1

Measuring and Managing Performance in the 21st Century

Companies must try to understand better what their stakeholders' needs are and then deal with those needs ahead of time rather than learn about them later.

Marc J. Epstein ● *distinguished research professor at the Jesse H. Jones Graduate School of Management, Rice University, Houston, USA.*[1]

The days when companies could survive and prosper by focusing on the wants and needs of one stakeholder – the shareholder – are long gone. The days when organizations could survive and prosper by focusing on the wants and needs of two stakeholders – the shareholders and the customers – are also numbered, if not yet already passed. Despite the fact that 'customer relationship management' is one of today's hot topics and 'customer focus' was the rallying cry for many of the management revolutions that swept the business world during the 1980s and 1990s – such as Just-In-Time, Total Quality Management and Business Process Re-engineering. Other worthy initiatives have tried to place greater emphasis on other individual stakeholders, such as Human Resource Management, for example, but have tended to lose sight of the broader picture.

The Stakeholder Revolution

Now – and increasingly in the future – the best way for organizations to survive and prosper in the long term will be to think about the wants and needs of all of their important stakeholders and endeavour to deliver value to each of them. Simply focusing on a subset of seemingly more influential stakeholders – typically the shareholders and customers – and ignoring the wants and needs of the rest is shortsighted and naïve in today's information-rich society. One only has to observe some of the recent experiences of global organizations to understand the impact that other stakeholders – consumers, employees, suppliers, regulators, legislators, activists and communities – can have. Here is a more or less random dozen international examples to illustrate the point.

- Caterpillar – world renowned for its products, also goes down in the history books for enduring one of the longest running strikes ever. In a bitter 17-month dispute with the Union of Auto Workers, the company lost some three million working days.
- Marks & Spencer – a French court ruled that the UK-based retailer had broken labour law in attempting to close 18 stores in France, throwing its restructuring plans into disarray. The judge also fined the company FF25,000 for what she described as a 'manifestly illegal trouble-making'.
- JCO Co. – workers at a Japanese uranium-reprocessing facility north of Tokyo set off a nuclear reaction in 1999 that resulted in two deaths and a further 439 being exposed to radiation fallout. An investigation revealed that the company was under pressure to cut costs and that an inadequate number of inspections had been conducted.
- Bridgestone/Firestone – carmaker Ford Motor Company has been waging a very public battle in the US with its Japanese-owned tyre supplier Bridgestone/Firestone. The spat has been about assigning responsibility – in other words, the blame – for tread separations on Ford's Explorer model that have been the cause of over 200 road deaths. Firestone attributes the cause primarily to vehicle design, Ford to faulty tyre production. The product recall and other associated costs, not least legal ones, are astronomic and, at the time of writing, still growing. Firestone, meanwhile, has severed its 95-year supply relationship with Ford.
- Mars – despite the adverse publicity, the confectioner was considered fortunate in 1998 when it was found not to have breached the UK's Food Safety Act after a mouse's head and shoulders were discovered in a Topic bar. A woman had eaten most of the bar before discovering what she described as 'a grey furry-looking object'. Mars said that the mouse parts had come from a consignment of hazelnuts from Turkey. In a separate incident, in 2001, the company was forced to destroy between two and three million Twix bars after beetles were found in its flour supply. Its quality control inspectors found black flecks in the popular snack's biscuit base.
- Sara Lee – the US consumer goods group pleaded guilty to selling hot dogs and meats that were contaminated with bacteria, which led to 15 deaths in 1998. It was forced to recall 15 million pounds of meat. The company took a $76 million charge in 1999 for the massive meat recall.
- Snow Brand Milk Products – Japan's largest dairy distributed contaminated milk in June 2000 and failed to notify the public for two days. During this time 14,500 people fell ill after drinking it.
- Sotheby's and Christie's – a grand jury in Manhattan indicted the chairmen of both Sotheby's and Christie's in May 2001 on criminal charges of

conspiring to fix prices in the art auction market. Separately, the two companies jointly agreed to pay $512 million to former customers to settle a class action lawsuit that stemmed from the scandal. Sotheby's has also been forced to pay a $45 million fine.

- Roche and BASF – Roche of Switzerland and BASF of Germany were fined a total of $725 million by the US Justice Department for indulging in antitrust cartel arrangements in their respective vitamins businesses. Executives also received fines and custodial sentences.
- Michelin – Europe's largest tyre manufacturer was ordered to pay a €19.7 million (£12 million) fine by the European Commission for anticompetitive behaviour and abusing its dominant position in France throughout the 1990s.
- Exxon-Mobil – campaigners from several hundred non-governmental organizations (NGOs) launched 'an international day of action' against the US oil company in July 2001. Protesters targeted offices and petrol stations around the world to highlight the firm's stance on issues ranging from climate change to human rights.
- McDonald's – the company may serve fast food, but it certainly takes its time in court. McDonald's has the somewhat dubious honour of being the litigant in the UK's longest ever libel trial, which lasted some two and a half years. With its annual income of over $30 billion, McDonald's took on two unemployed British protestors – David Morris, an ex-postman and Helen Steel, an ex-gardener, who between them earned some $12,000. The protestors decided to defend themselves. They kept McDonald's in court for a total of 313 days and had the chief executive over to give evidence. The legal fees alone are said to have cost McDonald's approximately $10m. Meanwhile the impact of the adverse press and publicity is immeasurable. Over 250 press reports, a book and a 60-minute documentary have all been produced, questioning why McDonald's ever decided to take the protestors to court in the first place. In addition, the original leaflet that first sparked the libel action has been published on the McSpotlight internet site. To date this site has been accessed by over 12 million people.[2]

Stakeholder Satisfaction

Increasingly, CEOs the world over recognize these issues. They understand intuitively the complexity inherent in the management of global organizations. They accept that today the way to protect and deliver long-term shareholder value is to find a way to deliver multiple stakeholder satisfaction. Speaking in September 2000, for example, Anders Dahvig, CEO of Ikea, the Swedish furnishings company, said:

> The world has changed enormously in the past decade … All of us now act in ways we did not 10 years ago. Globalization means stakeholders and responsibilities everywhere, which have to be managed. It's quite a different level of complexity.[3]

In a similar vein, Chris Fay, Chairman and Chief Executive of Shell UK is quoted in the Institute of Chartered Accountants 21st Century Annual Report as saying:

> The days when companies were judged solely in terms of economic performance and wealth creation have long disappeared. Today, companies have far wider responsibilities to the environment, to local communities and to the broader society. These are not optional extras. They are not the 'icing on the cake'. I believe that Shell UK's wider social responsibilities form a fundamental and integral part of the way in which we do our business. They are vital to our long-term economic performance.[4]

Comments and views such as these have led to the emergence of new standards for corporate reporting. Shell, for example, now releases a supplement to their annual report entitled 'Profits and Principles', which explains what Shell is doing to ensure that it delivers value to society, as well as to its shareholders. The UK's Co-operative Bank has gone even further and reports how well the business has performed against the expectations of all of its stakeholders – shareholders, customers, staff and their families, suppliers, local communities, national and international society, past and future generations of 'co-operators' – in its annual Partnership Report. More formalized approaches to stakeholder accountability and reporting are being developed and documented. The Institute for Social and Ethical Accountability, an international membership organization based in the UK has been involved in the production of The Copenhagen Charter – A Guide to Stakeholder Reporting – and the development of the AA1000 stakeholder reporting framework.

These, and numerous other examples that we shall expand upon later, illustrate a growing trend – namely, that executives in organizations across the world recognize and accept that the business empires they manage have a broader role to play in the 21st century than simply delivering value to their shareholders. This is not to say that generating shareholder value is unimportant. Nor is it to suggest that shareholders should take their place at the back of the stakeholder queue. Indeed, quite the converse is true. Whereas some shareholders may not be pleased to learn that their interests seem to have been at least partially marginalized, that notion will only apply to the few (in value terms) that are short-term investors. Most long-term investors already realize that for companies to be successful over time they must address multiple constituencies. If companies do not give each of them the right level of focus, both their corporate reputation and their market capitalization are likely to suffer.

No one is immune from this trend. In 1999, Coca-Cola seemed to be at odds with all of its stakeholders. In the space of just 12 months, it managed to upset each constituent of its major stakeholder groups – its consumers, its retailers, its bottlers, its regulators (in several countries), its shareholders, its executives and, finally, its workforce. This was a pretty extraordinary performance for one of the world's most respected companies and led to the demise of its chairman and chief executive. See the box *Coca-Cola's Annus Horribilis* for details of the sequence of events.

Coca-Cola's Annus Horribilis

On 5 December 1999, the man who once said, 'I know how all the levers work, and I could generate so much cash I could make everybody's head spin,' fell on his sword and quit his job as chief executive of one of the world's biggest and most admired companies. After just two years at the helm as Chairman and Chief Executive of Coca-Cola, Douglas Ivester, was forced to resign after a series of mishaps that had a disastrous impact on the company's reputation and performance.

The reputedly data-driven and analytical former accountant and propounder of shareholder value, it seems, was using the wrong set of numbers to manage the business. Ivester's 12-month diary might read something like this:

February 1999	Profit for last year down from $4.1 billion to $3.5 billion – Far East and Russian problems. Fell out with UK retail customers over 10p per 2-litre bottle price increase.
March 1999	Nominated as America's second most admired company by Fortune.
May 1999	Forced to radically restructure $1.85 million Cadbury-Schweppes acquisition. Warned by European Commission that company faces heavy fines for not seeking clearance for the acquisition from the competition watchdog.
June 1999	Forced to recall and destroy 17 million cases of Coke in Belgium, France, the Netherlands and Luxembourg following contamination problem, when over 200 customers complained of illness. Company's response seen as tardy and unsympathetic. Reputation as a reliable and responsible company shaken. Coca-Cola Enterprises incurs $103 million additional cost.

July 1999	Following complaints from competitors, European Commission officials raided offices in Germany, Denmark, Austria and the UK in a probe into whether the company offered retailers and wholesalers incentives to increase sales volumes, carry full range of brands, or stop selling competitor's drinks through exclusivity deals.
	Coca-Cola Amatil under investigation by Australian Competition and Consumer Commission for alleged breaches of the country's Trade Practices Act. These relate to the company providing Coke at discounted prices to certain retail outlets on condition that they did not stock rival beverages.
August 1999	Accused by competition authorities in Italy of abusing dominant position, distorting competition rules through discounts and bonus system to wholesalers, and efforts to claim display space in supermarkets.
September 1999	Being sued in Atlanta by four black workers for racial discrimination.
	Market capitalization has fallen $34 billion in past three months.
October 1999	Pepsi suing in US over access to soda fountains, alleging unfair control of distribution.
November 1999	Ordered to cease a promotional campaign by Belgian court.
	Price of syrup to bottlers raised by 7.7 per cent (twice the rate of recent increases) – bottlers outraged.
	French government blocks FF4.7 billion revised offer to purchase Orangina from Pernod Ricard.
December 1999	Fined $16m in Italy for 'gravely' abusing dominant market position.
	Meeting in Chicago with major shareholders, including Warren Buffett.
	Resigned. Douglas Daft named as new CEO.
	Ironically, on the day following the announcement, the company nominated in the *Financial Times* as the world's third most respected company (for second successive year).

January 2000	Chilean antitrust commission investigating company's dominance of $800m-a-year soft drinks market.
	Coca-Cola's President for Northern Europe dismissed.
	Profits down 31 per cent last year.
	Announced plans to cut 21 per cent of workforce world-wide – 6,000 jobs lost.
February 2000	Dropped from *Fortune's* list of the Top 10 Most Admired Companies.

Could these stakeholder relations disasters have been avoided? We think so. A product recall can happen to almost any products company, but there is no excuse for handling it badly and there are many precedents for having the right policies and procedures in place to react quickly and decisively. There must also be something inherently wrong with the organisational culture for it to be accused of illegal practices in so many different countries. The arrogance demonstrated in believing that it is above the law in obtaining regulatory approvals for sizeable acquisitions is cultural in nature too, especially given that the press in several countries had already dubbed the invasion of US behemoths into their local markets as 'coca-colonialism'.

It is apparent that Coca-Cola has historically had an excellent grip of the financial numbers, its volume growth profile and its market shares around the world. However, it clearly did not have the 'radar systems' in place to adequately track either key components of its internal culture or external attitudes towards its business ethics. Too focused – to the point of over-zealousness – on its business processes for demand generation, some vital capabilities of its fulfilment processes have been indelibly exposed (MBA students all over the world will surely be analysing the product recall episode for many years to come) as well as failures in its ability to effectively plan and manage the enterprise.

As Doug Ivester found out of course, and many other executives realize instinctively, not *all* the levers you have to pull are the financial ones. Hopefully, the company's new leadership has now rectified these pressing performance measurement and management issues.

The point is that the only sustainable way of delivering shareholder value in the 21st century is to deliver stakeholder value and this means enhancing, maintaining and defending the company's reputation on a broad range of fronts. The kind of corporate gaffs that we have described in this chapter (and will be described elsewhere in the book) illustrate just how difficult reputation is to manage. The level of media attention, though, has served to ensure that it is rapidly becoming one of the hottest of boardroom issues. Aon, the insurance company, regularly carries out a survey asking chief executives to name the greatest risk facing their business. They usually focus on issues such as fire or business interruption. In 2001, however, 'loss of reputation' topped the list of their concerns.

Furthermore, legislators (not always at the forefront of emerging trends) have already begun to recognize the climate change. Company law in Britain (the US is another matter – see Chapter 6) still enshrines the purpose of companies as 'formed and managed for the benefit of *shareholders*, but subject to safeguards for the benefit of actual and potential *creditors*'. However, the recently published British company law reform blueprint recommends a statutory statement of directors' duties, requiring them to take 'due account' of relations with employees, suppliers and customers, as well as shareholders.[5] So this phenomenon is not just another passing management fad, it is likely to become enshrined in company law. Indeed, some aspects of it already have – especially those related to competition law. It is these legal changes that have given regulators greater powers to deal with corporate transgressions, such as price fixing and the abuse of dominant market positions. Particularly in Europe, employment law is also moving increasingly towards protecting the rights of employees. In short, the face of capitalism is being changed permanently.

Stakeholder Contribution

So is it all a one-way street – more and more stakeholders making more and more demands? Not at all. Quite the opposite in fact. Organizations are becoming increasingly demanding of their stakeholders too. For example:

- *Investors* – capital for growth, greater risk-taking, long-term support.
- *Customers* – profitability, retention, loyalty, advocacy, feedback.
- *Intermediaries* – planning forecasts, forward demand visibility.
- *Employees* – flexibility, multi-skilling, antisocial hours, suggestions.
- *Suppliers* – more outsourcing, fewer vendors, total solutions, integration.
- *Regulators* – cross-border consistency, informal advice, early involvement.
- *Communities* – skilled employment pool, grants, support, integration.
- *Pressure Groups* – closer co-operation, shared research, co-branding.
- *Alliance Partners* – cross-selling, co-development, cost sharing.

These are just a few illustrations (and we shall explain them in greater detail later) of how organizations are making increased demands of their stakeholders. So, in effect, the interrelationship between stakeholder and organization is becoming an increasingly reciprocal one. Indeed, the very concept of stakeholder value itself should perhaps be quantified in terms of the strength of the interrelationship.

Strategies, Processes and Capabilities

Failing sufficiently to address the right stakeholders' wants and needs, plus the corresponding wants and needs of the organization *from* its stakeholders, is one performance management and measurement issue. Another is not aligning performance measures to the organization's strategies, processes and capabilities aimed at satisfying these two sets of wants and needs.

It is no good, for example, the sales and marketing department valiantly declaring that customer delivery service is the only thing that matters, when the poor guys in distribution are tasked with cost minimization – the hopeless task of trying to complete customer deliveries from a rickety cabin, using ancient information systems, a leaky warehouse and a clapped-out fleet of trucks that keep breaking down. Aligned measurement systems rely to a large extent on integrated organizational strategies across functions – in other words, in this case, right across the customer order fulfilment process.

Yet another common blunder is picking an internal process measure at random, but not making it part of an integrated set. When the wrong things are measured, or they are measured in the wrong way, then dysfunctional behaviours that are completely misaligned with the organization's strategy are likely to be the outcome. (For a typical example, see the box *Calais for a Quid*.)

Calais for a Quid

A ferry company introduced a new measure to address customer complaints – the time taken to respond to complaints. The company supplemented the measure with a target and declared that they would seek to respond to all customer complaints within ten working days.

Shortly after the introduction of this measure and target, the customer services department received a letter of complaint from two old ladies who had recently experienced the ferry company at its worst. They had dutifully collected vouchers from their newspaper that entitled them to a return trip to France for just £1. They had taken their trip shortly before Christmas, but had been forced to stay overnight in Calais as they had been unable to get a ferry home at the end of the day. The first ferry they tried to catch – the one they had been booked on – did not sail because of a mechanical fault. The second (and final ferry of the day) was so full, because no one had been able to get on the first, that there was not enough space. The customer services agent who received the letter reviewed the case, decided that the two old ladies had a valid complaint and sent them a reply – within ten working days – saying they would shortly be receiving a full refund, £1.

Is this service? Of course not. Does it address the customers' concern? Of course not. Will it satisfy the two old ladies? Of course not. Will it be counted as a success by the organization's measurement system? Yes! The customer services agent met the company target by responding to the complaint within ten working days. What a bizarre world we live in when managers think that this kind of service behaviour is acceptable to their customers.

People in organizations can deliver appalling service. They can completely fail to satisfy the customer and yet the measurement system that they are subject to can record their actions as perfectly acceptable. It would be fine if this were an isolated case, if it were an example of a single organization that had introduced an inappropriate measure. But regrettably it is not. We see and hear horror stories of poor measures selection and application such as this on a daily basis:

- A common performance measure in call centres is time taken to resolve customer queries. As an operator, how do you achieve a target of two minutes on average? Simple – cut the customer off after a minute and 50 seconds if the query has not been resolved.
- What happens when you measure branch profitability in a national or international service operation? Simple – branches compete with one another. How many companies do you know where you can encourage a price war between branches simply by telling the sales team in the second branch that the sales team in the first branch have made you a better offer? What happens when both of these branches are owned by the same parent company? The same thing. They battle it out to see who can offer the customer the best deal. Who loses? The business as a whole. Margin is given away by the business as it competes with itself!
- How do you maximize machine utilization in a manufacturing operation? Make for stock in large batches. Ignore what the customer wants, just keep those machines producing. There does not have to be a market for this output. As long as the machines keep producing, the utilization figures will look fine. This is supply chain 'push', not demand chain 'pull'.
- How do you hit the annual budget if you have had a bad year financially? Slash and burn. Cut all expenditure. Delay purchase of that new bit of capi-

tal equipment. Don't bother to send everyone on the training course so they understand how to use the latest piece of software. Don't go ahead with the final marketing campaign. Cut back R&D. Just batten down the hatches and meet this year's numbers. Next year may be someone else's problem.

- How do you hit the sales forecast targets if the customer orders aren't there? Stuff the demand chain full of inventory. Offer customers fantastic discounts and rebates if they order early – a malpractice known as trade loading – and hope that demand picks up next year.
- How do you incentivize sales staff? Pay them big bonuses. If each sales representative receives a bonus based on the level of sales to new customers, it will help to focus their attention on winning new business. It surely will. What it won't do, though, is focus their attention on winning *profitable* business with decent margins. They will sell at any price just to get their bonus up. It will also mean that existing customers are completely neglected.

Do you think that these things don't happen in organizations today? They do. The fact is that performance measurement is a mess in most organizations. Far too often performance measurement systems contain measures that are poorly defined, rarely integrated with one another or aligned to the organization's strategies, processes or capabilities. In essence, many measurement systems result in managers and employees destroying rather than creating value simply because they encourage dysfunctional behaviour.

Performance Measurement Frameworks

So why are we in such a mess with performance measurement? And even more importantly, what are we going to do about it? These have been perennial questions in recent years and between them have resulted in the development of a multi-million dollar industry. Consultants, academics, conference organizers and software vendors are providing the fuel for this, with a never-ending stream of measurement frameworks and methodologies, conferences and discussion forums, and of course, software products and services. In some ways this book is designed to add further fuel to this fire, since it presents yet another performance measurement framework. But we also hope that this book will serve to clarify some of the confusion that exists in and around performance measurement and management today.

While numerous measurement methodologies and frameworks have been proposed in recent years, there is a problem in that they appear to be inconsistent with one another. Take, for example, the balanced scorecard.[6] The traditional version of this – although some organizations have identified the need to adapt it – consists of four perspectives, which in turn allow executives to address four questions:

- Financial perspective – how do we look to our shareholders?
- Customer perspective – how do we look to our customers?
- Internal Process perspective – what must we excel at?
- Innovation and Learning perspective – how can we continue to innovate and create value?

No mention is made of end-users, or employees, or suppliers, or regulators, or pressure groups, or local communities. Yet all of these stakeholders can have a massive impact on the organization and on its ability to perform. If the workforce goes out on strike, for example, or the regulator closes a plant down, the organization cannot continue to operate and it can't deliver product and/or service to its customers. If the customers withhold payment, or the shareholders decide to withdraw their funds, then the organization will get strapped for cash and it won't be able to afford to pay its employees or suppliers. The point is that all of the different stakeholders in an organization interact within a kind of 'eco-system'. True, some stakeholders are more important than others. But to ignore any of the stakeholders in today's society can be extremely short-sighted and naïve. One only has to look at the web pages of 'Untied.com' or 'NorthWorstAir.org' or 'AirlinesSuck.com' to see the damage that frustrated stakeholders can do to organizations in a world where even individuals have massive communication power at their fingertips through the internet.

The balanced scorecard then can be criticized for not taking a broad enough view of the stakeholders who interact with an organization. It should be recognized, however, that it is now a decade old and the world has changed materially in that time. Nevertheless, to its credit, the balanced scorecard takes a far broader view than shareholder value or economic profit measurement techniques that effectively assume that the only stakeholder that matters is the shareholder. These approaches can be contrasted with another set of measurement methodologies, namely the self-assessment models, such as the Business Excellence Model and the Baldrige Award, which take a broader view of performance and include reference to a wider set of stakeholders, but also contain a host of dimensions that are effectively unmeasurable. Benchmarking techniques are also widely used to compare operations, compensation and financial performance with those of other similar operations, both internally and externally. Yet further models have emerged – such as the Strategic Measurement Analysis & Reporting Technique (SMART) pyramid and the Results and Determinants framework, for example – but these have not been widely adopted by organizations.

The point is not to criticize these different frameworks and methodologies, because they all add value in their own right. The problem with them, however, is that all are partial or point solutions. They offer insights into some of the dimensions of performance that should be measured and managed, but by no means all of them. The framework proposed in this book – the Performance Prism – seeks to rectify this shortcoming by building upon the strengths of the existing measurement frameworks and methodologies, integrating them and offering a more comprehensive and comprehensible measurement framework.

Delivering Stakeholder Value with the Performance Prism

Underpinning the Performance Prism framework is the notion of stakeholder, as opposed to shareholder, value. So what is stakeholder value and how can executives be sure that the organizations they control are delivering it? The truth is that there is no simple answer. There is no off-the-shelf solution. There are no well-established methodologies for assessing whether or not organizations are creating and delivering stakeholder – as opposed to shareholder – value. True, there are a number of sub-methodologies – such as techniques for measuring customer and employee satisfaction – and, as we have noted above, partial solutions, most notably the ubiquitous balanced scorecard. But how do these sub-methodologies and partial solutions integrate with one another? How do they enable executives in organizations to track whether the strategies they are pursuing, the processes they are operating and the capabilities they are developing are actually enabling the organization to deliver stakeholder value today and will continue to be able to do so in the future? The answer, of course, is that they don't. This does not mean that they are not valuable solutions. It just means that they are contributions to a larger scheme of things. What is lacking is an integrative framework that builds upon these partial solutions and presents a rounded picture of what executives have to manage and measure if they are to be sure that the organizations they control are to deliver sustainable stakeholder value. And put quite simply (and somewhat ambitiously) it is the aim of this book to present and explain such an integrative framework – namely, the Performance Prism.

Unlike the first generation of performance measurement and management frameworks – the Performance Prism is holistic in orientation. It does not assume that the only stakeholders which matter are the shareholders and customers. It does not assume that financial measures should be supplemented with a few non-financial ones. Instead, the Performance Prism encourages executives to focus on the critical questions. It begins by prompting the question – 'Who are our stakeholders and what do they want and need?' Then it prompts questions about what strategies are required to deliver value to these stakeholders. What processes need to be put in place to execute these strategies? What capabilities – bundles of people, technology, practices and infrastructure –

are required to underpin these processes? A subtle, but vitally important, twist in the Performance Prism is the distinction between what the stakeholders want of the organization and what the organization wants of its stakeholders. All organizations want certain things of their stakeholders, just as all stakeholders want certain things of organizations. The Performance Prism encourages management teams to think through this issue and ask explicitly – What is it that our stakeholders want and need from us? And what is it that we want and need from our stakeholders? In other words, what is the quid pro quo?

The Performance Prism is the key theme in this book, but it is not the only one. For the book also recognizes that, in today's rapidly evolving world, the way that organizations measure and manage performance will have to change. For years people have been criticizing measurement systems for providing the wrong data too late. So what is the answer? How should we be using performance measurement data in today's turbulent economy? Fundamentally, we have to move away from thinking about measurement in the traditional sense – the process of quantification – and start to think about measurement as the process of gathering management intelligence. We need to develop intelligence gathering systems that allow managers to answer quickly the critical questions they have to answer if they are to successfully manage a business in the 21st century. As an analogy, managers have to behave with data-feeds more like journalists do with news-feeds. They have to access and then use the data/facts to construct intelligent theories about what is happening in their businesses so that rapid, but well-informed, decisions can be made in the context of the business environment in which they are competing. The Performance Prism provides a framework for thinking about the structure of this intelligence-gathering process and practice. The more effective the application and evolution of the management intelligence gathering system in an organization, the better equipped its managers will be to manage in the 21st century.

Overall then, the message is that in order to survive and prosper in an increasingly complex and connected world, executives have to understand what their various stakeholders want and need from the organization and what the organization wants and needs from them. They have to align their strategies, processes and capabilities to satisfying those diverse sets of wants and needs so that they can deliver value to their stakeholders. And they have to construct flexible performance measurement and management systems that allow them to see continuously and adroitly whether their organizations really are delivering value to all of their stakeholders today, and whether they will be able to continue to do so tomorrow. Essentially, the Performance Prism is intended to provide a structure for thinking through these critical business issues in a rational way so that intelligent business decisions can be made based on the best available data.