

# Performance Measurement and Management: Fact or Fiction?

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## Performance Measurement

### Research Activity

- WWW has 52 million references on the subject
- During 1998 one book on PM was published every two weeks in the US alone
- In three years Business Intelligence organised 23 separate events on PM with delegates attending from 800 organisations

*Multi million dollar business*

## Background to Performance Measurement

### Academic Activity

- Range of disciplines
- Own research paradigms
- Own languages

*need for dialogue*

### Performance Measurement Conference, 2004

- 94 papers presented
- cited 1,246 separate books and articles
- of those references 91% were cited only once
- most frequently referenced paper received only 14 separate citations

*symptomatic of an immature field*

## Why Measure Performance?

Measurement managed companies outperform non-measurement managed companies

*Lingle & Schiemann, 1996, US*

Kleinwort Benson investment portfolio based on EFQM's Business Excellence Model and Investors in People criteria outperformed others by 16% in s/t and 38% in l/t

*Ashton, 1997, UK*

Customers with a service problem are 5 times more likely to defect than customers with a product problem

*Chase, 1998, US*

Strong correlation between employee satisfaction, employee organisational commitment and overall business performance

*Patterson et al, 1997, UK*

**Fact:** If you measure performance you change  
behaviour

**Fiction:** You will change behaviour in the way  
intended

## **Problems with Profit Based Measures**

**SENSITIVITY:** the profit measure does not  
change immediately, it is a lagging indicator

We need **LEADING INDICATORS** that  
capture 'future' performance

## Performance Measurement in Service Business Funded by CIMA

- Research Team – *Multidisciplinary*
- Case Based – *11 companies including*
  - » Barclays bank
  - » Andersen Consulting
  - » Holiday Inns
  - » Martin Retail Chain
  - » British telecom
- 3 Year study

## Characteristics of the Service Sector

Intangibility

Hetrogeneity

Simultaneity

Perishability

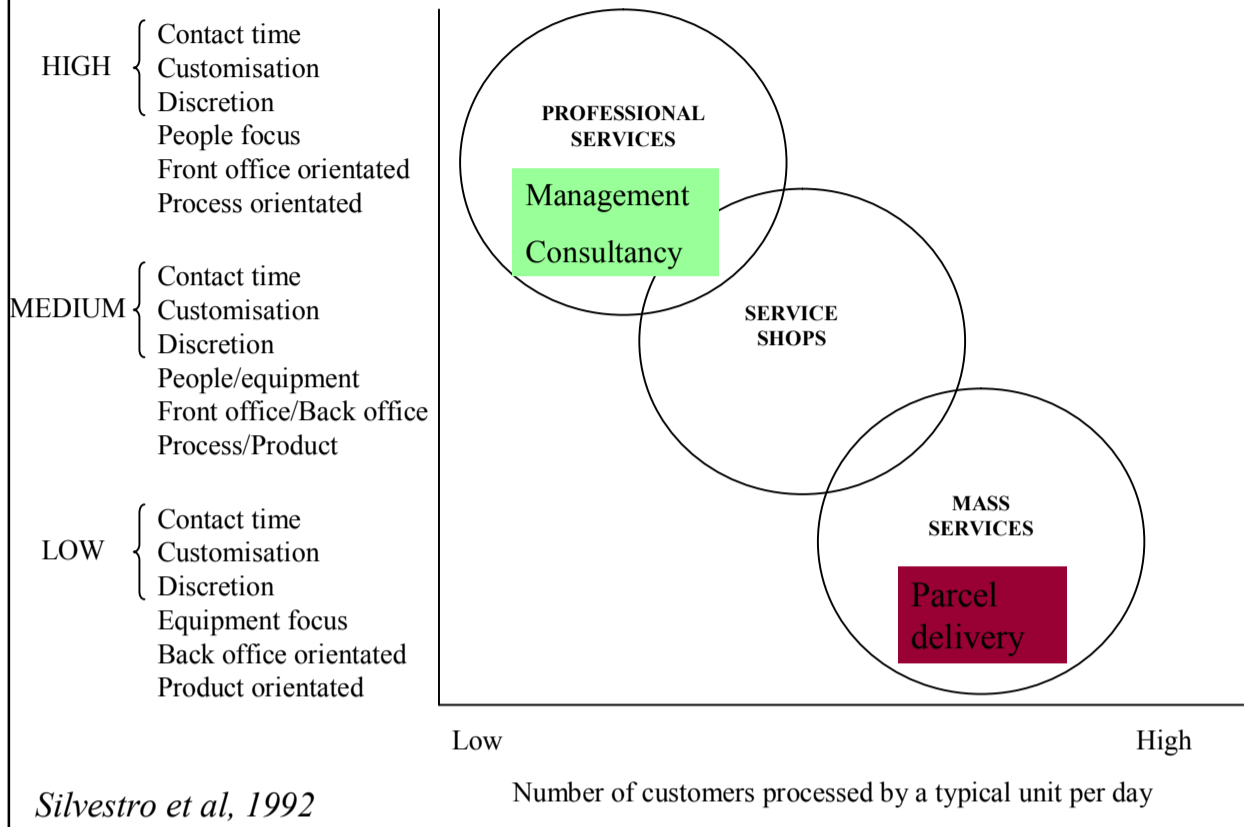
# Results and Determinants Framework

*Fitzgerald et al, 1991*

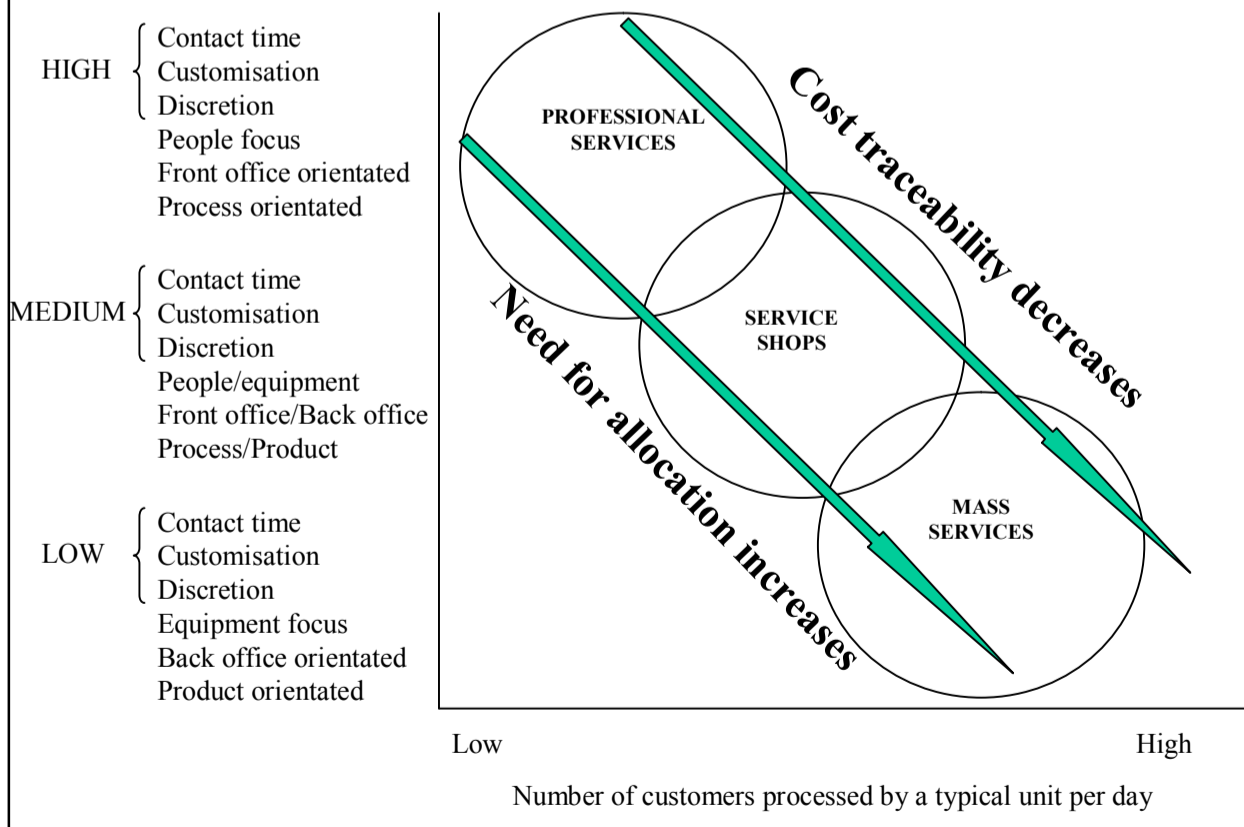
|                     |  |
|---------------------|--|
|                     | <i>Dimensions of performance</i>   |
| <i>Results</i>      | <b>Competitiveness</b><br><b>Financial Performance</b>                                   |
| <i>Determinants</i> | <b>Quality</b><br><b>Flexibility</b><br><b>Resource Utilisation</b><br><b>Innovation</b> |

| <b>Dimensions of Performance</b> | <b>Measures</b>                                 |
|----------------------------------|---|
| <b>Competitiveness</b>           | Relative market share<br>Sales growth           |
| <b>Financial Performance</b>     | Profitability<br>Liquidity<br>Capital structure |
| <b>Quality</b>                   | Reliability<br>Courtesy<br>Availability         |
| <b>Flexibility</b>               | Volume<br>Delivery speed<br>Specification       |
| <b>Resource utilisation</b>      | Productivity<br>Efficiency                      |
| <b>Innovation</b>                | Performance of the innovation process           |

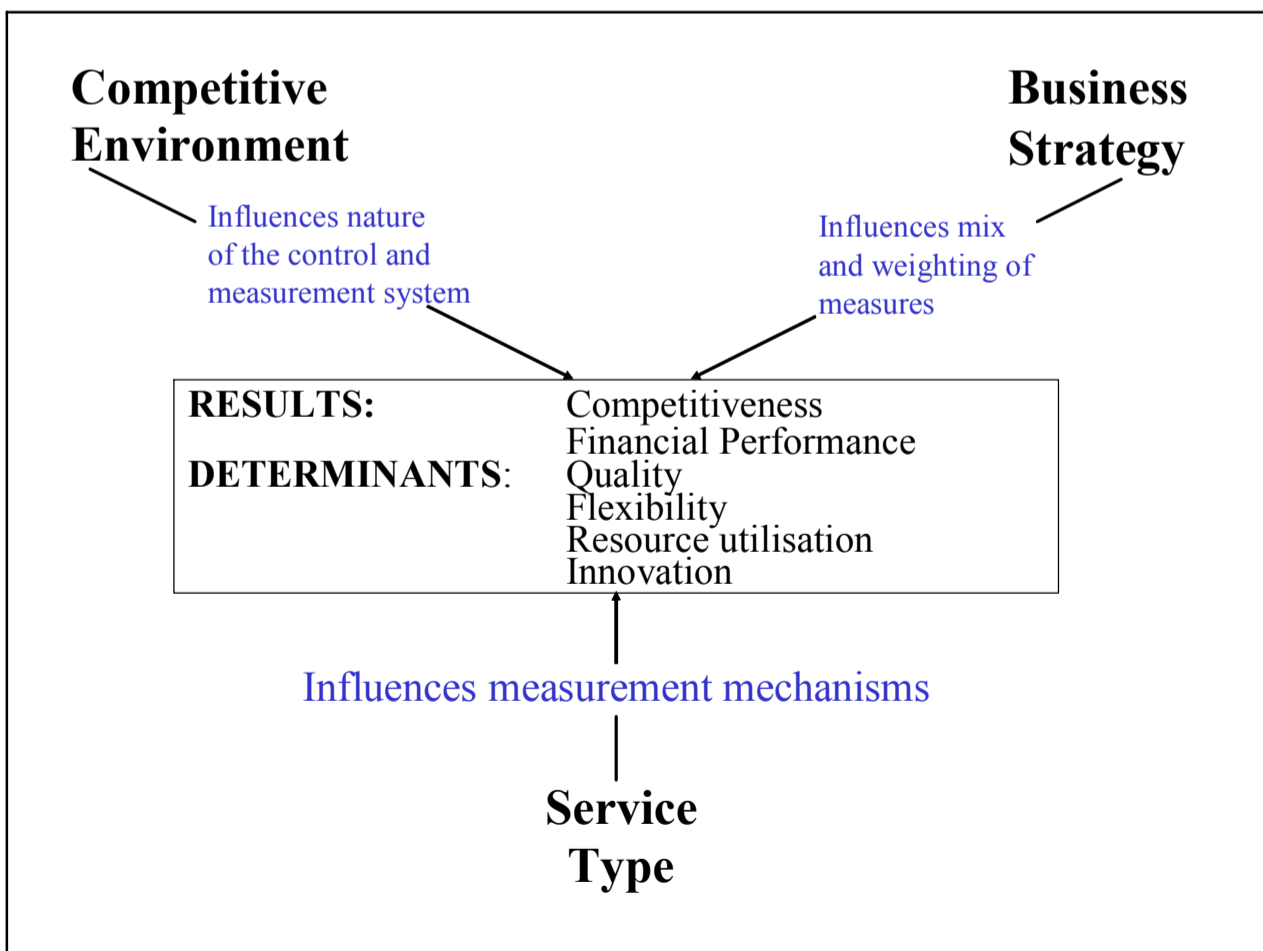
# Service Classification Scheme



# Service Classification Scheme

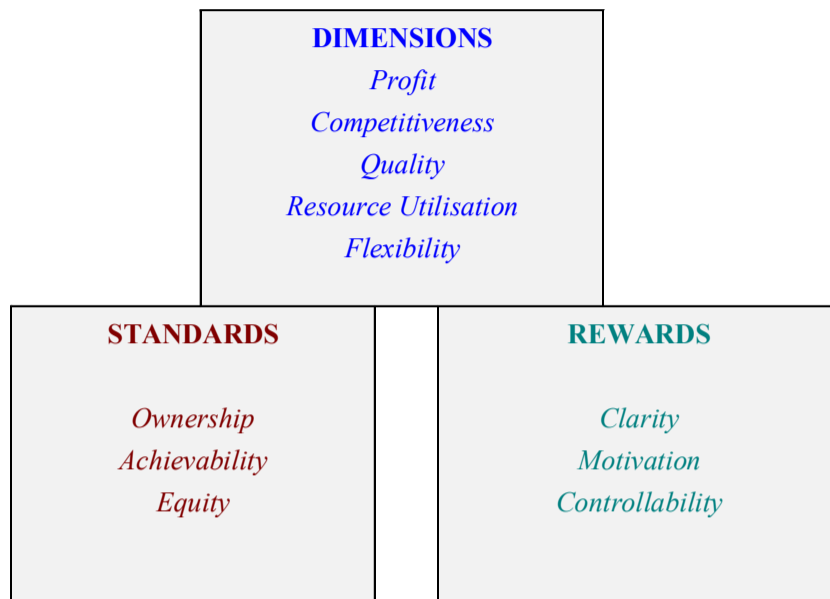


| <b>Performance Dimension</b> | <b>Professional</b>                       | <b>Mass</b>                      |
|------------------------------|---|----------------------------------|
| Competitiveness              |   | Repeat business<br>Market share  |
| Financial                    |   | Cost traceability                |
| Quality                      | customer/staff                            | customer/<br>organisation        |
| Flexibility                  | job flexibility<br>customised             | peak charges<br>standardised     |
| Resource utilisation         | focus on staff                            | focus on staff<br>and facilities |
| Innovation                   | measured in terms of the other dimensions |                                  |



# Moving from Measurement to Management

*Fitzgerald & Moon, 1996*



## Dimensions of Performance

|                              | <b>Arthur Andersen</b>                | <b>TNT</b>                         |
|------------------------------|---------------------------------------|------------------------------------|
| <b>Profit</b>                | By office and department              | By depot – league tables           |
| <b>Competitiveness</b>       |                                       |                                    |
| <i>Company Level</i>         | Published UK fee income               | Informally                         |
| <i>Business Unit Level</i>   | Informally through business providers | Not measured                       |
| <b>Quality</b>               |                                       |                                    |
| <i>Specific Transactions</i> | Client evaluation interview           | Mystery customer, compliments file |
| <i>Overall</i>               | Not measured                          | 7 star delivery – league tables    |
| <b>Resource Utilisation</b>  | Chargeable ratio, headcount           | Cost per consignment               |



## Setting Standards for Performance

|                      | Arthur Andersen                 | TNT                             |
|----------------------|---------------------------------|---------------------------------|
| <b>Ownership</b>     |                                 |                                 |
| <i>Profit</i>        | Set by local office             | Some involvement                |
| <i>Quality</i>       | Centrally driven                | Centrally driven                |
| <b>Achievability</b> |                                 |                                 |
| <i>Profit</i>        | Generally seen to be achievable | Increasingly difficult          |
| <i>Quality</i>       | Formal measures not set         | Extensive internal benchmarking |

## Reward Mechanisms Adopted

|                        | Arthur Andersen   | TNT   |
|------------------------|---|---|
| <b>Clarity</b>         | Required standards stressed through extensive staff appraisal | All employees very aware of 'the need to get the service level right' |
| <b>Motivation</b>      |   |   |
| <i>Financial</i>       | Partners earnings linked to worldwide profits                 | Extensive reward mechanisms at all levels                             |
| <i>Non-Financial</i>   | Prospect of making partner                                    | Pride in league table performance                                     |
| <b>Controllability</b> | Central costs allocated to departments                        | Non-matching of costs and revenues on consignments                    |



Villagers in Belton in North Lincolnshire amended the police's proud display of their achievements in their village.



Residents said they were fed up with statements such as "You're insured aren't you" or "I'm sorry we're very busy" when reporting burglaries to the police.

CYA

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