

Perspectives on Performance: The Performance Prism

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In Lewis Carroll's "Alice's Adventures in Wonderland" there is a wonderful interaction between Alice and the Cheshire Cat during which Alice asks the cat for directions to an unspecified destination.

'Cheshire Puss', she began, rather timidly, as she did not at all know whether it would like the name: however, it only grinned a little wider. 'Come, it's pleased so far,' thought Alice, and she went on. 'Would you tell me, please, which way I ought to go from here?'

'That depends a good deal on where you want to get to,' said the Cat

'I don't much care where –' said Alice.

'Then it doesn't matter which way you go,' said the Cat.

'- so long as I get somewhere,' Alice added as an explanation..

The same confusion and uncertainty exists in many organisations when it comes to performance. A few years ago one of the authors spent some time working with the senior management team of a manufacturing company that produced door and window frames. The aim of the project was to establish whether people at different levels of the organisation's hierarchy had the same understanding of performance. Two interactions in particular stand out. The first involved the managing director explaining how he felt the business won orders.

"You have to understand that our customers are all extremely demanding. We are competing at the high quality end of the market place. When we deliver door and window frames we have to exceed customer expectations. There can be no knots in the wood. The colour matching must be perfect. Of course, delivery on time is also important in our industry. You can't have 30 builders standing around on site waiting for the door frames to arrive, but we would never sacrifice quality for delivery".

The second interaction involved the manufacturing director answering the same question – how do you win orders?

"This industry is all about working to schedules. Our customers have clear construction schedules and they always let us know when they need us to deliver the door and window frames. If we are ever late, all hell breaks loose. So it is essential that we deliver product on time. Quality – in terms of exceeding the customers specification is also important – but our first priority is to meet the schedule".

Two senior managers, working extremely closely together, with radically different definitions of performance. When the fact that his perception differed to that of the managing director's was pointed out to the manufacturing director, his immediate reaction was...

"The managing director is lying. He does not think that quality is more important than delivery. He might say he does. He might even believe he does. But whenever he talks to me he always asks about delivery. Delivery is his number one priority".

Of course this is an extreme example and there are many organisations that have a far greater clarity of purpose and consistency of view than the manufacturer of door and window frames. One of the

reasons for this is that they have much clearer models of what constitutes good performance in their organisations.

THE BUSINESS PERFORMANCE REVOLUTION

Interest in performance measurement and management has rocketed during the last few years. Frameworks and methodologies – such as the balanced scorecard, the business excellence model, shareholder value added, activity based costing, cost of quality, and competitive benchmarking – have each generated vast interest, activity and consulting revenues, but not always success. Yet therein lies a paradox. For one might reasonably ask, how can multiple, and seemingly inconsistent, business performance frameworks and measurement methodologies exist? Each framework purports to be unique. And each appears to claim comprehensiveness. Yet each offers a different perspective on performance.

The balanced scorecard, with its four perspectives, focuses on financials (shareholders), customers, internal processes, plus innovation and learning. In doing so it downplays the importance of other stakeholders, such as suppliers and employees. The business excellence model combines results, which are readily measurable, with enablers, some of which are not. Shareholder value frameworks incorporate the cost of capital into the equation, but ignore everything (and everyone) else. Both activity based costing and cost of quality, on the other hand, focus on the identification and control of cost drivers (non-value-adding activities and failures/non-conformances respectively), which are themselves often embedded in the business processes. But this highly process focused view ignores any other perspectives on performance – such as the opinion of shareholders, customers and employees. Conversely, benchmarking tends to involve taking a largely external perspective, often comparing performance with that of competitors or other ‘best practitioners’ of business processes. However, this kind of activity is frequently pursued as a one-off exercise towards generating ideas for – or gaining commitment to – short-term improvement initiatives, rather than the design of a formalised ongoing performance measurement system.

How can this be? How can multiple, seemingly conflicting, measurement frameworks and methodologies exist? In fact the answer is simple. They can exist because they all add value. They all provide unique perspectives on performance. They all furnish managers with a different set of lenses through which they can assess the performance of their organisations. In some circumstances, an explicit focus on shareholder value – at the expense of everything else – will be exactly the right thing for an organisation to do. In other circumstances, or even in the same organisation but at a different point in time, it would be suicide. Then, perhaps, the balanced scorecard or the business excellence model (or some combination of them) might be the answer. The new CEO of a company, with too overt a current focus on short-term shareholder value, may find these frameworks a useful vehicle to help switch attention more towards the interests of customers, investments in process improvement and the development of innovative products and services.

The key is to recognise that, despite the claims of some of the proponents of these various frameworks and methodologies, there is no one ‘holy grail’ or best way to view business performance. And the reason for this is that business performance is itself a multi-faceted concept.

Nevertheless, when we talk to academics, industrialists and non-profit organisations alike, there seems to be a ‘pent-up demand’ for a multi-faceted, yet highly adaptable, new framework – a framework which will address the needs for business performance measurement within the new competitive environment of the 21st Century. The challenge: How to satisfy that demand?

THE PERFORMANCE PRISM

Our solution to the problem is a three dimensional model that we call the Performance Prism. The Performance Prism has five facets – the top and bottom facets are Stakeholder Satisfaction and Stakeholder Contribution respectively. The three side facets are Strategies, Processes and Capabilities.

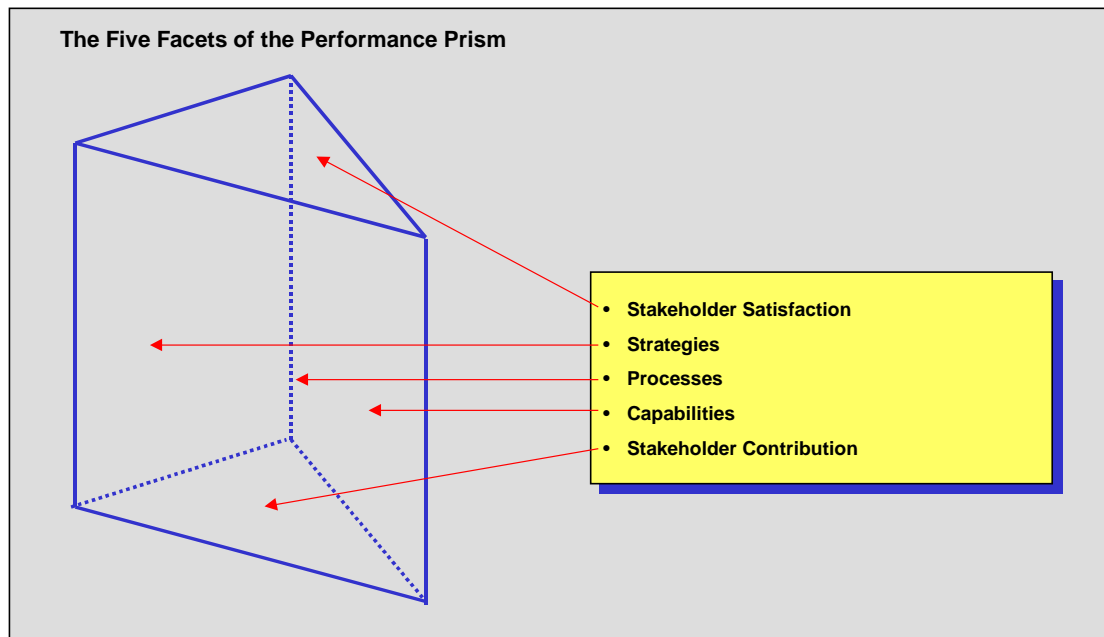


Figure 1: The Performance Prism Framework

Why does our model look like this and have these constituent components? Let us explain.

We believe that those organisations aspiring to be successful in the long term within today's business environment have an exceptionally clear picture of who their key stakeholders are and what they want. They have defined what strategies they will pursue to ensure that value is delivered to these stakeholders. They understand what processes the enterprise requires if these strategies are to be delivered and they have defined what capabilities they need to execute these processes. The most sophisticated of them have also thought carefully about what it is that the organisation wants from its stakeholders – employee loyalty, customer profitability, long term investments, etc. In essence they have a clear business model and an explicit understanding of what constitutes and drives good performance.

START WITH STAKEHOLDERS NOT STRATEGIES

One of the great fallacies of performance measurement is that measures should be derived from strategy. Listen to any conference speaker on the subject. Read any management text written about it. Nine times out of ten the statement will be made – “derive your measures from your strategy”. This is such a conceptually appealing notion, that nobody stops to question it. Yet to derive measures from strategy is to misunderstand fundamentally the purpose of measurement and the role of strategy. Performance measures are designed to help people track whether they are moving in the direction they want to. They help managers establish whether they are going to reach the destination they set out to reach. Strategy, however, is not about destination. Instead, it is about the route you choose to take – *how* to reach the desired destination.

Organisations adopt particular strategies because they believe those strategies will help them achieve a specific, desirable end goal. Amazon.com, the original internet book retailer, have not started to expand into CD sales, toys and home improvement products, just because they feel like expanding their product portfolio. They have deliberately decided to leverage their e-commerce and operational expertise – their core processes and capabilities – to extend the range of products they sell beyond books *because* they want to increase sales revenues and, in the longer term, enhance shareholder returns. Expanding into CD sales and other product lines is the strategy they hope will enable them to achieve these objectives.

At one level this is a semantic argument. Indeed the original work on strategy, carried out in the 1970s by Andrews, Ansoff and Mintzberg, asserted that a strategy should explain both the goals of the organisation and a plan of action to achieve these goals. Today, however, the vast majority of

organisations have strategies that are dominated by lists of improvement activities and management initiatives – e.g. grow market share in Asia, extend the product range, seek new distribution channels. While these are undoubtedly of value, they are not the end goal. These initiatives and activities are pursued in the belief that, when implemented, they will enable the organisation to better deliver value to its multiple stakeholders – investors, customers and intermediaries, employees, suppliers, regulators and communities – all of whom will have varying importance to the organisation in question. The first and fundamental perspective on performance then is the stakeholder perspective.

It is no accident that the balanced scorecard starts by asking, “what do the shareholders want?”. Undoubtedly, as already mentioned, for many organisations the shareholders are the most important stakeholders. Throughout the 1980s and 1990s, however, there has been growing recognition of other stakeholder groups, most notably customers – hence the customer perspective on the balanced scorecard – and employees, who are often subsumed on the balanced scorecard under either the internal processes or the innovation and learning perspectives. For manufacturing and many service businesses, suppliers are also an essential stakeholder group to consider. Hence their inclusion in the revised version of the business excellence model, although interestingly not (so far) on the balanced scorecard. As companies outsource ever increasing amounts of non-core activity, they become more and more dependent upon their suppliers. Today, Boeing manufactures only three components on a 777. Its reliance on suppliers for components and spares is immense and its exposure, should its suppliers fail to perform, cannot be underestimated.

Perhaps nowhere is this phenomenon more pronounced than in eCommerce transacted on the internet, where intermediaries – quasi customers or suppliers – are often highly involved in the sales and logistics activities required to deliver the product or service offered. A further emerging stakeholder aspect of the eCommerce revolution is that the use of organisations called ‘complementors’ is becoming common practice. Complementors are alliance partners that provide an enterprise with products and services that *extend* the value of that enterprise’s own customer offering. This often involves co-branding or building complementary products. Although not exclusive to dot.com industries, complementors are increasingly becoming a key component of internet companies’ armoury. If complementors’ wants and needs are not catered for, they are likely to take their alliance elsewhere.

In addition to these ‘conventional’ stakeholders, recent developments have resulted in two other groups gaining increasing power and prominence. The first is the regulatory and legal community. In the UK, Ian Byatt, the Water Industry regulator announced in November 1999 that the UK’s water companies would be expected to reduce their prices by 12% on average over the course of the next twelve months. Some companies will be required to reduce their prices more than others, because of their failure to deliver in the preceding five years against specific customer service goals defined by the regulator and his team. The goals defined by the regulator do not necessarily relate to the individual water companies’ strategies. They are not necessarily the goals the water companies would have chosen for themselves, but given that the regulator’s ruling is expected to cost the Water Industry between £800 and £850 million in lost operating profits next year, it is easy to see why delivering the performance the regulator requires – i.e. ensuring regulator satisfaction – is key for certain companies.

Neither is regulatory compliance confined to recently privatised industries. There has been a significant trend in recent years for regulatory bodies, such as the European Commission and the U.S. Justice Department, to take a far more active interest in companies that abuse their competitive position. Punitive fines and individual jail sentences have been handed out to companies and their personnel involved in pricing cartels and other less obvious antitrust practices. Those ‘named and shamed’ for such practices include a litany of such bastions of international business as Coca-Cola, Microsoft, Hoechst, Roche, Volkswagen, British Airways, Unilever, plus many other ‘household names’ and less well-known corporations.

The final set of stakeholders are even more fascinating, and in many ways are even more difficult to satisfy because of the potential diversity of their wants and needs. Pressure groups, such as Greenpeace and Friends of the Earth, have become enormously influential through their awesome communications ability. For instance, in two celebrated cases, they first managed to prevent Shell from sinking the Brent Spar oil platform in the Atlantic Ocean and, more recently, have managed to remove genetically modified foods from the European menu, much to the Monsanto company’s dismay. Monsanto’s chairman subsequently admitted that the pressure groups had done a far better job

of marketing than the company had done. And the source of their marketing and communications ability? The internet.

The internet offers unprecedented power to anyone who has an interest in the performance of an organisation. Take, for example, the “McLibel” case. In 1990, McDonalds took two unemployed protestors to court over allegations that they made in leaflets which they were handing out on the street. Despite the fact that the two protestors had no legal experience between them, they decided to defend themselves. They kept McDonalds in court for 300 days, during which time supporters of the protestors set up the McLibel web pages, detailing McDonalds’ alleged misdemeanours. These pages received over 35,000 hits in one 24 hour period alone.

Next time you are on the web, go to “Untied.com” [*sic*]. A web page set up by a single United Airlines passenger, who felt he had been unfairly treated. After he shared his story with the world, a further 1500 disgruntled passengers decided to share theirs’. In the U.S., many companies are registering internet “*company name-sucks*” domain names along with their own in order to deter the set up of ‘gripe sites’ intended to attack them. In today’s society, the internet offers individuals the opportunity to communicate with thousands of others on any topic they choose.

Given that this is the reality, and given the exponential rate at which the web is growing, it is becoming increasingly essential for managers in organisations to consider the wants and needs of *all* of their stakeholders. If this broad perspective on performance is not adopted, then there is a significant risk that the organisation will fail to satisfy the wants and needs of a particular stakeholder, or stakeholder group, who in turn will decide to exact their revenge.

BUILDING A MULTI-FACETED BUSINESS PERFORMANCE MODEL

So, as we have seen, the first perspective on performance is the stakeholder satisfaction perspective. What managers have to ascertain here is who are the most influential stakeholders and what do they want and need? Once these questions have been addressed then it is possible to turn to the second perspective on performance – strategies. The key question underlying this perspective is what strategies should the organisation adopt to ensure that the wants and needs of its stakeholders are satisfied? In this context, the role of measurement is fourfold. First, measures are required so that managers can track whether or not the strategies they have chosen are actually being implemented. Second, measures can be used to communicate these strategies within the organisation. Third, measures can be applied to encourage and incentivise implementation of strategy. Fourth, once available, the measurement data can be analysed and used to challenge whether the strategies are working as planned (and, if not, why not).

The old adages “you get what you measure” and “you get what you inspect, not what you expect”, contain an important message. People in organisations respond to measures. Horror stories abound of how individuals and teams appear to be performing well, yet are actually damaging the business. When telesales staff are monitored on the length of time it takes for them to deal with customer calls, it is not uncommon to find them cutting people off mid-call, just so the data suggest that they have dealt with the call within 60 seconds. Malevolently or not, employees will tend towards adopting ‘gameing tactics’ in order to achieve the target performance levels they have been set. Measures send people messages about what matters and how they should behave. When the measures are consistent with the organisation’s strategies, they encourage behaviours that are consistent with strategy. The right measures then not only offer a means of tracking whether strategy is being implemented, but also a means of communicating strategy and encouraging implementation.

Many of the existing measurement frameworks and methodologies appear to stop at this point. Once the strategies have been identified and the right measures established it is assumed that everything will be fine. Yet studies suggest that some 90% of managers fail to implement and deliver their organisation’s strategies. Why? There are multiple reasons, but a key one is that strategies also contain inherent assumptions about the drivers of improved business performance. Clearly, if the assumptions are false, then the expected benefits will not be achieved. Without the critical data to enable these assumptions to be challenged, strategy formulation (and revision) is largely predicated on ‘gut feel’ and management theory. Measurement data and its analysis will never replace executive

intuition, but it can be used to greatly enhance the making of judgements and decisions. A key judgement is of course whether an organisation's strategy and business model remains valid.

A second key reason for strategic failure is that the organisation's processes are not aligned with its strategies. And even if its processes are aligned, then the capabilities required to operate these processes are not. Hence the next two perspectives on performance are the processes and capabilities perspectives. In turn, these require the following questions to be addressed – "What processes do we need to put in place to allow the strategies to be executed?" and "What capabilities do/shall we require to operate these processes – both now and in the future?".

Again, measurement plays a crucial role by allowing managers to track whether or not the right processes and capabilities are in place, to communicate which processes and capabilities matter, and to encourage people within the organisation to maintain or proactively nurture these processes and capabilities as appropriate. This may involve gaining an understanding of which particular business processes and capabilities must be competitively distinctive ("winners"), and which merely need to be improved or maintained at industry standard levels ("qualifiers").

Business Processes have received a good deal of attention in the 1990s with the advent of Business Process Re-engineering. Business Processes run horizontally across an enterprise's functional organisation until they reach the ultimate recipient of the product or service offered – the customer. Michael Hammer, the re-engineering guru, advocates measuring processes from the customer's point of view – the customer wants it fast, right, cheap and easy (to do business with). But is it really as simple as that? There are often many stages in a process. If the final output is slow, wrong, expensive and unfriendly, how will we know which component(s) of the process are letting it down? What needs to be improved? In the quest for data (and accountability), it is easy to end up measuring everything that moves, but learning little about what is important. That is one reason why processes need owners – to decide what measures are important, which metrics will apply and how frequently they shall be measured by whom – so that judgements can be made upon analysis of the data and actions taken.

Processes cannot function on their own, however. Even the most brilliantly designed process needs people with certain skills, some policies and procedures about the way things are done, some physical infrastructure for it to happen and, more than likely, some technology to enable or enhance it. In fact, capabilities can be defined as the *combination* of an organisation's people, practices, technology and infrastructure that collectively represents that organisation's ability to create value for its stakeholders through a distinct part of its operations. Very often that distinct part will be a business process, but it could also be a brand, a product/service or an organisational element. Measurement will need to focus on those critical component elements that make it distinctive and also allow it to remain distinctive in the future. Competitive benchmarks will be needed in order to understand the size of the gap. Competitors will be seeking ways to create value for probably not exactly the same, but a very similar set of stakeholders too.

The fifth, and final, perspective on performance is a subtle but critical twist on the first. For it is the "stakeholder contribution", as opposed to "stakeholder satisfaction", perspective. Take, for example, customers as stakeholders. In the early 1980s, organisations began to measure customer satisfaction by tracking the number of customer complaints they received. When research evidence started to show that only about 10% of dissatisfied customers complained, organisations moved to more sophisticated measures, such as customer satisfaction. In the late 1980s and early 1990s, people began to question whether customer satisfaction was enough. Research data gathered by Xerox showed that customers who were very satisfied were five times more likely to repeat their purchase in the next 18 months, than those who were just satisfied were. This, and similar observations, resulted in the development of the concept known as customer loyalty. The aim of this concept was to track whether customers: (i) came back to buy more from the same organisation, and (ii) recommended the organisation to others.

Even more recently, research data from a variety of industries, has demonstrated that many customers are not profitable for organisations. It has been suggested that in retail banking, for example, that 20% of customers generate 130% of profits! Other data illustrate that increased levels of customer satisfaction can result in reduced levels of organisational profitability, because of the high costs of squeezing out the final few customer satisfaction percentage points. The reaction has been increasing interest in the notion of customer profitability. Sometimes the customer profitability data produces surprises for the organisation, indicating that a group of customers thought to be quite profitable are in

fact loss-makers and that other customer groups are far more profitable than generally believed by the organisation's executives. Performance data allow assumptions to be challenged.

The important point, and the subtle twist, is that customers do not necessarily want to be loyal or profitable. Customers want great products and services at a reasonable cost. They want satisfaction from the organisations they chose to use. It is the organisations themselves that want loyal and profitable customers. So it is with employee satisfaction or supplier performance too. For years, managers have struggled to measure supplier performance. Do they deliver on time? Do they send the right quantity and quality of goods? Do they deliver them to the right place? But these are all dimensions of performance that the organisation requires of its supplier. They encapsulate the supplier's contribution to the organisation. Supplier satisfaction is a completely different concept. If a manager wanted to assess supplier satisfaction then (s)he would have to ask – Do we pay on time? Do we provide adequate notice when our requirements change? Do we offer suppliers forward schedule visibility? Do our pricing structures allow our suppliers sufficient cashflows for future investment and, therefore, ongoing productivity improvement? Could we be making better use of the vendor's core capabilities?

The key message here is that all organisations require certain things of their stakeholders and all organisations are responsible for delivering certain things to all of their stakeholders. What drives shareholder satisfaction? – dividends, share price growth, predictable results, etc. Unpleasant surprises erode investors' confidence in the management team. What do organisations want of their shareholders? – capital, reasonable risk-taking, long term commitment, etc. This fifth and final perspective on performance – the notion of stakeholder contribution – is a vital one, because it explains why there is so much confusion around the concept of stakeholders in the literature.

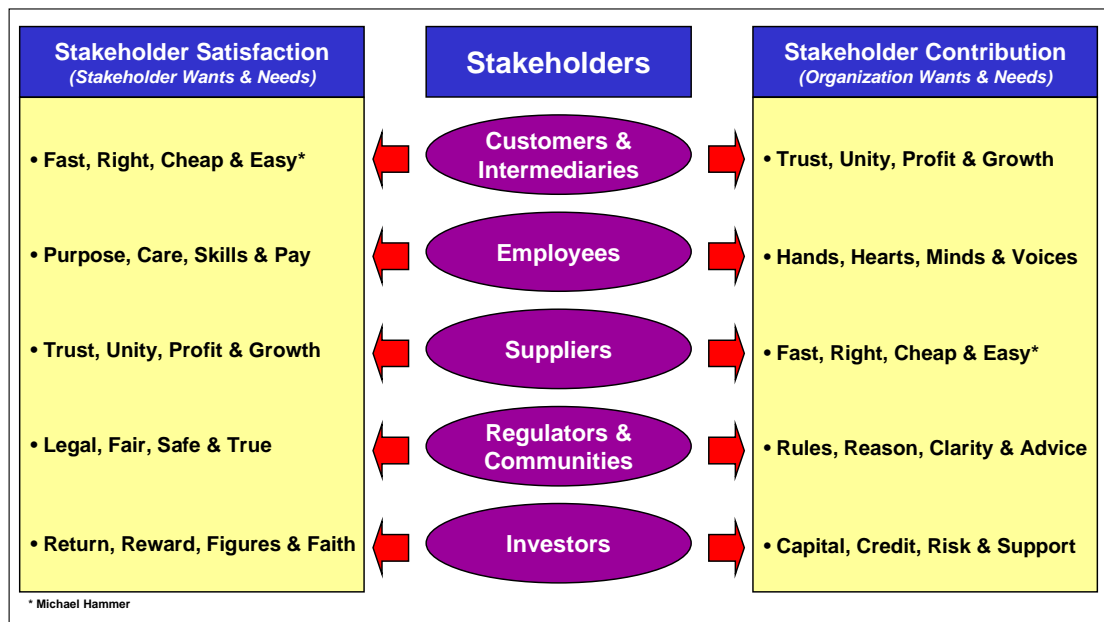


Figure 2: Stakeholder and Organization Wants and Needs

We would suggest that gaining a clear understanding of the 'dynamic tension' that exists between what stakeholders want and need from the organisation, and what the organisation wants and needs from its stakeholders, can be an extremely valuable learning exercise for the vast majority of corporations and, especially, their respective business units.

APPLYING THE PERFORMANCE PRISM TO MEASURES DESIGN

Five distinct, but logically interlinked, perspectives on performance have been identified together with five key questions for measurement design:

1. **Stakeholder Satisfaction** – *who are the key stakeholders and what do they want and need?*

2. **Strategies** – what strategies do we have to put in place to satisfy the wants and needs of these key stakeholders?
3. **Processes** – what critical processes do we require if we are to execute these strategies?
4. **Capabilities** – what capabilities do we need to operate and enhance these processes?
5. **Stakeholder Contribution** – what contributions do we require from our stakeholders if we are to maintain and develop these capabilities?

As we have seen, these five perspectives on performance can be represented in the form of a prism. A prism refracts light. It illustrates the hidden complexity of something as apparently simple as white light. So it is with the Performance Prism. It illustrates the complexity of performance measurement and management. Single dimensional, traditional frameworks pick up elements of this complexity. While each of them offers a unique perspective on performance, it is essential to recognise that this is all that they offer – a single uni-dimensional perspective on performance. Performance, however, is not uni-dimensional. To understand it in its entirety, it is essential to view from the multiple and interlinked perspectives offered by the Performance Prism.

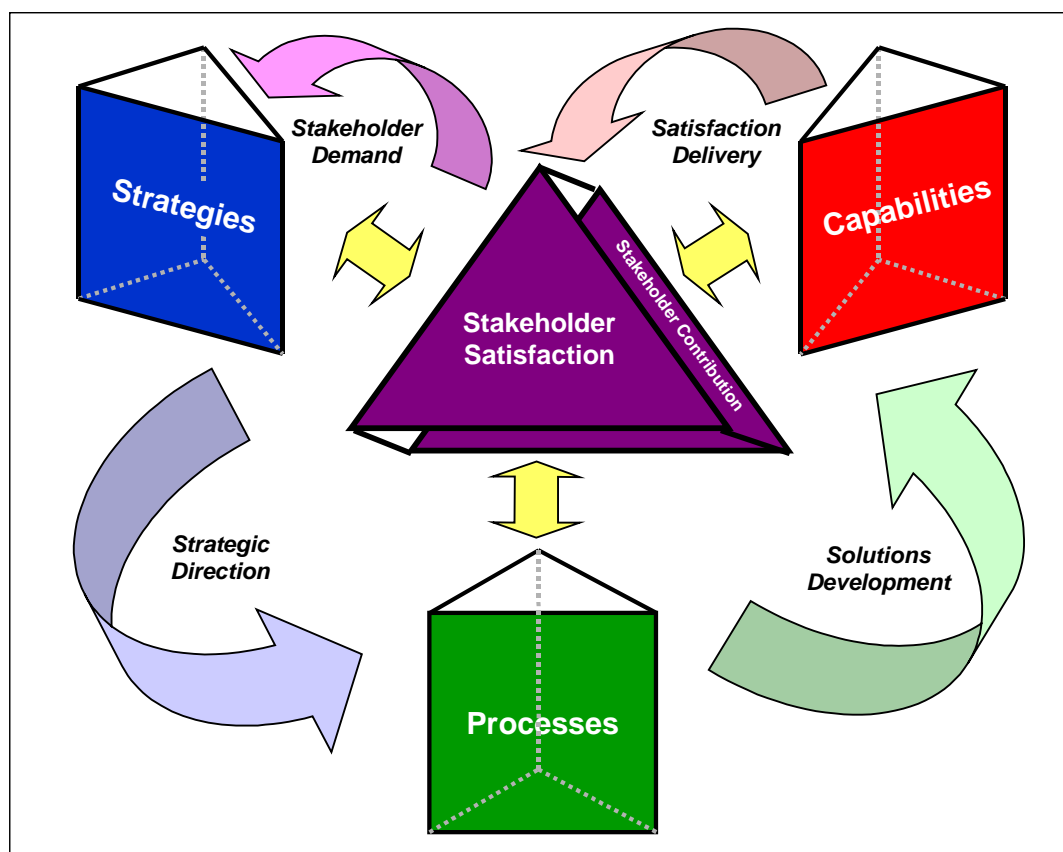


Figure 3: Delivering Stakeholder Value

The Performance Prism measurement framework has been developed in close co-operation by the Centre for Business Performance at Cranfield School of Management (formerly at University of Cambridge) and the Process Excellence Core Capability Group of Andersen Consulting. It is currently being applied to a number of other organisations and conditions in order to thoroughly test its applicability in the field. “The Performance Prism in Action” will be the subject of a subsequent article in this series.