



Is performance measurement and management fit for the future?



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ABSTRACT

Performance measurement and management (PMM) is a management and research paradox. On one hand, it provides management with many critical, useful, and needed functions. Yet, there is evidence that it can adversely affect performance. This paper attempts to resolve this paradox by focusing on the issue of “fit”. That is, in today’s dynamic and turbulent environment, changes in either the business environment or the business strategy can lead to the need for new or revised measures and metrics. Yet, if these measures and metrics are either not revised or incorrectly revised, then we can encounter situations where what the firm wants to achieve (as communicated by its strategy) and what the firm measures and rewards are not synchronised with each other (i.e., there is a lack of “fit”). This situation can adversely affect the ability of the firm to compete. The issue of fit is explored using a three phase Delphi approach. Initially intended to resolve this first paradox, the Delphi study identified another paradox – one in which the researchers found that in a dynamic environment, firms do revise their strategies, yet, often the PMM system is not changed. To resolve this second paradox, the paper proposes a new framework – one that shows that under certain conditions, the observed metrics “lag” is not only explainable but also desirable. The findings suggest a need to recast the accepted relationship between strategy and PMM system and the output included the Performance Alignment Matrix that had utility for managers.

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1. Introduction

It has been long recognised that performance measurement and management (PMM) is critical for the effective and efficient management of any business. PMM facilitates effective control and correction by reporting the current level of performance, and comparing it with the desired level of performance (i.e., the standard). More importantly, the PMM system also communicates strategic intent and

importance to the rest of organisation in terms of what has been measured and, as importantly, by what has not been measured (Magretta and Stone, 2002). To some researchers (e.g., Magretta and Stone, 2002), PMM is more important than the mission statement: metrics enable the organisation to convey the strategy to everyone else in terms they can understand, thus making the strategy concrete and meaningful.

The use of performance measurement and management systems is frequently recommended for facilitating strategy implementation and enhancing organisational performance (e.g., Davis and Albright, 2004) – a view that coincides with much of the Balanced Scorecard rhetoric

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(Kaplan and Norton, 1996; Olve et al., 1999) as well as the findings of business based research (Buckingham and Coffman, 1999). To some, PMM is the business equivalent of the body's nervous system (Beer, 1981, 1985; Bititci et al., 1997), connecting the mission of the business to what it is trying to achieve, while sensing the environment and allowing the organisation to adapt along the way.

Yet, PMM is not without its problems. It has been accused of undermining manufacturing competitiveness (Hayes and Abernathy, 1980), encouraging local optimisation (Hall, 1983; Fry and Cox, 1989) and fostering a lack of strategic focus (Skinner, 1974). These issues led to Franco-Santos et al. (2012) asking the question, "can it be shown that PMM positively affects performance?" This paper views these problems with PMM as symptomatic of a larger more critical problem – the lack of "fit" between the environment, strategy, and what is being measured. The construct of *fit* is fundamental to fields such as strategy (Venkatraman, 1997), but *fit* is poorly defined within the PMM field of study.

We posit that fit is crucial as PMM is most effective when it fits with elements such as business strategy, organisational culture and external environment. Without such a fit, what is being measured (and communicated as important) and what is actually important to the firm are not synchronised with each other. We further posit that the importance of fit increases in direct relationship to the level of business turbulence.

There is strong evidence that the business environment has become highly turbulent (Harrington et al., 2011) and that these changes are structural rather than transient in nature. The following are some of these structural changes:

- An increasing focus on areas such as innovation (Pink, 2005).
- A recognition that being good with process management and lean may adversely affect the ability of the firm to compete on innovation (Benner and Tushman, 2002, 2003).
- A recognition that lean systems may adversely harm the ability of the firm to be responsive (Business week, April 25, 2010).
- The emergence of new business models for delivering value to the customer (e.g., Service Oriented Manufacturing, Lusch et al., 2007).
- Recognition of the importance of blended outcomes, when positions, such as cost leadership, are no longer defensible longer terms strategies (Lee, 2004; Melnyk et al., 2010).
- Proactive governmental legislative interventions and initiations (e.g., Sarbanes-Oxley, Customs-Trade Partnership Against Terrorism or C-TPAT).
- The increasing importance of the supply chain (Reuters, January 10, 2008).

These changes should be reflected in the strategies developed and deployed by firms; in turn, these strategic changes should impact the PMM system (Bourne et al., 2000; Kennerley and Neely, 2002).

Maintaining this alignment between PMM and strategy is not simple. It takes time to restate the strategic

changes into reformulated measures and metrics. It also takes time for these changes to be communicated effectively through the organisation. Finally, it takes time for the participants to accept these changes and for them to change their behaviour. The consequences of misalignment between the PMM system and business environment are both well known and significant (Johnson and Kaplan, 1987).

To assess the proposition that there is a lack of "fit" between the environment, strategic intent and performance measurement, we use a three-phase Delphi method to identify emerging trends in the business environment and to explore how these trends will affect the future of PMM. The Delphi technique was selected because it is most appropriate when the research problem does not lend itself to precise analytical techniques but can benefit from subjective judgments on a collective basis and when time, cost, and logistics would make frequent meetings of all the subjects unfeasible (Linstone and Turoff, 1975). The Delphi technique was used to address the following three key questions:

1. What are the major developments in the business environment facing firms both today and five years into the future?
2. To what extent are PMM systems capable of coping with these changes and developments?
3. How can the resulting insights be synthesised into a useful theoretical framework that has utility for practicing managers and researchers alike?

The Delphi process revealed that, although practitioners related positively to our list of business trends, they were more concerned with the broad sweep of changes they faced rather than any individual elements. They also believed that the current PMM literature and tools available were inadequate for these challenges emphasising the need for a co-evolutionary approach between organisational setting, business strategy and the PMM system. Yet, more importantly, the Delphi study revealed an unanticipated paradox: while managers recognised that they were operating in a more dynamic environment and that a response to these changes had to be incorporated into the resulting strategies, the metrics often were not changed. Our response to this finding was to construct a framework that addressed these concerns. This was tested on and refined by the Delphi expert panel, before being validated further with different practitioner groups.

The rest of this paper is structured as follows. In the next section we present a theoretical perspective of PMM to make the subject clear (as recommended by Franco-Santos et al., 2012). Then, we present the key trends used to inform our study. This is followed by a brief review of the PMM literature before we present our methodology. Our findings are then presented along with a detailed discussion of the paradox. In the last section, the discussion, we present the framework used to resolve the paradox – "the performance alignment matrix" – and its implications for strategy and PMM including suggestions for future research.

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