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Prologue

JWBK763-c01 JWBK763-Bititci Printer: Yet to Come July 6, 2015 11:15 Trim: 229mm × 152mm

This book is about managing the performance of organisations. It is primarily focused on managing the performance of commercial organisations (i.e., businesses), but it also includes lessons from public-sector organisations. It blends the theory and practice of managing business performance, drawing on academic works as well as lessons and observations from many large and small organisations. Its contents are based on:

- the results of a series of funded research programmes involving numerous companies from different countries with a total research value exceeding c. £20m;
- the practical experiences of designing and implementing performance improvement programmes in a wide range of companies operating in diverse sectors.

Its contents balance the theory and practice of performance management. It also focuses on providing real practical advice, methods, tools and techniques to the practitioner responsible for the performance of their organisation. Indeed, a key message is that everyone is responsible for the performance of their organisation.

Furthermore, the book recognises that 'one-size-fits-all' answers rarely apply. The world changes over time and a successful company needs to adapt its performance management approach, style and process to match the needs of that time. Selection, positioning and management of the right people for the right positions at the right time become critical to sustainable success.

1.1 BACKGROUND TO THIS BOOK

In the modern world we live in today, be it at work or at home, we cannot seem to get away from performance measures. What is intriguing, however, is the effect these measures have on organisations' performance. During my early consulting career I could not help noticing how some people worked to measures even though they knew it was the wrong thing to do and that doing so made them miserable. The quote "*… they tell us that the customer is the king, but this is rubbish… in this place the measure is the king*" reflects many such feelings of individuals from different levels of an organisation, ranging from shop-floor operator to senior management.

The purpose of my first research grant (1989–1992) was to understand the barriers to manufacturing systems' integration. Here we were concerned with manufacturing businesses as a whole and wanted to understand the barriers that prevented different parts of the organisation from working together effectively and efficiently towards a common purpose. We were three academic groups from three different UK universities working in collaboration with 11 large manufacturing organisations over a three-year period. The manufacturing organisations represented a cross-section of the industry including electronics, heavy engineering, defence equipment, construction materials and chemicals. Without exception, across all our cases, the root cause of failure to integrate was performance measures. We can probably cite several examples here, but the following adequately reflect many other cases.

An electronics manufacturing company purchased metal chassis for its products from the Far East at a cost of \$14 per unit as opposed to from a local supplier for \$18 per unit. But the \$14 per unit was ex-works and did not include the shipping costs, which added another \$6 to the cost of each unit. Because the shipping costs were charged to a different budget, buying from the Far East with longer lead times and larger batch sizes made the purchasing key performance indicator (KPI) look better. It was ironic that this practice continued for several years, even though everyone knew that it was not the right thing to do, as reflected in the purchasing manager's comment: "*… I know if we bought locally it would be cheaper in total cost terms, but that is not my KPI and the KPIs are set by the US head office – we can't just go and change them.*"

A whisky producer ranked a very close number 2 in their target market. The strategy was to become number 1 by halving the supply lead times whilst maintaining 100% reliability. This would allow the distributor in the market to reduce its stock levels, thus making the brand a more attractive proposition. The strategy was rolled out, communicating clearly and concisely with everyone. Over the next few months we started to see a pattern developing where the service levels (delivery lead times) would be within three weeks of order for a couple of months but would deteriorate significantly in month 3. This pattern repeated over the next three months. When investigated, it appeared that the production manager was paid a quarterly productivity bonus based on the number of litres of product bottled on his bottling lines. This meant that for the first two months he would produce and ship what was ordered but in the third month he would run the fastest-running products, usually a mixture of 2lt and 5lt bottles, to make up his shortfall. As a result, he would get a big fat bonus, the company would have the wrong stock and the distributor would be out of stock. When we discovered this and questioned him, his response was "… *this is my family's holiday money, I cannot afford to lose this income*". Fortunately, in this case, the KPIs and bonus structure were quickly adjusted to bring the operations into alignment with the company's objectives.

From the results of this research it became clear that lack of an integrated and systematic approach to performance measurement was a key constraint to organisational integration, effectiveness and performance. This line of thinking led to my second research grant (1995–1998). Here, working with the same consortium of academics and industry partners, our objective was to develop a reference model for integrated performance measurement systems. This was about the time that performance measurement was popularised by books and articles such as *Relevance Lost: The Rise and Fall of Management Accounting* (Johnson and Kaplan, 1991) and 'Total quality: Time to take off the rose-tinted spectacles' (Kearney, 1991), and many organisations were introducing performance measures to enable them to better manage the performance of their business. Throughout this research it became evident that although measures were important, what organisations did with these measures was even more important.

In one manufacturing company they had a six-page weekly plant report containing 312 performance measures. When we enquired what they did with all of these measures, we were often faced with blank looks. We managed to convince the team responsible for issuing this report to stop issuing it as an experiment to see what would happen. It was five weeks before the IT Manager called to ask what had happened to the plant report. When asked what he wanted it for, his response was "… *I just wondered, because the corner of my desk where it usually sits has been empty for a few weeks*".

Simultaneously, we also noticed that when performance measures were focused on managing functions/departments and individuals, we observed them to be less effective. In contrast, when they were focused on flow of work through the organisation (i.e., the process), measures appeared to be more effective. With this it started to become clear that performance measures should be concerned with workflows within the business – that is, the key processes that make the organisation viable (more on this later).

Subsequently (1997–2002) I was involved in a multidisciplinary European consortium entitled Advanced Performance Systems, with a view to sharing knowledge and practice on the subject of performance measurement. As we all know, the practice of performance measurement has emerged from a number of disciplines that include management accounting, operations management, strategic management and human resource management, where the term *performance management* appeared to be exclusively reserved for managing the performance of individuals, also known as the annual performance review, personal development review, etc. In fact, in a performance measurement workshop where I defined *performance management as the process in which we use performance measures to manage the performance of the organisation*, I was criticised for misrepresenting the term.

Maybe because I am an engineer or perhaps because of my upbringing, I am a systems thinker. That is, I see everything as an interconnected part of the whole. As a result, I was wholly unsatisfied with the view that represented performance measurement and performance management as two exclusive concepts and indeed practices. I am a great believer that organisations at the most basic level are about people and that in organisations (public, private, commercial, industrial, charitable and so on) people do things (with computers, machines, materials, information, paper, suppliers, customers, other people and so on) that leads to good or bad performance results. I summarise this simply as ***people operate processes that deliver performance***, as illustrated in Figure 1.1.

Of course there is more to managing business performance than just a simple conceptual framework, we will come back to this later in the book. What is significant here is that in an organisation there can only be one performance measurement and management system, and this system needs to integrate strategic, financial, operational and human resource views into a single efficient and effective system. After all, we are all trying to maximise the performance of the same organisation. Using different management tools to manage the performance of different parts of the organisation, without effectively joining them together, can only serve to sub-optimise overall performance. The literature contains several examples of the disconnect between company priorities, performance measures and improvement activities, even though they were using various tools

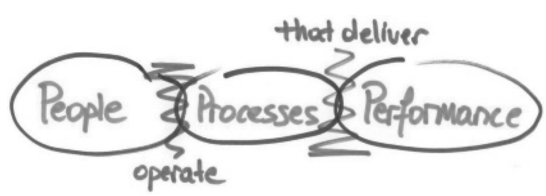

FIGURE 1.1 The universal structure that underpins performance in all organisations

for strategic planning, management by objectives, people development, appraisal and review.

Throughout these, largely research-based, experiences we were also working with a number of organisations in helping them improve their performance measurement systems. At one point we were using the approach and tools that emerged from the Integrated Performance Measurement Systems research project to implement performance measurement systems in a number of organisations. Some worked well, some worked better than others and some were outright failures… Why? We were using the same approach, the same training, the same tools and the same workshops in all cases. We were working with the management teams to help them identify measures, decide how to measure and report them, and so on. Why were some of the projects so much more successful than others?

Motivated by this question, we put together a research team to try to understand this phenomenon. What we found was that differences in organisational culture, management style and management attention led to different behaviours, resulting in different managerial and organisational practices. It was these variables that led to the development, sustained use and refinement of performance measurement systems in some organisations and not in others.

This line of thinking then led me to another research grant (2005–2009), with a view to understanding what makes successful organisations different. Here we were particularly interested in understanding the *practices* of organisations that continually outperform their competitors, irrespective of economic conditions. As part of this research we embedded ourselves into manufacturing organisations across Europe with a view to understanding their culture, management style and practices. We were particularly interested in understanding how they were managing the performance of their organisation.

What we found was astounding. All of the companies (high and low performers) measured roughly the same things and they all reported and reviewed performance in roughly the same way. However, where the low performers were primarily concerned with the mechanistic and 'processy'[1] aspects of performance measurement, in contrast, the high performers were exclusively focused on social factors, such as culture, communication, well-being and so on. This does not mean that the high performers did not measure, report and review performance. In all cases they did. But how they did this made the difference. There will be more examples of this later in the book, but here I give an example that illustrates how two different organisations can do the same thing, but differently.

[1] I realise that this is not a word in the common dictionary, but I hear it quite a lot in everyday management speak. It reflects activities and practices that could be codified as a process.

Both organisations reported the number of overdue orders at weekly management review meetings. In the low-performing organisation, when there were more than 10 overdue orders (an arbitrary target) there was usually a shouting match with the managing director trying to establish whose fault it was and what appropriate disciplinary action should be taken. Needless to say, the overdue orders report rarely exceeded 10 items. In one particular instance, where there were actually 22 overdue orders, only seven were reported in the overdue report.

In contrast, in the high-performing organisation, overdue orders were a rare occasion, but this was not always the case. It appears that the company had successfully reduced their overdue orders over the past three years. When an overdue was reported, it did attract management attention. However, the kind of attention was different; it was not a witch hunt as in the previous case. In this case the management was concerned with understanding the root cause and developing a permanent fix to prevent the problem from arising again. It was a much more collegiate, balanced and fear-free environment to work in.

Going back to what we said above, organisations, whether private or public, industrial or commercial, are about networks of people. In fact, the dictionaries commonly define an organisation as an organised body of people with a particular purpose. In short, organisations are social systems.

If that is the case, why do most of the performance measurement and management practices we see in organisations today treat organisations like rational machines? Only recently have we, as a society, started to wake up to the fact that if we treat organisations, and by default people, like machines then they will behave like machines. They will be disengaged from their workplace. They will be demotivated. They will practice their ingenuity and innovative capacity elsewhere, outside the workplace. All this undermining the performance of the organisations we all try so very hard to maximise.

Over the past 30+ years my research, experiences and observations have pointed towards the need for a more balanced and harmonious approach to managing organisational performance, where achieving a balance between technical controls and social controls appropriate to the context of the organisation is key to long-term sustainable performance. Thus, I have adopted the phrase ***where there is balance and harmony there is performance*** as the key underlying message of this book. Also, Figure 1.2 will emerge throughout the book to illustrate the dynamics between technical and social controls that serve to deliver this balance.

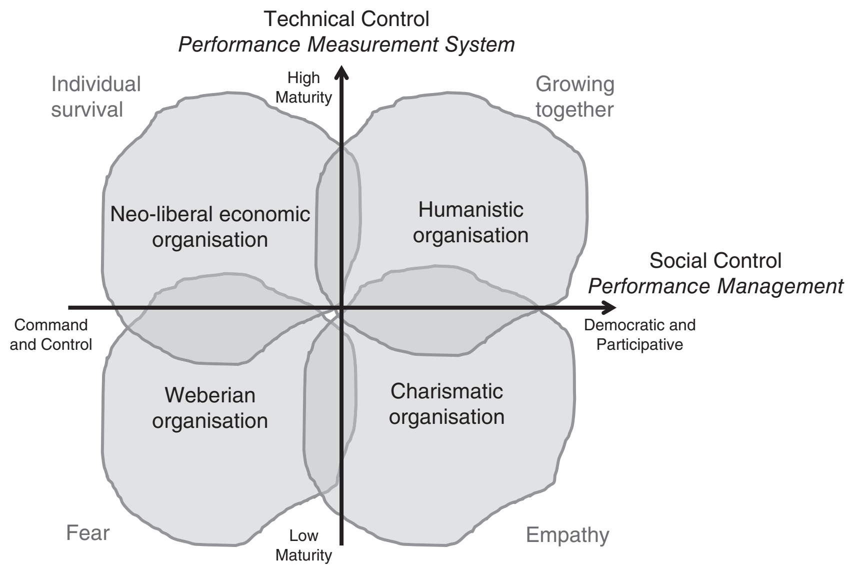

FIGURE 1.2 Organisational controls – where there is balance and harmony there is performance

1.2 MOTIVATION AND PRINCIPLES

My motivation in writing this book is the belief that the performance measurement and management approaches we use today are no longer suitable for the 21st-century economic and social environment we live in. Although not universal, as demonstrated through examples later in the book, the current approaches to how we measure and manage organisational performance serve to create resilient self-reinforcing systems that are resistant to change and encourage practices and behaviours that jeopardise sustainable performance.

The world is changing rapidly, both socially and economically. Consequently, in the 21st century we have to deal with increasingly complex and demanding global challenges that include the environment, an ageing population, energy, food scarcity and so on, as well as those challenges that we cannot yet imagine. In the meanwhile, continuing developments in almost all areas of science and technology are opening up new opportunities and providing us with the means for dealing with these challenges.

In response to these challenges and opportunities, we are trying to develop high value-adding economies that will be based on leading-edge research, technological development and innovation built upon knowledge-based sectors, underpinned by a workforce and a society that encourage experimentation, change, risk-taking and learning. However, we are now discovering that the management theories we have developed previously, and are currently using, are no longer suitable and appropriate for the emerging social and economic conditions (Ghoshal, 2005). The way we measure and manage the performance of organisations and people is at the heart of this management challenge (Hamel, 2009). Arguably some of the major social and economic problems we are facing today are, at least partially, attributable to the broken performance measurement and management practices we use, where good performance is not rewarded and poor performance is not dealt with.

Indeed, there is evidence that there are alternatives to the existing approaches to performance measurement and management, where organisations have rejected the norms and developed alternative approaches. In fact, as a result, many of these organisations have flourished and grown despite the economic challenges of the last few years. In this book I have tried to provide you, the reader, with some insights into the practices that appear to work. However, sometimes we can learn more from understanding what not to do. So, wherever possible, I have also included examples of what not to do.

Although as a child I was always a dreamer, my academic and consulting career have served to develop a discipline of objectivity and rigour to ensure that everything I say can be backed up, demonstrated and justified. This is the key principle that underpins everything I present in this book. In developing the book I have tried to ensure that everything contained here can be traced back to my experiences, my observations and my research findings, and any exceptions are clearly identified as such.

1.3 WHO IS THIS BOOK FOR?

Primarily the book is aimed at executives responsible for managing the performance of their organisations. However, if you are a practicing manager or a student of management you should also read this book… Why?

A manager's ultimate responsibility is to manage the performance of his/her organisation. If you are a chief executive of a multinational you are responsible for the performance of that organisation. Similarly, if you are an owner-manager of a small family firm you are also responsible for the performance of that organisation. If you are a sales manager or a production manager or a finance manager, you are still responsible for the performance of your part of the organisation and how it contributes towards the performance of the overall organisation. In management education we too often focus on the disciplines of management, such as strategic management, financial management, human resource management, operations management and so on, and leave the individual to work out for themselves how to knit these bits together and manage the performance of their organisation.

I believe that what is in this book will help you, the reader, to knit some of these bits together towards forming a better understanding of how to manage the performance of your organisation.

1.4 STRUCTURE OF THE BOOK

I have organised this book into four parts. Part One is the introductory section, which includes this chapter and the following chapter – providing a short history of how the performance measurement theories and practices have developed, current trends and potential future directions.

Part Two focuses on the science of performance measurement and management. Here we answer questions such as *What are we managing? What to measure? How best to communicate measures? How best to review performance?* Essentially, in this part we focus on the mechanistic 'processy' aspects of performance measurement and management, that is the *science*. However, it is quite difficult to keep the science and the art apart, because usually it is the art of performance management that makes the science bit work, as outlined in Section 1.1. As a result, the science part inevitably hints at some of the factors that we cover later in Part Three, and vice versa.

Part Three focuses on the *art* of performance management and essentially covers the behavioural and social factors that underpin the success or failure of organisational performance. Here we provide short performance measurement stories to illustrate some of the behavioural and social factors that differentiate between success and failure. Here we answer questions such as *What are the drivers of short-, medium- and long-term performance? How do organisational capabilities underpin performance? How to balance organisational controls? What happens when the balance goes wrong?*

Finally, in Part Four on effective interventions, we answer the question *How do we design and deliver performance improvement interventions that deliver short-term results, whilst contributing to growth in key organisational capabilities towards sustainable performance?*

Whilst the reader can get value from dipping in and reading various chapters of the book, it has been designed to be read from start to end as the arguments, principles and messages build up throughout. However, readers who are interested in getting into practical matters sooner rather than later can skip Chapter 2 where I provide an historical account of how the theory and practice of performance measurement and management have developed. They can always come back to that chapter later at their leisure.

At the end of the book, in Chapter 15, I have also provided an executive summary: the book in a nutshell. This provides a quick overview of everything covered in the book but without the case studies, the anecdotes and the detailed arguments that lead to the key messages. Some readers may find it a useful reminder of the book's content and logic.

I hope you enjoy this book; please do not hesitate to get back to me with any comments and feedback that you may have. For me it is all part of the learning journey. You never know, you may even find your story appearing in a future edition.

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