from academic and practitioner co-creation have not been widely adopted in practice.

Article Type: Viewpoint

Keyword(s): Business performance; Performance measures; Balanced scorecard.

Introduction

It is over 20 years since Art Schneiderman (1987) first used a Balanced Scorecard in analogue devices and now over 15 years since Kaplan and Norton's (1992) first HBR article. So I thought I would reflect on what we have learned over the last two decades before considering our current dilemmas and what that means for the future.

I will therefore start by reflecting on the past and some of the shortcomings of performance measurement. I will then go on to highlight seven issues that I regularly see companies wrestling with, before identifying why academic research often does not contribute as much to the development of practice as we would expect. I will then present what we do know, the solutions that have been developed from practitioners and academics working together, before finally highlighting some of the enduring tensions in the field.

The past

The Balanced Scorecard is probably the best known of the raft of multi-dimensional performance measurement frameworks developed in the late 1980s and early 1990s. They emerged at a time when financial measures were to the fore and the dysfunctional consequences of running an enterprise solely on financial measures became widely apparent.

The introduction of the Balanced Scorecard heralded an era when the non-financial measures that drive the business could be identified and used to direct the organisation in the medium to long term. The expectation was that the introduction of multi-dimensional key performance indicators (KPIs) would solve all the problems.

But reality was very different. In some respects, non-financial KPIs are more difficult to design and use than accounting measures. We have years of experience and august accounting bodies devoted to financial measurement, management and reporting, whilst the theory and practice of performance measurement is relatively new. In practice, the result was:

- Companies developed Balanced Scorecards by taking their existing KPIs and populating the four scorecard perspectives. This created a balance of financial and non-financial measures but rarely reflected strategy or created direction and purpose.
- Departments created measures that reflected their own internal logic. When these measures were not linked to strategy, the measures encouraged local optimisation and organisational malfunction.
- Measures became linked with performance appraisals and bonuses. People became adept at delivering the KPI results. But everyone forgot that a KPI is an indicator, not actual performance itself.
- The expected performance improvement did not happen. Performance improvement does not simply come from measuring. Performance comes from the processes and practices and how effectively people execute them. Measurement just keeps the score. So, to improve, you need to change what you do, or do it more effectively, something that measurement may encourage, but measurement alone does not create value.

The development of the frameworks was followed by the launch of some 30 different software packages (Marr and Neely, 2004) designed to report performance to senior management, to drill down into the data to problem solve and to dice and slice the organisation's performance through a myriad of dimensions. Although these developments in

technology have made the gathering and analysis of data simpler and quicker, they are of limited use unless the organisation develops effective ways of managing with measures.

In the last 20 years we have seen the majority of larger organisations take up Balanced Scorecards to some extent (Franco-Santos et al., 2004), widespread use of KPIs, and the development of examples of good practice, but many issues remain.

Current issues for practice

Based on my experience, there are currently seven main issues for practitioners.

1. Reviewing corporate performance – The Conference Board reports and other surveys suggest that many companies have developed corporate-level scorecards and, for my experience, have large and extensive KPI reports. However, the majority of the organisations I see have no effective way of reviewing these measures. They have data rather than information to guide their decisions. Two organisations I have dealt with recently typify this position. The first had a regular KPI report that the team flicked through in ten minutes during their monthly board meeting. The second approached me about assessing the comprehensiveness of their measures. When I talked to the team of analysts on this subject, it emerged that the comprehensiveness of the measures was much less of a concern than the directors having the information in an understandable and useable form.
2. Performance measurement not delivering – On many occasions the time and investment made in performance measurement is not seen to be delivering the expected benefits. The performance improvement activities are not always linked to the measures and aligned with the strategy. On the occasions when they are, the linkages are not understood. I spent time with one organisation recently rebuilding their success map. The new map was not significantly better than the old one, but by engaging the managers in the rebuild, we created understanding and commitment to the objectives.
3. Cascading the measures – The companies that effectively cascaded their measures down the organisation tend to have branch structures (e.g. supermarket chains, high street bank networks, branded fast food restaurants) where central resource can create a single set of measures that is rolled out across the network. But in other organisations, the alignment of the measures and the strategic objectives becomes less and less clear the further down the organisation you go.
4. Engaging the rank and file – Engaging the rank and file of the organisation in the measures is relatively easy, but organisations need to engage the whole organisation in performance. This is much harder and one reason why organisations do not perform better. Classic examples abound in the public sector, where performance targets produce perverse behaviour. Four-hour targets in A&E departments can lead to faster patient processing, but one way of achieving the target is to admit all the patients who have not been treated in the four hours. Moving beyond the counting mentality is much harder to do.
5. Managing with measures – My previous point leads me to reflect that most organisations do not know how to manage with the measures they have. Many measurement charts show initial improvements followed by setbacks, with no consistent direction or trend. On the other hand, when you go into a Toyota plant the rate and direction of the improvement is clear for all to see. In the latter case, they

have a tool set and a well-developed approach to performance improvement, whilst most companies simply focus on poor performance when it becomes apparent.

6. Keeping it up to date – Keeping the measures up to date with the latest data is a problem in many organisations, but keeping the whole system up to date so it reflects the latest strategic priorities is an even bigger task. Many organisations develop a scorecard, but it is rare to see organisations investing in the capability to review and update the system on a regular basis.
7. Leadership – Finally, if measurement is simply about keeping the score, we need to manage performance. But management itself is rather mechanistic. How do we progress to performance leadership?

Given these seven issues, what do academics have to offer and how does academic research contribute to the debate?

Current academic issues

At the risk of upsetting some of my academic colleagues, I would argue that there are seven issues that militate against academia contributing to solving the practitioner issues I highlighted above. These are:

1. Academic rigour – Academics are becoming increasingly interested in methodology and academic rigour. The result is a set of journals where academics talk to themselves and the relevance to practice can be lost.
2. Focusing on minutiae – One consequence of increasing academic rigour is that we focus on smaller and smaller problems. We refine existing models and test simply constructed models of the world. The result is that big-picture problems are not addressed through academic research, and in particular we are short of longitudinal studies following policies and changes through time.
3. Academic disciplines – Academic research has developed core disciplines with most researchers working within these disciplines. However, performance measurement and management are by their very nature cross-disciplinary, drawing from fields as diverse as operations management, management accounting, sociology and psychology. We do not learn from our colleagues in other disciplines as often as we should.
4. “How to” research – Much of the research in engineering and medicine revolves around how to do things. My belief is we are seeing less of this in management research, again creating a gap between academia and practice.
5. Does performance measurement make a difference? – There is quite a body of academic research based around “Does performance measurement/Balanced Scorecard make a real difference to performance?” This is partly driven by practitioners' desire to be told that it does, but often all we provide is evidence that managers believe that it makes a difference. To show whether the use of performance measurement systems makes a difference or not requires longitudinal research (not surveys), with widespread and detailed access to organisational performance data. We also need to look much more carefully at the circumstances under which it makes a difference rather than expecting there to be simplistic universal truths.
6. The incentives are wrong – Academic promotion is based on publishing in academic journals. We do not reward the link to practice in the same way.
7. Academics do not create – It is rare for a new practice to emerge from academia. Given the relatively few academics wrestling with the problems of business compared

to the millions of practitioners, this is not surprising. However, academics could aim at identifying new promising practices and disseminate them, directly or indirectly, to practitioners.

Given these issues, it is hard at times to engage academics. However, I would argue that the role of academia has to be in the co-creation and dissemination of knowledge. This would involve working with practitioners in the development of approaches to solving their performance issues; understanding why they work (or do not work) in specific organisational situations and settings and translating the results into tools, techniques and approaches that can be used again.

What we do know

Taking each of the practitioner issues in turn, let me present what we do already know.

1. Reviewing corporate performance – Reviewing corporate performance relies on developing an appropriate process. The performance planning value chain (Bourne, 2004) and the work undertaken to use this with DHL in the UK (Neely et al., 2002) produced one approach that translated a performance question into understanding and action. Undoubtedly this approach is not perfect, but it was sufficiently robust for DHL to adopt the same approach for managing its European Security operations. Here, practitioners have significant experience, but there are few attempts to capture good practice and share it with a wider audience.
2. Performance measurement not delivering – The results of many academic studies show mixed results (Franco and Bourne, 2004), although the case studies give more positive results than the survey research. But in my opinion, more research is needed here. Interestingly, the ideal research situation would be in companies that are rolling out measures across the organisation, where the process would allow observation of performance before, during and after the intervention.
3. Cascading the measures – Organisations like Tesco have developed and cascaded their measures. Tesco created a steering wheel (a five-perspective version of the Balanced Scorecard including an environmental perspective) which aligns measurement from the UK board level right down to individual stores (Bourne and Bourne, 2007), and this is central to how they manage the operation. However, other organisations have taken different approaches. EDF Energy has developed an approach for cascading their success maps from the UK board, through their three divisions down to individual team level (Martinez et al., 2006). This is in direct contrast to cascading the measures, but creates alignment and encourages buy-in to performance improvement.
4. Engaging the rank and file – There are techniques and approaches for engaging management in measurement. They revolve round structuring the debate to identify the key stakeholder needs (Neely et al., 2002) and how to create a mental model (Eccles and Pyburn, 1992) or success map (Bourne and Bourne, 2007). But how we engage the whole of the organisation is not immediately clear. Here, we may have more to learn from work being done in strategic HR management, as recent research suggests that performance measurement will not deliver this on its own (Bourne et al., 2008).
5. Managing with measures – Interestingly, a lot of work was done in the total quality movement (TQM) on how we should use and manage with measures (e.g. Deming, 1986), but little of this has really evolved outside the operational context in which it

was developed. Simons (1991) developed his levers of control from working closely with a series of companies but these have not been developed more widely. Aspects and issues have been raised in the Beyond Budgeting literature (Hope and Fraser, 2003) and the role of performance reviews (Martinez et al., 2006; Pavlov and Bourne, 2007a, b, c) is emerging as an area of academic interest, but most organisations would benefit greatly from applying the lessons of TQM to management.

6. Keeping it up to date – The need to keep the performance measures up to date is widely recognised. If they are not kept up to date, conflicts will arise between the measures and the strategy and between the measures and the appraisal system. The processes required for reviewing targets, measures, groups of measures and strategy have been specified (Bourne et al., 2000), and the capabilities needed identified (Kennerley and Neely, 2002), but more collaborative research is needed into understanding how organisations maintain their fit with their environment and continue to survive and prosper in what is becoming an increasingly faster changing and more volatile business environment.
7. Leadership – How we evolve from performance measurement, through performance management to performance leadership, I expect will evolve over the next few years. There has been considerable interest in top-down control and bottom-up creation of strategy, but the idea of “middle-out” would sit much better with performance measurement.

Conclusion

My conclusion is that collaboration between academia and practice has developed a range of approaches for most of the current issues in performance measurement. These are not perfect, have not been tested in multiple environments and are not always widely known, but they should be a starting point for organisations trying to move forward. I also conclude, that co-creation of solutions is also important, because all the solutions above came from a combination of research and practice.

But I would like to finish by highlighting three real dilemmas that are facing performance measurement and management.

Firstly, how do we create both ownership and direction? Direction has traditionally come from measures being cascaded down the organisation, reflecting the strategic imperatives, whilst ownership has come from individuals creating and owning their own measures. EDF Energy's approach to cascading success maps may be the solution, but seeing whether this approach works in different setting is important, so further research and collaboration here would be beneficial.

Secondly, how do we manage today whilst preparing for tomorrow? Performing well requires a focus and deployment of resources that focuses on the near future. Preparing for tomorrow requires slack resources that can be used in the transition. So in success we can sow the seeds of our own destruction. I understand the Balanced Scorecard perspective on this but I have not seen a convincing approach to resolving this dilemma.

Thirdly, is performance measurement reaching the end of its life? Many of the problems of performance measurement occur in large companies. But large companies should only exist when the economic circumstances favour them. From transaction economics, it could be argued that the cost of management coordination has to be less than the cost of inter-

organisational transactions for the organisation to continue to exist. Perhaps what we have seen recently is the development of performance measurement to reduce the cost of the management coordination. But will this approach succeed? New technology will mean that outsourcing will become increasingly less expensive especially with the development of web based communications. Following this to its logical conclusion, one could predict the demise of the large organisation, growth of networks and greatly eliminate the need for performance measurement.

Until that happens, we will have to struggle with the insights and problems that performance measurement gives us.

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