

Performance Management

MSc in Strategic Management Accounting

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Performance

Definitions:

- achieving aims
- delivering what customers want
- using minimum resources
- survival
- adapting to change
- maintaining 'licence to operate'
- ...

Performance criteria

- Effectiveness
- Efficiency
- Economy

Define in terms of inputs & outputs
Can you be efficient without being effective?

Performance measures

- Performance is multi-dimensional
- There is no overall single measure
- Need to address
 - Different stakeholders
 - Different strategies
 - Different parts of the organization
- Need to tailor to circumstances
- Measurement is relatively easy; management is more difficult

The rise of performance measurement

- League table society
 - Schools and GCSE grades (A-C %)
 - Railway on-time performance
 - Supermarkets
 - Bank manager
- WYMIWYG
 - What you measure is what you get
 - And what you don't, you get a bit less of

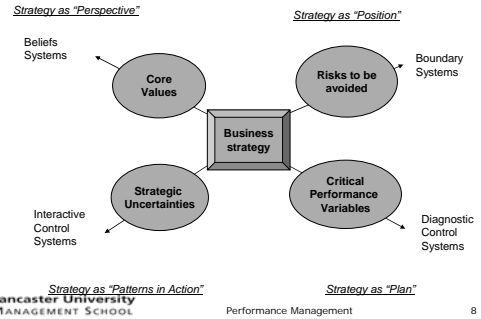
Performance management

- Measurement only one part of management
- Need to consider objectives of measurement
- Also potential 'downsides' of specific measures
- Dangers of using performance 'indicators'

Some frameworks

- Simons 'levers of control'
- Otley's 5 questions
- Harvard 'balanced scorecard'
- Developing performance measures
- Overall framework
 - Ferreira & Otley's 12 questions

Simon's levers of control



Interactive control systems

- Strategic risk management
- Assumptions underlying strategy
 - economic
 - technological
 - marketing and consumer behaviour
- Additional monitoring systems
- Adaptation of strategy
 - incorporation of emergent strategy

Beliefs systems

- Shared purpose and values
- Commitment
- Ownership
- Linked to incentives
- Equity (and perceived equity) vital
- Culture
 - spending linked to expected returns

Boundary systems

- Setting limits
- True definition of strategy
 - not doing some 'good' things
 - return on management [ROM] ?
- Balancing creativity with constraints
- Regular reviews

Otley's five key areas

- Objectives and strategies
- Performance measures
- Targets
- Rewards (and penalties)
- Information systems

Otley (1999), Management Accounting Research

Five questions

- What are the critical success factors for each area of activity?
- What are suitable performance measures for these?
- What are the appropriate standards and targets that will indicate good performance?
- How are individual (and group) rewards connected with the achievement of these targets?
- What information is needed to monitor and control performance?



New answers are continually needed to these questions.

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The Balanced Scorecard

- o Four categories of measure
 - Financial
 - Customer
 - Internal business process
 - Long-term: innovation and learning
- o No more than 4 measures in each box (maybe more in Internal)
- o Extend Harvard model

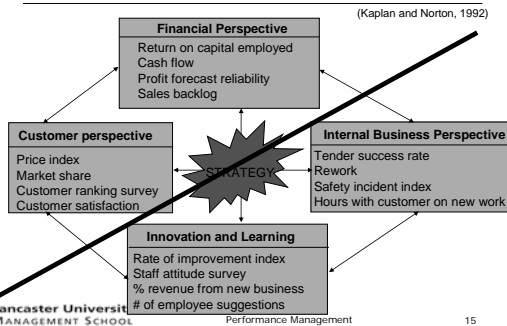


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Rockwater's balanced scorecard



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Categories of measure

- o Stakeholders
- o Business processes
 - Most measures concentrated here
- o Long term
- Plus
- o Risk management
- o Adaptability & flexibility
- o Corporate social responsibility



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Developing performance measures

- o Start with strategy
 - i.e. why is this important?
- o Develop PMs to focus on key areas
 - Avoid selecting from existing set
- o 'Constructive' testing of PMs
 - Accountants often good at this

Comprehensive coverage
Resistant to manipulation



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An extended framework



Note: The numbers assigned to each area correspond to the positions of the PMS framework.



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Strategies and structure

1. What is the vision and mission of the organization (if any) and how is this brought to the attention of managers and employees?
2. What are the key factors that are believed to be central to the organization's overall future success?
3. What strategies and plans has the organization adopted and what are the processes and activities that it has decided will be required for it to ensure its success?
4. What is the organization structure and what impact does it have on the design and use of the performance management and control system? How does it influence and is influenced by the process of strategy implementation?

Measures and targets

5. What are the organization's key performance measures deriving from its key objectives, key success factors, and strategies and plans? How does the organization go about assessing and measuring its success in achieving them?
6. What level of performance does the organization need to achieve in each of the areas defined in the above questions, and how does it go about setting appropriate performance targets for them?
7. What processes does the organization use for evaluating individual, group, and organizational performance? How important is formal and informal information on these processes? What are the consequences of the performance evaluation processes used?

Rewards and information

8. What rewards (both financial and non-financial) will managers and other employees gain by achieving performance targets (or, conversely, what penalties will they suffer by failing to achieve them)?
9. What specific feedback and feed-forward information flows has the organization devised for itself? What sort of feedback information flows have been created for monitoring current performance and bringing about adaptation of current behaviour? What type of feedforward information flows (if any) have been formulated to enable the organization to learn from its experience, to generate new ideas and to recreate strategies and plans?
10. What type of use is given to feedback and feedforward information flows and to the various control mechanisms in place? Is use predominately diagnostic, interactive, or a combination of both?

Links and change

11. How has the performance management and control system changed in light of the change dynamics of the organization and of its environment? What changes have occurred at the level of those systems in anticipation or response to such stimuli?
12. How strong and coherent are the links between the components of the performance management and control system (as denoted by the above 11 questions)?

Some principles

- Focus on behaviour change
 - What actions do you want to change or improve this period
 - Once these have been routinised, move on to next new behaviour
- Importance of expectations and promise
 - Only promise what you can deliver

Some principles

- Be precise about what you want
- Check that it's what you really want!
- Devise a few possible measures
- Refine into one measure
- Constructive testing is important
 - By other people
- Consider information needs
 - Avoid manipulation

Other important aspects

- Top management buy in
- Commitment of boss to measures
- Performance appraisal based on them
- Levels of target
- Avoid ratio measures if possible
 - Build target in

Key issues

- What behaviours do you want to promote?
- Can you devise a performance measure to encourage each of these?
- What are potential downsides?
- Test and revise
- Embed incentives

Conclusions

- Overall perspective – Simons' LoC
- Specific techniques available
- Questions for analysis

- Performance measurement is a powerful means of management – perhaps too powerful!
- An aid not an answer!