15 Performance Measurement

15.1 Introduction and objectives

Performance measurement techniques evolved in response to the weaknesses of financial measures, this is not to say that financial measures do not have a place, but that reliance on these alone is insufficient to properly manage a business. A range of models have been developed which combine financial and non-financial measures to provide a more holistic view of the performance of organisations, these measures are termed multi-dimensional performance measures. This chapter will explain the development of these approaches, present the main models or frameworks and explain how they are used in the hospitality, tourism and events industries.

After studying this chapter you should be able to:

- Understand the need for a range of measures to monitor businesses
- Describe and critically evaluate the main performance measurement frameworks
- Appreciate the developments in this area and understand the links to strategic management accounting
- Understand the practice and value of benchmarking in specific industry sectors.

15.2 Performance measurement history and development

There has been increasing recognition that measuring performance requires more than a financial focus, increasingly businesses use a range of metrics to provide a broad view of business performance. The old saying that ‘what get measured gets done’ means that if there a sole focus on profitability, then decisions are likely to focus on short-term means of maximising profit, such decisions as cutting staffing to save costs or outsourcing key processes to save money can have long-term effects. Thus traditional performance measurement with its emphasis on financials has been criticised for being short-term, narrowly focused, internally-orientated and backward-looking (Eccles, 1991; Kaplan and Norton, 1992).

In addition, it is widely recognised that the influence of globalisation and developments in information technology have changed the way companies do business (Neely, 1999), with increasingly sophisticated and empowered consumers and increased importance of supply chains (Atkinson, 2006). As a result companies must be more flexible and agile, pay more attention to customer needs and the marketplace, which means that they must monitor more than just financial results. The traditional measures of performance, such as profit and return on investment, are also criticised for being lag measures, in that they monitor performance after the events have taken place. Fitzgerald et al. (1991) emphasised the need to identify lead measures, which are items such as customer satisfaction and market share, which are drivers of financial performance and competitive success (Atkinson, 2006). So modern performance measurement systems will track a range of performance metrics and managers will be held accountable for performance areas such as customer satisfaction, staff turnover and new product innovation, as well as operating profit and return on investment.

Performance management has developed encompassing the use of multidimensional performance measures and drawing on principles and practices from a range of management disciplines, primarily management accounting, but also strategy, operations management, human resources management and marketing. The key premise of performance management is in setting the strategy and managing the resources to ensure the measures are achieved.

The major framework that links performance measurement and performance management that is most widely recognised is the Balanced Scorecard, developed by Kaplan and Norton in 1992. This model has become a major brand, but has also become a generic term for multi-dimensional performance measurement/management frameworks (in the same way that people call a vacuum cleaner, a Hoover, regardless of the manufacturer) so now many large companies from across the world will have some form of scorecard, it has also spread to public sector organisations from hospitals to higher education providers.

The scorecard notion developed by Kaplan and Norton has evolved through use such that the framework is much more than a collection of measures and has become a complete strategic management tool (Kaplan and Norton, 1996). A number of major organisations now have a scorecard, which is closely or loosely grounded in Kaplan and Norton's original ideas; these are integrated into sophisticated management control systems and are used to manage the business proactively.

15.3 Key frameworks and models

This section will present three of the major models that are utilised or have influenced performance measurement and management practice. These are the Results and Determinant model (Fitzgerald et al., 1991); the Balanced Scorecard (Kaplan and Norton, 1992) and the Performance Prism (Neely et al., 2002).

15.3.1 Results and determinant model

This model was developed from a CIMA (Chartered Institute of Management Accountants) funded multidisciplinary research project, which focused on service businesses in the UK. It recognises the distinctive nature of services; including intangibility, perishability, simultaneity and heterogeneity, and the implications this has for performance measurement. Grounded in operations management, service quality, marketing and accounting this model identifies six dimensions of performance, within two categories (see Figure 15.1).

	Performance dimensions	**Types of measures**
Results	Competitiveness Financial performance	Relative market share and position Sales growth Measures of the customer base Profitability Liquidity Capital structure Market ratios
Determinants	Quality of service	Reliability, responsiveness, aesthetics/ appearance, cleanliness/tidiness, comfort, friendliness, communication, courtesy, competence, access, availability, security
	Flexibility	Volume flexibility Delivery speed flexibility Specification flexibility
	Resource utilisation	Productivity Efficiency
	Innovation	Performance of the innovation process Performance of individual innovators

Figure 15.1: Results and determinants model, (Adapted from Fitzgerald et al., 1991: 8)

The key feature of this framework is the overt emphasis on lead versus lag measures and the detailed linked to empirically grounded theory in operations management. This model has been tested and developed by Fitzgerald and Moon (1996) working with four service firms in the UK. This revealed the importance of implementation and the need not merely to identify key measures, but also to set clear standards and equitable rewards. Table 15.1 summarises their findings, in terms of questions for firms to ask themselves.