

Business performance measurement

The field of performance measurement has evolved rapidly in the last few years with the development of new measurement frameworks and methodologies, such as the balanced scorecard, the performance prism, economic value added, economic profit, activity-based costing, and self-assessment techniques.

This multi-disciplinary, international book draws together the key themes to provide an up-to-date summary of the leading ideas in business performance measurement, theory, and practice. It includes viewpoints from a range of fields including accounting, operations management, marketing, strategy, and organizational behavior.

The book will appeal to graduate students, managers, and researchers interested in performance measurement, whatever their discipline.

Andy Neely is Director of the Centre for Business Performance at Cranfield School of Management and Professor of Operations Strategy and Performance and has been researching and teaching in the field of business performance measurement since the late 1980s. He was chair of the international academic conference on performance measurement in 1998, 2000 and 2002 and has authored over 100 books and articles on the subject, including *Measuring Business Performance*, The Economist Books, 1998. He has consulted to and worked with numerous organizations including 3M, Accenture, British Airways, DHL, KPMG and Rolls Royce Aerospace.

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Cranfield School of Management, UK



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Preface

Performance measurement is on the agenda. New reports and articles on the topic have been appearing at a rate of one every five hours of every working day since 1994. A search of the World Wide Web reveals over 12 million sites dedicated to it, up from under 200 000 in 1997. Since 1994 Business Intelligence, a professional conference organizing company based in the UK, has organized some 90 separate events on business performance measurement (BPM). Some 2700 delegates from over 1400 different firms attended these conferences. In terms of delegate fees alone, Business Intelligence has accrued over \$5 million. Add to this, the revenues received by other conference organizers, publishers, market research firms, software vendors, and consultants and it is clear that business performance measurement is a multi-million dollar industry.

Like many multi-million dollar industries developments are rapid. Recent years have seen the introduction of new methods of measurement, such as activity-based costing, throughput accounting, and shareholder value analysis. New measurement frameworks, most notably the balanced scorecard and the business excellence model, have taken the business community by storm. Data collected by the US research firm, Gartner, suggest that 40 percent of firms will be using balanced scorecards to measure business performance by the end of 2000. Other data, such as those collected by the US consulting firm Towers Perrin, indicate that the majority of firms have introduced their balanced scorecards during the last five years. Similar trends can be observed in the field of quality management. Self-assessment frameworks, such as those underpinning the Baldrige Award and European Foundation for Quality Management Award, have generated significant industrial interest and activity. Increasingly authors and commentators are discussing the multiple roles of measurement; it is now recognized that measures allow managers to do far more than simply check progress; the behavioral consequences of measures are frequently discussed; the value of benchmarking and external comparisons is widely understood; and the question of what

data should be disclosed to external parties – especially shareholders – is actively debated. Organizations, such as Skandia, the Swedish Insurance company, and Shell have begun producing supplements to their annual reports. Skandia’s supplement discusses the value of the firm’s intangible assets, while Shell’s 2000 supplement, entitled “People, planet and profits: The Shell Report,” describes the company’s environmental performance. Other organizations, such as the UK’s Cooperative Bank, have moved even further and structured their annual report around the “inclusive” framework, proposed by the Royal Society of Arts, Manufacturers and Commerce following their Tomorrow’s Company Inquiry. The Cooperative Bank’s “Partnership Report,” for the 2000 financial year, reviews the bank’s performance through the eyes of its seven partners: (i) shareholders, (ii) customers, (iii) staff and their families, (iv) suppliers, (v) local communities, (vi) national and international society, and (vii) past and future generations of “Cooperators.”

In the academic community people from a wide variety of different functional backgrounds are researching the topic of performance measurement. Experts in accounting, economics, human resource management, marketing, operations management, psychology, and sociology are all exploring the subject, and one of the major problems with the field is that they are all doing so independently. The accountants discuss their ideas with other accountants. The operations managers talk to other operations managers. Rarely is knowledge generated in one functional academic silo assimilated by another, and, of course, the end result is a massive duplication of effort. In 1998 the first multi-disciplinary conference on performance measurement was held at Churchill College in Cambridge. Between them the 94 papers presented at the conference cited some 1246 different books and articles. Of these, less than 10 percent were cited more than once and only 0.3 percent were cited more than five times. These figures are symptomatic of a field with vast richness, but unmanageable diversity.

A significant problem is that there appears to be no agreement as to which are the important themes and theories in the field. Everyone writing about the topic has his/her own preferred references and freely cites them. While this diversity is appealing, it also hinders development, because it makes it almost impossible for generations of researchers to build upon the work of others. If the field of performance measurement is to develop as an academic discipline then it is essential that some boundaries are identified and some theoretical foundations agreed. It is hoped that this book will make some small contribution to facilitating this process.

Deliberately the book draws on authors from a variety of functional disciplines, all of whom are working in the field of performance measurement. Deliberately it presents a variety of perspectives on performance measurement. The book opens with a part on functional perspectives, in which eminent authors from the accounting, marketing, operations management, and psychology fields offer their views on measurement.

The book continues, in the second part, by exploring some of the philosophical questions underpinning the topic of performance measurement, including the issues associated with the behavioral consequences of measurement and reward systems.

The third part of the book is devoted to a review of frameworks and methodologies. Undoubtedly the balanced scorecard and the business excellence model are the best known of these, but there are numerous other measurement frameworks and methodologies, each with their own strengths and weaknesses and it is on these that the third part concentrates.

In the fourth part practical applications of measurement are discussed. Once again this part draws upon multiple disciplines and the applications of measurement systems in a wide variety of contexts – including both the public and private sectors – are discussed.

The fifth part concentrates on specific dimensions of performance and explores the issues associated with the measurement of customer satisfaction, employee satisfaction, and innovation.

The sixth and final parts offer some views on emerging issues and trends in performance measurement, including a summary of recent research into what the “dot.coms” should measure and what they are measuring.

The breadth of the book means that it should appeal to a wide audience, encompassing measurement scholars and practitioners. Deliberately the book draws on work being undertaken by a diverse group of researchers, diverse in the sense of both geographical location and functional persuasion. The resultant richness illustrates well the diversity inherent in the topic of performance measurement, but it is hoped that the text also offers a reasonable foundation on which future generations of researchers can draw. By bringing together these diverse works in a single volume it is hoped that at least a start has been made on the process of unifying theory and practice in performance measurement.

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