In this issue you will find...

Articles examining:

- A Five Step Model to Enhance Ethical OD Practice
- Harry Potter and the Intentional Change
- Strategies for Developing Leaders
- A Study of Role of McKinsey's 7S Framework
- Organizational Performance Management
- Two Paradigms About Resistance to Change
- Executive Teams

"Guiding the future of people working together"
Organizational Performance Management: Examining the Practical Utility of the Performance Prism

Dr. Ian O’Boyle
School of Management
University of South Australia

Dr. David Hassan
School of Sport Studies
University of Ulster

Abstract

This paper provides an analysis concerning the practical utility of a performance management tool which has been utilized by a number of organizations around the globe. The Performance Prism (Neely, Adams, & Kennerley, 2002) is based on the concept that satisfaction of organizational stakeholders is directly correlated to organizational performance and success. The tool has been an addition to the field of organizational performance management systems such as the Balanced Scorecard (Kaplan & Norton, 1992, 1996) and its many derivatives which have become industry-standard practice for many organizations of various type, size, and purpose. The various components of The Performance Prism are discussed followed by a case study examining its specific utility within a for-profit organization—DHL. It is argued that this unique performance management tool can provide organizations with various benefits in terms of their development and overall organizational success. However, further empirical studies are required in a number of areas relating to its application which are outlined at the conclusion of the current paper.
Introduction

Although Williams (2003) claims there is evidence to suggest that some local and state authorities have been involved in the analysis of data and target setting for future performance forecasting as far back as the early 1900s, the term ‘performance management’ was first referred to by Aubrey Daniels in the late 1970s (Daniels, 2004; Armstrong & Barron, 2005). Since that time, performance management has evolved to become a well-established process that is embedded within the cultures of many private and public entities and has been a point of interest for scholarly research since the mid-1990s with a number of journals even devoting special issues to the subject (Ferlie & Steane, 2002). There is no single definition for the term within the literature, however there is a general consensus that performance management covers all aspects of an organization’s operations. It can be viewed as a holistic approach to performance that spans numerous performance dimensions that are fundamental to the effective delivery of an organization’s mission.

Within the literature, successful performance management has also been referred to as a tool or system that aligns all organizational processes with the existing strategic imperatives within an organization (Kaplan & Norton, 1992, 1996; Neely, Adams & Kennerley, 2002; Franco & Bourne, 2003). This system must be underpinned by effective leadership and competencies from senior management (Arnold et al., 2012; Fletcher & Arnold, 2011); a culture that is focused on performance improvement as opposed to punishment for poor performance; involvement from and communication with stakeholders; and constant monitoring, feedback, dissemination and learning from results (Fryer, Anthony & Ogden, 2009; Wang & Berman, 2001; De Waal, 2003). The sections below examine the practical utility of one such tool, “The Performance Prism” to analyze what benefits the adoption of such an approach could have for the contemporary business organization.

The Performance Prism

This performance management model is a design that has been developed by Neely, Adams & Kennerley (2002) to further aid organizations in measuring the overall performance of their activities. The model has received a fraction of scholarly analysis in comparison to the Balanced Scorecard (Kaplan and Norton, 1992), but nonetheless appears to be an alternative approach implemented in practice. In line with stakeholder theory, the creators of this model suggest that for organizations operating within any industry, the most important aspect of management is to deliver on the expectations of their stakeholders. Therefore, the Performance Prism is primarily designed to help with the complex relationships that organizations have with their often vast array of stakeholders. Furthermore, the authors propose that the model helps management analyze the on-going performance of systems and processes already in operation within the organization and provides a new and self-sustainable performance management initiative that has the ability to transform the performance problems that face an organization.

This model attempts to distinguish itself from other similar models, such as the Balanced Scorecard, by offering a unique perspective on a measuring system that can ultimately be adopted as a way of operating within an industry, rather than just measuring the performance of an organization. The balanced scorecard (Kaplan & Norton, 1992) only outlines four different aspects of an organization to be measured: finance; customers; internal processes;
and innovation and learning. As a result, Neely et al. (2002) suggest that it ignores the crucial role that the various stakeholders of an organization have in determining the success or failure of its strategic objectives.

Other models such as the Business Excellence model (EFQM, 2005) combine outcomes that can be easily measured with business enablers. Similarly, models such as Shareholder Value Frameworks (Srivastava, Shervani & Fahey, 1998) incorporate the overall cost of capital into their models but still fail to acknowledge performance issues relating to stakeholders.

In addition, Kaplan and Brons’ (1987) model relating to ‘activity based costing’ and Feigenbaum’s (1991) ‘cost of quality’ model focus on aspects that do not necessarily add value to the organization. Furthermore, the major limitation of these models is that they do not analyze the importance of stakeholders to an organization in relation to performance. The other extreme of this issue can be seen in benchmarking (Camp, 1989), which takes an almost exclusively external perspective by analyzing the performance of other organizations within the industry. The major limitation of this benchmarking is that it cannot be used as a long-term system of performance management and is more suited to a one-off exercise for the generation of short-term performance improvement initiatives.

The abundance of performance management systems/tools/processes available would suggest that no model has been completely successful in satisfying the needs of all organizations. Each may provide management with a method of measuring and assessing components of the organization relating to performance to a certain degree. However, an organization must acknowledge that there may not be a ‘holy grail’ of performance management models or best method to analyze organizational performance. Through the Performance Prism, Neely et al., (2002) suggest this situation is addressed as a result of performance management itself being a multi-faceted concern facing an organization.

The designers of this model use the word ‘Prism’ in its title to establish a connection between performance management and the fact that a prism is a device that refracts light. A prism can reveal the “hidden elements behind something as apparently simple as white light” (Neely et al., 2002, p. 4). This is relevant to the thinking behind Neely et al.’s model of the Performance Prism. It illustrates the hidden complexities behind the issues of performance management that can affect an organization. The authors argue that previous performance management models have failed to address all areas of performance within an organization. They further argue that while each of these frameworks has given a unique perspective on performance, they do not analyze the organization from a performance perspective as an entire entity.

In contrast they suggest that the Performance Prism attempts to establish five different fundamental organizational questions for management to draw upon in order to assess the true scope of the organization’s performance management issues:

1. Stakeholder Satisfaction: What are the wants and needs of our stakeholders?
2. Stakeholder Contribution: What can our stakeholders provide to us?
3. Strategies: Which strategies are best to implement in order to satisfy stakeholder demands?
4. Processes: Which processes should be adopted to satisfy stakeholder demands?
5. Capabilities: What practices, people, technology and infrastructure is required so processes and strategies can be fully implemented?
Figure 1. Facets of the Performance Prism (Adapted from Neely et al. (2002))

Neely et al. (2002) claim that these five different perspectives on organizational performance have the ability to establish a complete and coherent system for managing performance and by answering these five key criterions, a successful and effective performance management model can be created. To understand this concept better, it is necessary to explore these perspectives, as suggested by Neely et al., in greater depth.

Stakeholder Satisfaction: Organizations exist primarily to provide either a product or service and to deliver ‘value’ to their key stakeholders. The term stakeholder can be used to describe a broad range of entities including investors, customers, employees, suppliers, regulators and pressure groups. Freeman (1984) defines a stakeholder as “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (p.53). The term ‘value’ can be assessed in different ways for various stakeholders, depending upon their interest within the organization: Consumers will demand high quality products and services that are fit for purpose and are good value for money; Employees will require fair compensation for their hard work within the organization, development and learning opportunities and clear pathways for promotion; Shareholders will view the term ‘value’ through the analysis of their return on their investment and the potential for growth and expansion in comparison to other entities within the industry.

Stakeholder Contribution: “Organizations and their stakeholders have to recognize that their relationships are reciprocal” (Neely et al., 2002, p.6). An important issue that must not be ignored by stakeholders is that the organization will attempt to satisfy their needs but will also expect stakeholders to fulfill their roles relating to the organization. This can often be a subtle if dynamic relationship which exists between the two parties. From a consumer perspective—they expect quality products, speedy delivery, and competitive prices. In return the organization expects the consumer to be willing to pay a fair price for a quality service or product, to remain loyal to the organization, and to offer relevant and critical feedback when asked. From an employee perspective, they expect roles that allow them to contribute to the overall success of the organization and to gain knowledge through adequate learning and development initiatives. In return, the organization may ask for loyalty, commitment, honesty, productivity, and to use innovation and creativity to contribute to the organization’s purpose.

Strategies: When respective stakeholders’ wants and needs have been firmly established, the organization must come to an agreement relating to the extent that they will prioritize these, ensuring they are achieving an adequate return on their investment and not putting other aspects of the organization in jeopardy. For instance, in a traditional business organization, creating shareholder value may be conveyed as the long term ‘destination,’ and
the ways in which the organization can reach that ‘destination’ can be illustrated through the processes and strategies that must be put in place.

Processes: Whatever strategies are implemented within the organization, they must be supported by adequate processes and systems that can help the organization achieve its potential. Effective systems and processes are integral for the successful operation of an organization and are the mechanisms for it achieving its goals and objectives (Neely et al., 2002). These processes and systems are essentially cross-functional and are the cornerstones of what results occur within the workplace and how they were achieved. Each of these processes is often underpinned by various assortments of sub-processes, created to help the organization function at an optimum level of efficiency and effectiveness (performance).

Capabilities (individual performance management): Processes cannot merely function without any input from individuals within the organization and require employees that have gained a particular set of skills. In addition, effective procedures and policies relating to operations management must be in place, along with adequate facilities, infrastructure and appropriate technology implementations to enhance and enable processes. Capabilities such as these can be viewed as a collective system of the organization’s resources, when combined define an entity’s capacity to create value for the satisfaction of stakeholders through effective strategies and processes.

The Performance Prism Case Study - DHL (Adapted from: Neely, Adams & Crowe, 2001)

Ryan (2012) suggests one of the criticisms of this model of performance management is that there has not been enough adoption of the model within real life organizations to prove its value. However, there are a number of organizations that have adopted the model and in 2000, the UK division of DHL, one of the leaders in the international express delivery industry, opted to employ this method of performance management and the following case study details the success of this decision.

DHL and Performance Management

The organization implemented the Performance Prism in order to obtain the data and results it sought, which previous initiatives had failed to deliver. Neely et al. (2001) claim that data being collected was not being acted upon and that the organization was slowly beginning to lose sight of its aims and objectives. As a consequence, the organization decided that a model such as the Performance Prism would be the best way of reorganizing their operations to focus on the two-way relationship between the organization and its stakeholders.

According to Neely et al. (2001), senior management restructured the performance management system under four major steps that underpin the adoption and implementation of the performance management system:

1. Design: The contribution of the stakeholders and their wants and needs in return for their investment was initially identified. Capabilities, processes and strategies were also identified in order to assess how the wants and needs of the stakeholders could be met. The types of questions that are raised at performance evaluation meetings were considered in relation to this new model that had been implemented throughout the organization. The aspects of the organization that were to be measured
became apparent once the answer to the identified questions had been conceived. The final step in the design process was to consider what measures were required, and how data could be collected and analyzed in order to provide answers to these questions. The resulting scenario produced measurements directly related to the specific questions that had been identified by management.

2. Plan and Build Process: This process involved communicating and reinforcing the most important elements of the Performance Prism model. The focus began to shift primarily to the organization’s relationship with its stakeholders; the alignment of strategies with objectives; effective implementation of capabilities and processes; and ensuring data collected was used to answer questions— not simply as a management exercise that adds little value to the organization. A process manager was also put in place to oversee the entire performance management system. The organization also developed learning and development programs for individuals who would be performing tasks relating to this new process and in particular who would be briefing senior executives prior to any performance review meetings along with providing documentation that would support issues which needed to be raised regarding performance. These individuals were also expected to share opinions and experiences, therefore supporting cross-functional understanding and fluidity.

3. Implement and Operate Process: The critical change that was required within DHL was to approach the organization’s quarterly reviews from a new perspective. Issues that were to be raised within the agenda would now be reflective of questions that shareholders wanted answers to and other key issues that senior management decided were of critical importance.

4. Refresh Process: As a result of adopting the Performance Prism model, Neely et al. (2001) claim reviews and processes have continued to evolve within DHL along with a foundation for future development to continue within the organization.

Neely et al. (2001) conclude by suggesting the process requires constant monitoring and intermittent changes to prove of maximum benefit. They add that the organization was able to reshape all issues relating to performance management due to their decision to implement the Performance Prism and as a consequence provided management with a structured and coherent framework to achieve strategic objectives.

The Performance Prism Conclusions

This strategic performance management framework suggests that in order for organizations to fully benefit from all their systems and processes; there are two major issues that management must address:

1. Understand the complex relationship that exists between stakeholders and the organization; and strive to establish a common ground of compromise where both parties can be satisfied with each other’s contribution.

2. The alignment and linking of strategies, capabilities and processes is an integral component in ensuring the wants and needs
of various stakeholders can be satisfied appropriately without compromising the overall success of the organization.

The authors have attempted to distinguish this model from other models, such as the Balanced Scorecard, by providing a unique approach to the performance management issue. It has proven to be successful for some organizations but not enough evidence exists in support of this model being either superior or inferior to other such processes (Ryan, 2012). ‘Success Mapping,’ which Neely et al. (2002) describe as the identification of critical links between stakeholders and strategies, processes and capabilities (p.7), is one area in which this model has somewhat distinguished itself from the others and essentially epitomizes the essence of the Performance Prism. Therefore, in theory, it is argued that when the Performance Prism is applied correctly, the crucial links between the wants and needs of stakeholders and the needs of the organization can be identified through alignment of these strategies, processes and capabilities.

References


