

VALUE MAPPING – A SECOND GENERATION PERFORMANCE MEASUREMENT AND PERFORMANCE MANAGEMENT SOLUTION

Andrew Jack
Business Excellence International Ltd
andrew@think-value.com
Tel 07764892430

Abstract

As a result of the performance measurement revolution many organisations have numerous measures of performance but often with significant weaknesses in the way that these measures are identified, integrated, communicated and acted upon. First generation performance measurement frameworks have partly contributed to this as none of the approaches addresses the full range of criteria important for performance measurement success. Users of these frameworks often become model bound and lose sight of the measures that are most important for the organisation and the associated stakeholders. This paper presents an approach to value creation, Value Mapping, that uses the language of value to identify and structure performance measures and provides a strategic performance management solution.

Introduction

The 1980's and 90's saw the worldwide use of a range of performance management and measurement frameworks. The various frameworks have evolved from different backgrounds and perspectives, such as the EFQM Excellence Model and The Balanced Scorecard, and this has influenced the structure and focus of each framework. However, the overall result has undoubtedly been a widening in the scope and number of performance measures in use within organisations.

Research has centered on the key characteristics of many of these frameworks and highlighted a set of important criteria for performance measurement (Kennerley and Neely 2000). Each of the approaches has helped to focus the minds of managers on broader performance measures for their organisation. In particular The Balanced Scorecard has been truly applied world wide and has helped to link measures to strategy (Kaplan and Norton 2001). Yet, none of these first generation performance measurement frameworks captures the full potential of performance measurement in a way that addresses the needs of all stakeholders and selects the most useful measures.

There is a danger that what has been called the performance measurement revolution leaves organisations with an increased number and range of measures that have been partly introduced for measurement's sake and do not add the value that could be achieved. A reflection on history tends to show that it is the ideas of revolutions that can often lead society to blindly follow without reflection on utility and end direction (Conquest 1999). While there is no doubting the need for performance measurement its use must be guided by careful review with full consideration of its impact and consequences.

Recognition of the need to review existing performance measurement approaches and learn from their application has led to the development of second generation performance measurement frameworks.

One such framework is the Performance Prism which has a comprehensive stakeholder orientation (Neely and Adams 2001). The focus on broader stakeholder needs is an important step forward and helps to move thinking away from the traditional approach that measures should be derived from strategy.

This paper links the concept of value to integrated performance measurement and discusses how this can improve our understanding of the utility and contribution of performance measures. The paper presents a Strategic Performance Management solution that helps to identify, measure, communicate, improve and report the activities and assets of an organisation that increase stakeholder and organisational value.

The Value Focused Organisation

The concept of value has been around for millenia being an integral part of the way that human beings assess what they will receive from a relationship or transaction. One of the Oxford English Dictionary definitions of value is “to consider of worth or importance”. The term value has more recently been used in organisations relating to the “Values Statement” which sits alongside the Vision and Mission statements. This values statement is intended to define words or phrases that outline what the company believes in or considers important for running the business (Brown 1996). It often describes what the organisation stands for mainly with a customer emphasis but increasingly addressing other stakeholders such as society (EFQM Excellence Model 1999). Although the most common use, this is quite a narrow application of the word value within the organisation as it tends to sit simply as a set of statements and phrases.

Value has been used in other ways as part of the language of management. One such use is from a financial perspective. One school of thought argues that the success of a business can be described using improved financial metrics that capture the way that the business is managing its customers and developing new products. A method developed to improve these financial ratios and measures is called EVA (economic value added) (Stewart 1991). Here value focuses on the financial status of the organisation at the exclusion of the needs of stakeholders that may have less of a financial focus. While senior executives of organisations undoubtedly find the types of the measures that the EVA introduces important in ensuring shareholder return there are other measures that must be monitored and communicated especially for review at both the operational and senior management level. Olve et al (1999) present the case for this broader range of measures in the context of The Balanced Scorecard.

A welcome and visionary use of the word value has been used in relation to the reporting of value for consumption by those external to the organisation. Eccles et al (2001) suggest that a second revolution following the performance measurement revolution is needed and will happen. They argue that large institutional investors and astute individuals want to know more about what companies do to create value stating “Information on a broader range of performance measures has as much importance and relevance to analysts and investors as it has to managers”. Importantly this use of the word value broadens its application from the financial metrics of the EVA to refer to those activities and assets that drive and create sustainable value for investors. Whilst the focus of the envisaged revolution is on investors and analysts, rather than the broad range of stakeholders, it is a welcome shift in thinking.

The word value has been used in the mid 80's to refer to the things that drive and create value for the organisation. Porter (1985) describes a generic value chain model which is designed to create focus on processes that directly or indirectly create value for the customer. Value is taken here to refer to the things that are important for the customer in meeting their needs. One disadvantage of this approach is the narrow focus on internal processes at the expense of external factors and the centering around customer needs which are only one group of needs amongst inter-connected stakeholders.

Another weakness of the value-chain model is the emphasis on a value-chain which implies linear cause-effect relationships. Rather the activities and assets that add value to the organisation should be thought of as existing in an integrated value network with interconnections and multiple relationships between those things that drive value. To achieve the desired outcome for the organisation requires activation and energy simultaneously across related areas, rather like the brain with its multitude of interconnected neurons and functional areas that lead to speech or memory. The key for the organisation is to understand, identify and measure the activities and assets in the value network that are most important at particular periods in its existence.

The activities and assets of an organisation that create value have been referred to as value drivers (Scott 1998). This is one of the broadest uses of the word value where a value driver refers to employee, customer, process and financial activities and assets of the organisation.

Much can be learned from the previous applications of the value concept. For organisations to truly harness the power of performance measurement they must adopt a holistic and broad concept of value where it relates to both the things that drive value creation - the value drivers, and the desired outcomes for stakeholders - the value outcomes. Value is a term that is easily understood by people and is greatly relevant to performance management and measurement. This paper now discusses important performance measurement and management needs that must be met in order to maximise the success of performance measurement. It then presents a second generation solution to these needs that has at its core the creation of value for organisations and their stakeholders.

Performance Measurement and Management Needs

Core criteria for performance measurement frameworks have been reviewed by Kennerly and Neely (2000) and Ballantine and Brignall (1994). Some key words that describe these criteria are balanced, multidimensional, comprehensive and integrated. These criteria reflect fundamental needs of performance measurement frameworks. First generation performance measurement frameworks fail to capture all of these needs in one approach. Additionally, and not surprisingly, many organisations, public and private, fail to develop performance measurement approaches that address all of these criteria. Observations by the author, collected through interview with organisations, highlights some possible reasons why performance measures evolve the way they do and why they miss out on capturing the important criteria. The forces shaping their development seem to be;

- Procurement of performance measurement services in a fragmented way by different functions within the organisation. There is often little or no communication between departments prior to commissioning performance measures. This is changing with the appointment of performance managers (see Neely 1998) but there is a long way to go.

- A lack of understanding as to the true role of performance measurement in driving the organisation. Although senior management may on the surface appear to embrace performance measurement their real motivation is often to show the limited end results that they want. This can be labelled “Comfort Measurement” as opposed to “Opportunity Measurement”.
- A lack of understanding about the relationships between and interconnectedness of areas in the organisation with a resulting mix of performance measures usually called Key Performance Indicators (KPI's) the inter-relationships not really been assessed and often still centering on process and financial measures.
- A lack of genuine belief in the impact and consequent importance of certain aspects of the organisation. This is particularly true of employee value drivers (Phillips et al 2001). There is still a strong pull towards financial metrics and the financial director remains king in shaping performance management.
- Barriers to embracing innovative performance management from unsuspecting quarters e.g the quality department. Those in charge of quality management can often be more initiative or model focused rather than homing in on the most useful performance measures for their organisation. Personnel with quality functions could over time evolve into the performance management role but it is early days for the new BSENISO9000:2000 standard with its focus on measurement.
- Fear of getting to grips with and improving performance measures amongst senior management due to previous initiatives being poorly received by employees i.e I.I.P, BSENISO9000 series, EFQM Excellence Model, TQM etc.

There are therefore a number of barriers that require addressing within organisations to ease the development of effective performance measurement.

In addition to the scope and structure criteria already reviewed there are other key criteria that ensure the success of performance measurement. Management and employee attitudes and behaviours are essential to ensure that measures influence performance management. Two factors that influence attitudes and behaviours are 1) an understanding of the context and relationships between performance measures and 2) an understanding the impact and outcomes of the performance measures. To enable these requires effective communication of performance measures. Research by the author with a sample of 1000 employees shows that their perception of the usefulness of performance measures is low. This is largely a result of inadequate communication by management. Given that management are often not communicating performance measurement effectively between themselves it is not surprising that employees feel disenfranchised from the process.

Performance measurement frameworks should not exist in isolation of performance management techniques and improvement initiatives but develop measures that reflect the needs and aims of the initiative (Ballantine and Brignall 1994). It is the interface between measurement, management and leadership that is crucial in ensuring that performance measures drive value creation. Communication is a central vehicle in integrating performance measurement with performance management and is placed at the core of the performance management solution described in the following paragraphs. Although the approach presented addresses the criteria of performance measurement it is also a method for identifying, communicating, improving and reporting value and for this reason represents a performance management solution.

Value Mapping; A Performance Measurement and Strategic Performance Management Solution

For performance measurement and performance management to be effective they both need to drive value creation to meet the needs of stakeholders. If they are not adding value then they are misdirected and energy and effort is being wasted. Before an organisation can review and develop its performance measures it needs to understand the value outcomes that it is trying to create which are influenced by the needs of its stakeholders. It is a fallacy that performance measures should be directly derived from strategy (Neely et al 2001). Rather the desired value outcomes and measures of these are derived from stakeholder and organisational needs.

The Value Mapping solution starts with a review of stakeholder needs called Value Needs Assessment. An individual, group or organisation may think it has a need but when assessed it turns out to be of low importance. A value need refers to a stakeholder or organisational need of clear use and worth within a given time-scale. The needs of all stakeholders as well as the needs of the organisation have to be taken into account at this stage to ensure that the focus of attention is not one sided. This has commonality with the Performance Prism Measurement Framework.

One of the problems with approaches like the EFQM Excellence Model and The Balanced Scorecard is that they steer the management of the organisation to develop strategies around the structure of the respective approach i.e the four quadrants of the scorecard and the nine main criteria of the EFQM model. But one of the lessons in today's fluid and changing organisational environment is that strategy must adapt to ever moving requirements. Strategic energy and effort is most often required in different places at different times. Value Mapping ensures that the strategic objectives of the organisation adjust to the requirements (value needs) of stakeholders and the organisation.

For too long management initiatives have resulted in the organisation meeting the needs of the respective model (Investors in People, BSENISO9000:2000, EFQM Excellence Model etc) whilst losing sight of the main purpose of the initiative; adding value for stakeholders and the organisation. This has resulted in a hardening in the attitudes of management and employees to the benefits of organisational initiatives making it an uphill struggle to introduce effective and tailored performance measurement. The attitude and behavior of management and employees is a large factor in determining the success of management initiatives (Robbins and Finely 1998). Marchand et al (2001) have gathered empirical data from 1009 senior managers that supports the key role of management behaviors and values in making performance information lead to increased business performance. Value Mapping seeks to address this problem with attitude and behavior through the language of value and through visual representation of the context, relevance and impact of performance measures.

Human memory for pictures and line drawings is better than memory for isolated text or numbers (Nelson et al. 1974). Visual pictorial structures are an excellent way to represent some important criteria of performance measurement. Value Mapping uses Value Maps to visually communicate desired value outcomes, arising from value needs and associated strategy, as well as value drivers, the things that impact on the desired value outcomes. Letting people see and understand what are performance drivers and where these are heading is at the core of successful performance measurement.

Many organisations do not adequately emphasise or communicate the distinction between lead and lag indicators. This is important for people to understand the relevance of these measures. It is through effective communication and understanding of the relevance and context of performance measures that management and employee attitudes, values and behaviors will align with and support the task of using measures to drive value creation.

Predicting future value outcomes is a crucial requirement for many stakeholders. Value Mapping uses Predicted Value Outcome Maps to achieve this. Once the desired value outcomes are known the organisation then has to identify the value drivers that have greatest utility in achieving these outcomes. Value Mapping uses Value Driver Assessment to select the highest utility value drivers. Performance measures are then developed that capture the performance of both the value drivers and the value outcomes. In this way the organisation can focus on performance measures that have the greatest utility in creating value and meeting needs over a particular time frame. The desired value outcomes change over time and in tandem so does the focus of performance measures. This does not mean that all other measures are rejected, rather management and employees know which measures are more crucial at particular times.

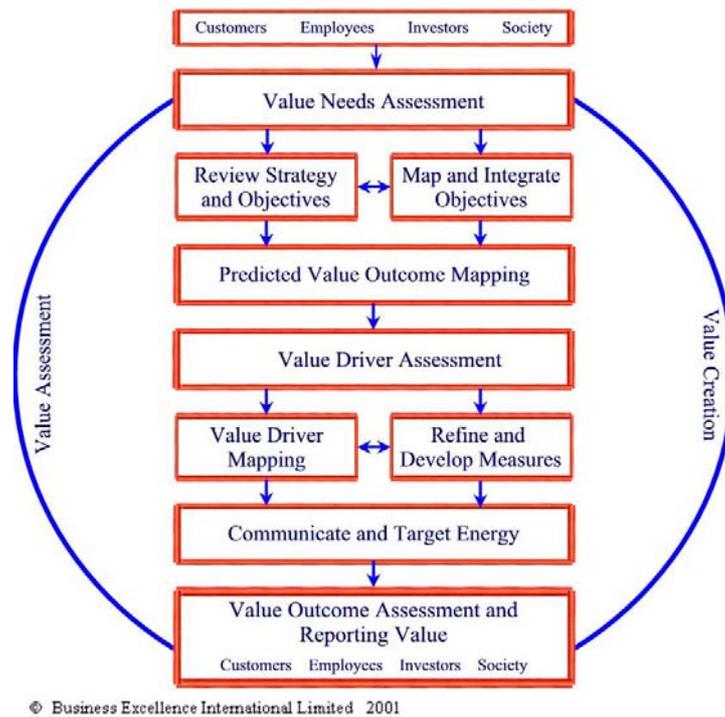
Value Mapping goes beyond performance measurement and acts as a performance management solution by using the Value Maps and supporting assessments as planning, decision making, communication, facilitation and evaluation tools to ensure that management channel energy and effort at areas for greatest return.

Organisations currently have myriads of areas for improvement that have arisen from the continuous improvement culture of the late 1990's. It is managing and tracking these AFI's that determines the success or failure of these initiatives in adding value to the organisation. Value Mapping is a tool to help with this process as it can sift through the flotsam and jetsam of continuous improvement to identify those improvements that have greatest impact on meeting stakeholder needs and achieving organisational strategy.

Value Mapping also supports performance management by requiring an assessment of the impact of initiatives and activities. Through Value Outcome Assessment the value created and added to the organisation and its stakeholders is measured. This is then reviewed as part of the organisation's strategic review with the emphasis on whether outcomes are meeting stakeholder and organisation needs. The findings from this process can form part of the information used in reporting value.

The relationship between stakeholder needs, strategic objectives, value outcomes, value drivers, and targeting of effort is shown in Figure 1 representing the Value Mapping solution.

Figure 1: The Value Mapping Solution



Value Mapping addresses the criteria identified as being important for effective performance measurement. The Value Mapping diagram places emphasis on Stakeholder and Organisation Value Needs as an essential starting point that informs the review and development of strategic objectives and the desired value outcomes. Value Outcome Maps and measures for these predicted value outcomes are then produced. The approach is comprehensive yet focuses the organisation on measures that are identified as useful for value creation. Additionally, just as in geographical maps value maps can describe all levels of detail in the organisation and can integrate across business units, departments, functions and teams.

Conclusion

Value Mapping is a second generation performance measurement and performance management approach that avoids many of the weaknesses of existing frameworks. Couched in the language of value and using visual pictorial maps to integrate and represent the most useful performance measures it can help to overcome management and employee disenfranchisement with performance measures and performance management.

As well as identifying the most important stakeholder needs and using these to inform measures of value outcomes as well as the development of integrated strategy the approach places great emphasis on the effective communication of the activities and assets that create value, the value drivers, and the measures of their performance. There is a great need for organisations, public and private, to report more effectively on the creation of value for their stakeholders. Value Mapping is an approach that can drive and help structure the reporting of value to all those with an interest in the success of the organisation.

References

- Ballantine, J. and Brignall, S., (1994), "A Taxonomy of Performance Measurement Frameworks", Warwick Business School Research Paper: Warwick.
- Brown, M. G., (1996), "Keeping Score: Using the Right Metrics to Drive World-Class Performance", Quality Resources: New York.
- Conquest, R., (1999), "Reflections on a Ravaged Century", John Murray Publishers, London.
- Eccles, R. G., Herz, R. H., Keegan, E. M., and Phillips, D. M. H, (2001), "The Value Reporting Revolution", John Wiley & Sons, New York.
- Kaplan, R. S. and Norton, D. P., (2001), "The Strategy Focused Organisation", Harvard Business School Press, Boston, MA.
- Kennerly, M. and Neely, A. D., (2000), "Performance Measurement Frameworks – A Review", Centre for Business Performance, Cranfield School of Management, UK.
- Neely, A. D., (1998), "Measuring Business Performance: Why What and How" Economist Books, London.
- Neely, A. D., and Adams, C., (2001), "The Performance Prism Perspective", Journal of Cost Management.
- Nelson, T. O., Reed, G., and Metzler, J., (1974), "Recognition Memory for Photographs, Line Drawings and Sentences", Journal of Experimental Psychology, Vol 102, Pages 184-186.
- Olve, N. G., Roy, J., and Wetter, M., (1999) "Performance Drivers: A Practical Guide to Using the Balanced Scorecard", John Wiley & Sons, New York.
- Phillips, J. J., and Stone, R. D., and Phillips, P. P., (2001), "The Human Resources Scorecard: Measuring the Return on Investment", Butterworth Heinemann, Boston.
- Porter, M., (1985), "Competitive Advantage: Creating and Sustaining Superior Performance. Free Press, New York.
- Scott M. C., (1998), "Value Drivers: The Manager's Guide to Driving Corporate Value Creation", John Wiley & Sons, New York.
- Stewart, G. B. (1991), "The Quest for Value", Harper Business, New York.