An Interview with Andy Neely and Chris Adams, co-authors of "*The Performance Prism*".

FM: *What's going on in the business world today that your book has something to say about?*

AN: I think that during the last decade of the twentieth century, business management became intensely more complex. The most significant development was the notion that stakeholders' interests were a significant driver of business performance. Investors were always important of course and they remain so today. However, the organisation's relationship with its customers and its employees gained greater emphasis. Several pieces of research have striven to prove the link between employee satisfaction, customer satisfaction and financial results. Some were more convincing than others, but they certainly raised the profile of non-financial performance measurement.

However, we felt it needed to go beyond these three stakeholders. Firstly because, in an age of greater outsourcing, suppliers and alliance partners were becoming increasingly important elements too. Furthermore, a number of companies, some of them huge organisations, were falling foul of regulators that had gained greater powers – sometimes with scandalous results or, at best, lousy publicity. With the development of the internet, communities and pressure groups were gaining in prominence too.

Examples abound: Ford had a very public and image damaging bust-up with its long-term tyre suppler, Firestone; Roche and BASF were heavily fined and publicly disgraced for their part in a vitamins cartel; Coca-Cola, Volkswagen, British Airways, Novartis and many other companies in various geographical regions and in many different industries, not least in the financial services sector, have been fined for business malpractices; GE and Coca-Cola had big deals blocked by the European Commission; while Shell, McDonald's and Monsanto found out just how influential and canny pressure groups can be. Corporate reputation has leapt to the top of senior executives' agenda – it affects their ability to attract investors' money, to win new business with key account customers, and to recruit the best talent.

There has been a lot of controversy in the business press about whether companies can really serve several masters. However, it quickly became apparent to us that organisations didn't have much choice – they simply had to address the greater complexity of today's business environment. There are conflicts of interest, ambiguities and some unexpected paradoxes of course, but it is something that executives definitely need to work through and understand. We don't see it as a fad, but as a growing trend.

A broad spectrum of stakeholders have a part to play in the success of every organisation, but many of them simply aren't on their 'radar screens' in terms of what they measure and, therefore, manage. The Performance Prism is a framework which specifically addresses the organisation's relationship with *all* of its stakeholders and links them to related strategies, processes and capabilities. That's essentially the premise of our book.

FM: *Where did the idea for the book come from?*

CA: I can date the birth of the book, or rather its conception, very precisely. It was on the 29th January 1998, in New York, when I was at Accenture (then known as Andersen Consulting). That was the day I was appointed team leader for their Centre for Process Excellence global thought leadership initiative that we later dubbed "Managing With Measures". The following day, my small team and I got together and developed some outline ideas about what we wanted to achieve – among which was a better performance measurement and management framework that met today's business needs. We felt it was time for a second generation model. The balanced scorecard and other such frameworks didn't quite cut the mustard for us.

I remember attending a balanced scorecard conference in London that was promoted by Kaplan and Norton, the originators of the balanced scorecard, shortly afterwards. As usual, there were speakers from a series of major companies talking about what they had done. But the thing that struck me was that none of these companies appeared to be using the balanced scorecard in its original form. They had all either developed their own homegrown versions or were trying to adapt other frameworks, like the EFQM Business Excellence model. It just struck me as a bit odd – especially given who the hosts were! There had to be something wrong with the framework if organisations can't get on with it. It convinced me that there was an opportunity here and that we were on the right track in trying to develop a second generation framework.

We eventually decided that it would be a good idea to partner with an academic institution to help develop and validate our ideas. And so the next landmark was when a colleague, Nick Lawrence, and I met with Andy Neely in May 1998. He agreed to critique our initial ideas, while we decided that this was the partnership we wanted to develop. We went on to co-create a series of practical and innovative techniques, tools and methods together with Andy's Centre for Business Performance over the next couple of years. But the 'big idea' that we collectively came up with was the Performance Prism framework.

It may seem ridiculous that it took us a long time – and several attempts – to come up with what is essentially a simple five-sided model. We wanted a framework that was flexible enough to capture all the inherent complexities and performance measurement needs of contemporary business demands. At the same time, it had to be easily communicable at the top level, but also drillable to sub-levels of context so that granularity would not be lost where it is needed. That isn't easy, and it had to be tested in the field to prove its viability and gain credibility. We learned a lot by doing that.

Alun Evans, an associate partner at Accenture who led the Centre for Process Excellence capability development projects and had participated in our deliberations, was the first person to suggest that we should write a book about the Performance Prism. That seed was a little slow in germinating, as it was another couple of years before we actually got around to starting it. But we did develop a series of white papers and published several articles on the subject, based on our research and experiences, during the intervening time.

FM: *If there is one critical message that you would like readers to take from your work, what should it be?*

AN: As I have said, the core of the Performance Prism is its approach to a broad spectrum of stakeholders. No other framework explicitly puts them at the forefront of measures design. If you go to a conference and listen to almost any performance measurement expert, they will tell you that measures should be derived from strategy. And you probably wouldn't give it a second thought. But maybe you should. Strategies are actually responses. What executives are responding to with their strategies is a want or need either on the part of one or more of their stakeholders, or what they want or need from one or more of their stakeholders. We take the view, therefore, that performance measurement design starts with stakeholders.

One of the unique features of the Performance Prism is that it does not just look at the perspective of satisfying stakeholders' key wants and needs. It also insists that you look at the opposite perspective – what the organisation most wants and needs from its stakeholders, their contribution. In other words, it's a reciprocal relationship. That data is a good basis from which to decide what the strategy should be in order to have the desired impact on your stakeholders, and also to consider whether existing strategies are still appropriate or need changing. Only once you've done that and identified what the assumptions are within your model should you consider measuring whether the strategy is in place – that it is understood, that it is being implemented, and that the assumptions it contains can be either confirmed or challenged.

CA: Andy is spot-on with his analysis – the bilateral stakeholder view is the Performance Prism's most important and distinctive aspect at the top level. As a secondary distinguishing feature, I would add that the view of Capabilities is a vital and unique component too. Most other frameworks ignore this essential component completely.

OK, I accept that Capabilities are down at the detailed end of the management spectrum but, if they aren't nurtured, competitors will take advantage of your weaknesses. In our view, capabilities consist of combinations – bundles – of people skills-sets, best practices, advanced technologies and physical infrastructure. Collectively, they represent the organisation's ability to create value for its stakeholders through a particular part of its operations. I mean if organisations don't think that this is important – and, therefore, don't measure it – I fear for their longer-term survival.

My experience is that people tend to get confused about capabilities, but they're very simple to understand really. For example, consider a common business process such as the order-to-cash fulfilment process – getting stuff to customers and getting them to pay for it. In an electronics business, for example, that would mean the customer placing an order, the company makes it and delivers it, and then the customer pays for it. A straightforward enough transaction. It can and often is represented as a single business process, but it implies the presence of at least six different capabilities. These are: a customer order handling capability, a planning and scheduling capability, a procurement capability (for materials and components), a manufacturing capability, a distribution capability, and a billing and credit management capability. Each of

these capabilities requires different skill-sets, different practices, different technologies and different physical infrastructures.

You can't just ignore fundamental concepts like that from an organisation's performance measurement and management system. It needs to be integrated – and probably delegated – within a company's approach to managing with measures.

FM: *All interesting stuff, so how should we go about implementing it tomorrow?*

AN: One of the most common problems we find is that most organisations already have more data than they know what to do with. And anyone who comes along and suggests that they should have more of it must be insane. The nub of the problem is usually that they haven't organised themselves to manage with measures properly. Too often, they just see it as an IT problem and the blame is attached to the quality and inflexibility of legacy systems. But that's just excuses – "the dog ate my homework". The other big problem is inappropriate measures selection. It's not uncommon to find an almost random collection of unconnected financial and, especially, newly introduced non-financial measures. Consequently, management meetings tend to be a bit of a shambles – rambling all over the place without any coherent or invigorating purpose.

I don't care whether it's the CEO, the CFO, or the CIO, *someone* – someone with some teeth and a budget – needs to take charge of the organisation-wide performance measurement and management system. Without that, it'll almost certainly remain a directionless hotch-potch of unintegrated, under-analysed datasets. Some of the best insights often come from analysing data from different sources. The problem of course is getting them to talk to each other. Best practice companies ensure that their performance measures are linked to each other, to strategies and to stakeholders. The drivers of superior performance and good reputation are understood. The Performance Prism helps them to go through that implementation process.

Although it covers a lot of pioneering territory, I think the book is highly practically oriented – it's not just a theoretical treatise, we want people to use it as a how-to manual. It contains a host of techniques and checklists, plus tips and traps about what to do and what not to do, which we hope will be enough to get organisations started. However, we recognise that implementation is not always easy. If practitioners are stuck for what to do and how to do it, then they should probably contact me or Chris (who, incidentally, is no longer at Accenture and now works with me as a Visiting Fellow at Cranfield School of Management's Centre for Business Performance). We can't guarantee results, but we'll promise to do our damnedest to get companies where they need to be, provided of course we have the capacity within our relatively limited resources to do so.

FM: *Are there any businesses out there today that you think are really getting it right? Or wrong?*

CA: There are certainly a lot of businesses that *aren't* getting it right. When we conducted a survey in 2000, we found that 96 per cent of companies were dissatisfied with their current performance measurement system and wanted to improve it. I think that demonstrates the level of interest there is in this area. The main criticisms they cited were that the role of performance measurement is poorly understood by top management; that they were still too financially focused; that they didn't understand what really drives the business; that they needed a better scorecard; that they did not take a comprehensive enough view; that they didn't do enough external benchmarking; and that they lacked integrated computer systems.

And that was just on a self-critical basis! I strongly suspect that there are a number of organisations that are not as good as they think they are too. We have some diagnostic tools that can help organisations to both self-assess and be audit assessed. If they want to know where they are on the spectrum of performance measurement and management sophistication, we can tell them.

Some of the companies we have talked about in the book – like DHL and Telewest, for example – have done great things to improve their measurement systems in specific areas and we're grateful to them for allowing us to test our ideas, but I don't think any would claim that their entire company-wide system is superb. Not yet anyway.

At some of the conferences that Andy hosts, we've asked a number of academics from around the world that do research in this area if they can name a company that represents best practice. Nobody puts

their hand up. They can't even name one. However, they can point to certain companies that do particular things exceptionally well.

So, it seems to be a bit of a "curate's egg" – some organisations have aspects of their performance measurement and management system which are truly excellent, but they fall down on other aspects. There seem to be very few excellent all-rounders. But we live in hope – we'd certainly like to meet any substantial organisations out there that think they really have got it all right. We might even include their case in a second edition of the book…