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Reflections on the role, use and benefits of corporate performance measurement in the UK

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Purpose

To reflect on the state of the art of performance measurement in the UK from an academic perspective

Design/methodology/approach

Reflection on practice

Findings

Reports the results from a survey conducted with larger private sector organisations along with feedback from executive education and performance measurement interventions

Practical implications

Identifies five key concerns over the general use of performance measurement systems in the UK and contrast these with leading practice

Originality/value

Adds a UK practitioner perspective to this editions review of performance management

Introduction

The development of performance measurement in the UK private sector has been heavily influenced by developments in the United States. Sharing a common language has meant that British Executives were exposed to the Balanced Scorecard as soon as the concept appeared in Harvard Business Review in 1992. However, the UK has its own performance measurement heritage with Fitzgerald et al's multi-dimensional framework preceding the Balanced Scorecard in 1991, and more recent developments such as the Performance Prism (Neely et al, 2002) creating a more inclusive multiple stakeholder approach to performance measurement. These approaches have blended with US developments to produce a subtle bend of scorecards and key performance

indicators (KPIs) that form the basis of performance measurement and management in the UK.

The UK is home to the head offices of many international companies and so performance measurement and management practices from the UK influence practices in subsidiary companies throughout the world. But as a base for many foreign owned subsidiaries, the UK is also open to many mainland European and Japanese practices.

In this paper, we will reflect on performance measurement and management practices as we see them in the UK today. We will start by highlighting the results of our survey of practice (Franco et al, 2004). We will follow by reflecting on more anecdotal evidence of where practice is developing, drawing from our wide teaching, research partnership and consulting experiences. Finally, we will speculate on the future of performance measurement and management development in UK businesses.

The picture from our survey

The survey was conducted by Cranfield School of Management in collaboration with Watson Wyatt (the human capital consultancy) and with support from Worldatwork (the compensation organisation) between November 2003 and March 2004. Focusing on larger companies, the results were compiled from 159 respondents, the majority of whom were senior HR and Finance professionals.

To briefly summarise the results:

1. KPIs are by far the most commonly used performance measurement system in this survey with 60% of companies using KPIs to a great extent and 90% using them to at least some extent. The use of the Balanced Scorecard was lower in this survey than has been previously reported, suggesting that the Balanced Scorecard is popular (18% of companies used the Balanced Scorecard to a great extent with 55% using the Balanced Scorecard to at least some extent), but not as widely used as KPIs.
2. Respondents believed that their chief executives and senior managers both understood and supported the measurement system. This understanding and support was less marked in middle management and completely reversed in the rest of the business.
3. We found that there is a widespread linkage of performance measurement with rewards with 67% of those surveyed claiming that their companies made this the link. Even the companies that didn't have a formal performance measurement system linked reward with a mixture of financial and non-financial objectives.
4. The companies who did not have formal performance measurement systems relied much more heavily on personal objectives for rewarding performance. The results showed that along with the Strategic Performance Measurement System and meeting Budget, Management By Objectives is still a dominant factor in rewarding senior executives.
5. Interestingly, many companies didn't slavishly follow the four prescribed Balanced Scorecard perspectives, but adapted the measurement themes to meet their own needs.

6. Only a small percentage of companies had formally built success maps, which explicitly linked together their objectives.

The picture that emerged from this survey was that performance measurement is widely used in the UK at a senior level, that KPIs are much more widely used than Balanced Scorecards and that adoption of more sophisticated techniques, such as success mapping, is not widespread.

The picture from our experiences

Many of our observations coincide with the survey results, but it must be realised that they are based on poles from executive education classes and conferences, research club roundtable meetings and collaborations with individual companies rather than rigorous research (although this group is just over 900 individuals). That given, what we have observed is that: -

1. Many scorecards are financially dominated
2. Many performance measurement systems are not fully cascaded throughout the organisation
3. Many companies don't integrate their performance improvement projects with performance measurement.
4. Only a small percentage of companies have taken the time and effort to create a strategy or success map
5. Increasingly, those that do create success maps are testing their assumptions with their performance measurement data

As a result, many scorecards are used as a reporting tool rather than as a true driver of performance. We will now address these five observations in turn.

Financial dominance

Despite scorecards being "Balanced" in Kaplan & Norton terms, for many organisations the financial measures are still the most important. This is not driven by the number of measures in each of the perspectives, but by the weighting placed on the financial measures compared to the non-financial measures. This is especially important when the weightings impact compensation.

The difficulty with financial measures has been recognised for a long time and was the *raison d'être* for the Balanced Scorecard in the early 1990s. Financial measures tend to focus attention on short-term results, often at the expense of longer-term profitability. Short-term objectives can result in under investment in new products, resources and capabilities essential for longer-term success.

However, achieving financial returns is essential for businesses to survive. Financial returns are the outcome of all the other activities of the business. The reason for measuring financial performance is to ensure that all these activities are indeed creating profit for the owners and reinvestment in the business. Hence the argument from the performance measurement literature would be that we need to balance the emphasis on short-term financial performance with the need to create and sustain

longer-term competitive advantage. Over emphasis on financial measures can disrupt this balance.

Lack of cascading

Many scorecards are just that, scorecards that report performance at the top level. Often they are now in traffic light format, green for on target, amber for concern and red for real performance issues. As such they give a snapshot of current performance across the board, but don't show the trends or highlight the interdependencies between different performance measures. Traffic lights can also be misleading. "Red" traffic lights immediately get attention. However, these may not be as important as a "green" traffic light, which has a trend going the wrong way. Missing these trends can mean that deteriorating performance is not picked up until it is too late and traffic light systems can often give a false sense of security.

What is emerging from our research is that having a top-level scorecard provides a degree of focus, but doesn't drive performance. Real performance improvements come when the scorecard is fully cascaded and used as a tool for discussing performance right down to the front line staff or operator level. If this is correct and our survey reflects the level of cascading in the UK, we can only assume that most scorecard applications are ineffective in driving improved performance!

Lack of integration

Performance doesn't improve through simply measuring it; that is like assuming that we can make a car go faster by pushing on the indicator on the speedometer. Having performance measures does provide focus as it communicates to everyone in the organisation what is important, but our experiences suggest that over time this benefit decays.

To really improve performance in a sustainable manner we have to change the way we do things. This is usually achieved through process improvement or process redesign. This linkage to improvement projects was recognised in the original 1992 Balanced Scorecard article (Kaplan & Norton, 1992) but has disappeared from most of the later literature. From a performance measurement perspective, many of the firms we come across fail to integrate measurement with their improvement initiatives. This lack of integration appears in two ways. Firstly, most company dashboards don't link improvement initiatives to the KPIs. Secondly, in many companies, the benefits of improvement projects aren't measured or monitored. The exception to this are companies implementing Six Sigma and there are indications that Six Sigma is gaining popularity in some sectors in the UK, partly driven by US parent companies and customers.

Success maps

Success mapping is a very simple tool that highlights the assumptions between different objectives. A simple example is shown in figure 1. Here, improving production processes is expected to improve product quality. Improved product quality, in turn, is expected to reduce warranty claims. Reduced warranty claims are

expected to increase customer satisfaction, leading to greater loyalty and repurchasing, which in turn will increase financial performance.

Versions of success maps have been used in operations for many years for problem solving and conducting root cause analysis. In 1992, Eccles & Pyburn suggested that senior executives should use the technique to explicitly capture their assumptions about how their businesses performed. Kaplan & Norton (1996) then adopted similar approaches to creating strategy maps for the Balanced Scorecard, but although the approach is popular as a theoretical exercise, few organisations have explicitly created success maps for their businesses.

Success maps have many advantages. When used properly, they create and capture the key assumptions and critical success factors for the business. These can then be communicated widely and they allow managers to explain how their strategy is being delivered and to explain why actions and improvements within the business are important to overall success. But despite these advantages being recognised by executives, few companies have explicit success maps (from our survey, only some 20% of organisations responding claimed to have some form of success map).

In reality, success maps do take time and effort to create. They do require engagement and debate between senior executives over what the strategy is and how it is to be implemented. They also require choices to be made and make these choices very explicit. When we ask executives why they don't adopt success maps we don't get a convincing response although when we use this with senior management teams it clearly clarifies their thinking.

Testing success maps

Although only a few companies are building success maps, those that do appear to be more likely to test the underlying assumptions empirically with performance measurement data. The classic published example of an organisation doing this was Sears Roebuck and Co in Harvard Business Review (Rucci et al, 1998). The article described how Sears developed and tested a link between Employee attitude (their attitude about the job and their attitude about the company) Customer impression (perception of merchandise and service quality) and financial performance (turnover). This led to an understanding of how changes in employee attitude translated into financial performance.

The Sears article has attracted much attention, and many organisations believe the mantra that happy employees make happy customers; and that happy customers make good financial performance. One recent group of executives explained that their chairman had stated this at their shareholders meeting. He was then surprised by an analyst's question about how well the company was performing in the Times best employers' list. Other companies have simply accepted the evidence from Gallup (Buckingham & Coffman, 1999) that supports basically the same premise. Amongst most executives, there is the belief that these relationships exist, but most companies don't use their own measurement data to test these assumptions.

Interestingly, the companies we have met that do test their assumptions usually find that the data doesn't support their original success map. This is either because the

companies haven't really understood the nature of the relationships involved, or more often because there are some much larger intervening variables that totally obscure the relationships expected by the management team. Therefore there are real benefits from testing your own assumptions and not simply relying on relationships that others have found.

Conclusion

Like all tools, performance measurement, and the Balanced Scorecard in particular, has been criticised for not delivering the expected performance improvements. What is becoming apparent from our experience is that simply having a scorecard is not enough; it is how it is used throughout the organisation that is important. Many of the scorecard initiatives we observe simply report the health of the business in a more holistic way. They give a more balanced picture of a set of different performance perspectives, but in many cases go no further. Our understanding from working closer with a few exemplar companies is that performance measurement only delivers when it is fully cascaded and used throughout the business. This requires considerable energy to communicate, engage and involve all levels of management, something that happens in only a few organisations.

We have a concern that performance measurement, and the Balanced Scorecard in particular, may fall into disrepute through poor execution in many companies. On the other hand, some companies are gaining significant benefit and competitive advantage from the use of their measurement systems. These two conflicting factors will undoubtedly lead to an interesting future for performance measurement in the United Kingdom.

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Biographies

Dr Mike Bourne is Director of the Centre for Business Performance. He has spent the last ten years working with companies supporting senior management teams through the process of designing, implementing and using their balanced scorecards and related performance management techniques. His research interests focus on the design implementation and use of corporate performance measurement and management systems.

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Figure 1. Example of linked assumptions in a Success Map

