The Performance Prism

Andy Neely and Chris Adams describe their 'Performance Prism' as 'a second generation performance management framework'. They claim that there are three major reasons why a new framework is needed to replace first generation models, such as the balanced scorecard and the performance pyramid:

1. It is no longer acceptable or even feasible for organisations to focus solely on the needs of one or two stakeholder groups. Most performance measurement frameworks focus on the needs of the owners, and possibly the customers of an organisation. Other stakeholders such as employees and suppliers tend to be forgotten about.
2. Most performance measurement frameworks ignore the changes that must be made to the organisation's strategies, processes and capabilities in order to meet the needs of stakeholders. It is assumed implicitly that if you measure the right things, the rest will fall into place automatically. This is often not the case.
3. Stakeholders must contribute something to the organisation. There is a 'quid pro quo' between the organisation and its stakeholders – stakeholders expect something from the organisation – but the organisation also wants something in return. Performance measurement should consider whether such stakeholders are delivering what the organisation wants from them.

Neely and Adams also believe that many organisations in recent years have become obsessed with measurement. Management are measuring too many things, in the belief that by doing so they must be controlling their organisations well. This trend has been confounded by the development of sophisticated IT systems that can provide a whole raft of reports to management.

The problem with this increase in measurement is that management start to micro-manage their organisations and lose sight of the strategic side of management. There is also the cost of providing the information, and the management time spent on it, compared to the questionable benefits that the measurement brings.

Management do not need more reports – they just need to know what is going on in the business. Measurement should be a process of gathering management information, not simply measuring everything.

The five facets of the prism

The Performance Prism aims to manage the performance of an organisation from five interrelated 'facets':

1. Stakeholder satisfaction – who are our stakeholders and what do they want?
2. Stakeholder contribution – what do we want and need from our stakeholders?
3. Strategies – what strategies do we need to put in place to satisfy the wants and needs of or our stakeholders while satisfying our own requirements too?
4. Processes – what processes do we need to put in place to enable us to execute our strategies?
5. Capabilities – what capabilities do we need to put in place to allow us to operate our processes?
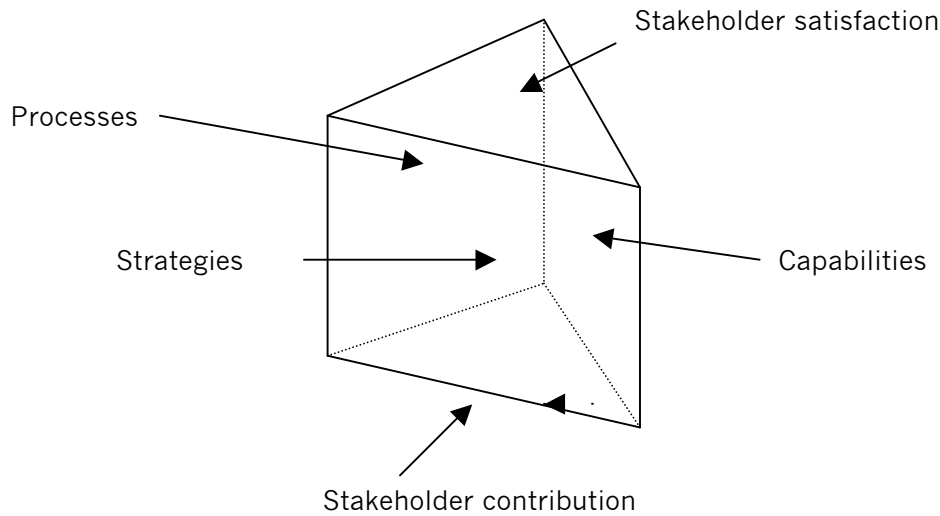
The Prism is designed to be a flexible tool – it can be used for commercial or non-profit organisations, big and small. When light is shined into a prism, it is refracted, thus the Prism shows the hidden complexity of white light. According to Neely and Adams, the Performance Prism illustrates the true complexity of performance measurement and management.

Stakeholder satisfaction
The first facet of the Prism focuses on who are the stakeholders, and what do they want. Here, the importance of stakeholder mapping is recognised. Stakeholder mapping means identifying the key stakeholders, and determining how important each of them are to the organisation. This may be based in how much power they have, and on whether or not they are likely to use it. If the majority of employees are members of a trade union, for example, then it is likely that the trade union will hold significant influence over the organisation.

If organisations do not keep the most influential stakeholder groups happy, then this will impact on financial performance in the long run. Dissatisfied employees, for example, will be less motivated or may leave the organisation, causing expenses of hiring and training new employees. Organisations need to identify the most important stakeholders, and what they want from the organisation. They must then identify performance measures to monitor how well the organisation is meeting these needs.

The major stakeholders of an organisation and what they might want typically are as follows:
- Investors – both equity and debt investors typically want a return on their investment in the form of capital gains, reward for loyalty in the form of dividends or interest, accurate results and reports from the organisation, and faith in the management team.
- Customers – want 'fast, right, cheap and easy'.

- Employees – they seek interesting work, wish to be cared for by their employer, to learn transferable skills and to receive decent level of remuneration.
- Suppliers and joint venture partners – they want a relationship that allows them to be profitable, and enables their business to grow. They also want to receive feedback on their performance. They want to be trusted.
- Regulators want organisations to act legally, to act fairly, to act safely, and report truly their actual activities. These are summarised as legal, fair, safe and true.

Stakeholder contribution

Organisations are becoming more demanding in what they expect from their own stakeholders. In the second facet of the Performance Prism, users need to identify exactly what it is that the organisation wants from those stakeholders, and then come up with ways to measure whether or not the stakeholders are providing it.

A good example is customers. Many earlier performance measurement frameworks such as the balanced scorecard do ask 'what do our customers want from us?' They do not consider 'what do we want from our customers?' Organisations normally want loyalty and profits from their customers and many organisations have started to perform customer profitability analysis. Some have found some surprising results – for example, customers whom they thought were their most valuable turned out to be loss making when activity-based approaches to customer profitability analysis were used. Customer profitability analysis is an example of how contribution from customers can be measured.

Regarding the other major stakeholder groups, the following are examples of what organisations might want from them:
- Investors – capital for growth, and the willingness to take on more risk.
- Employees – flexibility, multiple skills
- Regulators – better understanding of the business sector and the ability to regulate across borders. Also, efficient working relationships and lack of bureaucracy.

Strategies

Many performance management frameworks start with strategy, and there is a myth that having identified the strategy of an organisation, selecting appropriate performance measures is easy. This is largely because many people confuse strategy and goals. In the Performance Prism, strategy means how the goal will be achieved. It is the route the organisation takes to reach the goal, not the goal itself. The goals are defined in the first two facets of the Prism.

In the strategies facet of the Performance Prism, therefore, we ask 'what strategies should the organisation be adopting to ensure that the wants and needs of its stakeholders are satisfied, while ensuring that its own requirements are satisfied too?'

Having identified the appropriate strategies, performance measures will be identified that can be used to determine whether the selected strategies are working. The purpose of performance measures relating to strategies is four fold:
- To show how well the strategies are being implemented.

- To communicate the strategies within the organisation.
- To encourage the implementation of strategies by managers.
- To see if the strategies themselves are still appropriate.

Processes
After identifying the strategies, organisations need to find out if they have the right business processes to support the strategies.

Many organisations classify four business processes as follows:
- Develop products and services
- Generate demand
- Fulfil demand
- Plan and manage the enterprises.

These processes can then be sub-divided into more detailed processes. Each process and sub process will have to have a process owner who is responsible for the functioning of that process. One sub process of 'plan and manage the enterprise', for example, might be 'recruitment', and it is likely that the head of human resources would be responsible for this process.

Measures will then be developed to see how well these processes are working. Management will have to identify which are the most important processes, and focus attention on these, rather than simply measuring the functioning of all processes. Business process reengineering may be used at this stage to identify any redundant processes. Value chain analysis may also be employed to identify what are the key processes. Value chain analysis is discussed in more detail later in this article.

Capabilities
Capabilities are the people, practices, technologies and infrastructure required to enable a process to work. It is important that the right capabilities exist within an organisation in order to support the processes identified in the processes facet of the Performance Prism.

Neely and Adams provide the example of an order to cash fulfilment process in an electronics business. This particular process may require the following capabilities:
- Customer order handling
- Planning and scheduling
- Procurement
- Manufacturing
- Distribution
- Credit management

In the capabilities facet of the Performance Prism, the organisation needs to identify which capabilities are required, and identify performance measures to see how well these capabilities are being performed.

Benchmarking is likely to be used extensively in measuring the organisation's capabilities. In this respect, benchmarking is used to determine if the organisation has the right skills, not just currently, but also to take the organisation forward into

the future. So the focus here is not in simply measuring existing performance, but that the correct skill sets exist. The McKinsey 7s model may also be used to help to ensure that all the capabilities of the organisation are coordinated. The 7s model is described in more detail later in this article.

**The link between strategies, processes and capabilities**
The facets of the Performance Prism are interlinked and should support each other. The required strategies are identified, then the processes required to achieve these strategies, followed by identifying the capabilities required to perform the processes. This is very much a top-down process, similar in some ways to the Lynch and Cross Performance Pyramid.

The most important development in the Performance Prism is the focus on identifying the needs of a wider range of stakeholders, as well as identifying what the organisation wants from its stakeholders in return.

Value chain analysis
Porter's value chain model is perhaps the most well-known tools for analysis of the value chain. The value chain views the organisation as a set of interlinked activities, rather than a set of separate departments. Each activity should add value to the product or service passing through it, so that ultimately value will be added to what the customer buys.

Porter identifies five primary activities and three support activities as shown in the diagram below:
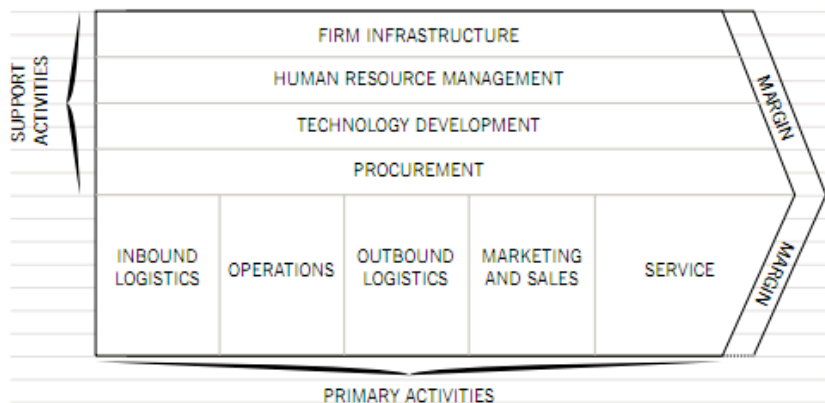
By viewing the organisation as a set of processes, management can plan ways to improve the processes so that further value can be added, or costs can be saved.

Process change can take place at different levels:
- Process reengineering – this is a fundamental rethink of the business processes that the organisation carries out, usually driven by changes in the external environment.

- Process re design – this focuses on an extensive improvement in current business processes, and may involve automation of certain processes, and changes in job descriptions.
- Process improvement – this means modifying existing processes, but not replacing them.

The value chain analysis can be used as a tool within the performance prism to help in the processes facet, where the management are asking 'what are the processes that we have to put in place to meet our strategies?'

McKinsey's 7s model

McKinsey's 7s model focuses on seven factors that must be considered and aligned when planning organisational change. The seven factors are divided into the 'hard factors' – those that can be easily influenced by management – and 'soft factors', which are more intangible.
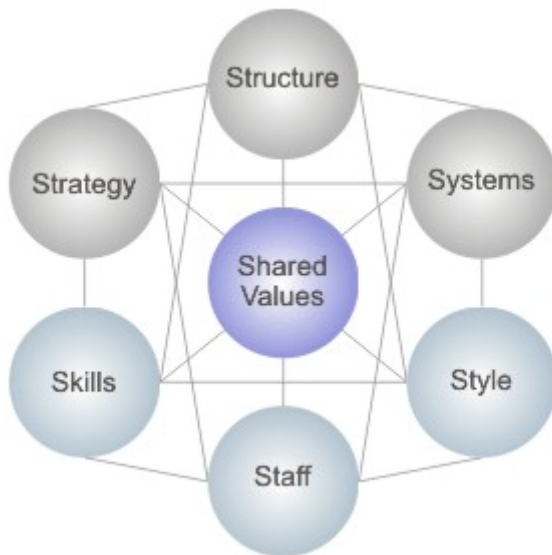
Hard factors

The hard factors are:

- strategy – how the organisation will build competitive advantage
- structure – how the organisation is structured, who reports to who
- systems – the daily procedures and technical infrastructure that is used to help employees achieve their aims.

Soft factors

Equally important are the soft factors, which consist of:

- shared values – the central factor that influences all others. This reflects the beliefs of the organisation, and would include the mission and vision
- staff – the employee base, staffing plans and talent management
- skills – the ability to do the organisation's work. It is reflected in the performance of the organisation
- style – the style of management, and the culture of interaction among staff.

The model can be used to identify what capabilities the organisation needs to perform its processes, and ultimately to meet its business strategy. As such, it can be a useful tool for using alongside the Performance Prism, when trying to ask the question 'what capabilities do we need to improve our business processes?'

The Performance Prism in practice
Some well-known companies have used the Performance Prism. The most high-profile cases are the UK division of DHL, the international courier company, and House of Fraser, a British retailer. Following is a brief illustration of these.

DHL (UK)
The board of DHL (UK) was meeting monthly to review the performance of the business. There was increasing frustration that these meetings focused too much on detailed operational data, and that management were not obtaining the information required to manage the organisation more effectively at a strategic level.

During the year 2000, the board decided to replace the monthly performance meetings with a quarterly meeting during which a more strategic approach would be taken. They decided to adopt the Performance Prism as a framework for these meetings.

The process started with the identification of the wants and needs of the key stakeholders, and their contribution to the business. Particular strategies were developed for each of these stakeholder groups, followed by identifying what processes were required to support those strategies, and what capabilities were required to support the processes.

Having identified the strategies, processes and capabilities required the management then discussed which performance measures were necessary. It might be assumed that the organisation simply identified a list of performance measures for each strategy, process and capability identified. However, this was not the case. As Neely and Andrews say: 'As an executive in a business, I do not necessarily want to know the minutiae of how many packages were delivered on time... I want information. I want answers to questions. The measures are merely a means of assessing data that allows me to answer questions.'

The directors asked themselves 'what questions should we be asking at the quarterly performance review, which will enable us to assess whether our plans for the business as outlined... are being realised?' These questions were then used to identify which measures might be appropriate to the organisation.

While detailed data on the performance measures identified in the DHL (UK) case are not published, Neely and Adams do provide some examples of the questions the directors asked, and the appropriate performance measures relating to customers:

	Stakeholder satisfaction	Strategies	Processes	Capabilities
Questions	How are our customers feeling and what are they doing? What are our competitors doing?	Are we well positioned in the market? Is our revenue quality strategy working?	Do we have the processes in place to support our long-term strategies? 1. Revenue volume 2. Revenue quality 3. CRM (including customer interface)	Do we have the money needed to sustain market leadership? Do we have the human resources to drive differentiation? Do we have the right product offering? Do we have information to manage these processes?
Key measures	Complaints/ feedback Loyalty/ retention analysis Market share	Customer research (satisfaction) Market share Customer mix Product mix Year on year revenue volume growth	Pipeline Call rate Sales account planning	AP&P spend System availability – IT

As a result of using the Performance Prism model, the directors of DHL (UK) believed that the quarterly performance review meetings became much more useful. The business process director commented: 'We have moved from scrutinising lots of numbers that told us very little to asking pertinent questions about how we are doing and where we are going.'

The use of the Performance Prism helped management of DHL to really manage the business on a strategic level, and understand what was going on, so better decisions could be taken on how to improve performance.

London Youth
London Youth is a not-for-profit organisation that operates 460 youth clubs in London. Its mission is to assist the development of children and young people – in their physical, mental and spiritual capacities. It does this by organising educational and social activities for children. The organisation adopted the Performance Prism as a means of managing its performance.

The organisation identified its key stakeholders as being young people, youth workers and youth club management committees, London Youth staff and funders. Examples of some of the results of the analysis using the performance prism are as follows:

Performance prism facet	Example of objective	Performance measure
Stakeholders' wants	Youth workers satisfaction	Youth worker satisfaction and needs survey trends
Strategies	Improve the range of activities	Number of new products and services offered
Processes	Organise events	Number of participants per event trend
Capabilities	People	Investors in people accreditation levels
What do we want from our stakeholders	Funders	Level and percentage of cash inflow from each income source

Finally a performance measure record sheet was developed for each measure selected. This documents the purpose, frequency of measurement and ownership of each measure. This is produced by both staff and management, with the advantage that staff will better understand the purpose of what they are being measured against and, therefore, are more motivated to try to achieve the targets.

Conclusion
The Performance Prism is a rigorous framework for assisting companies to manage their performance. Unlike older frameworks, it requires an analysis of stakeholders and their needs before considering strategy. It also considers what processes and capabilities are required to support the strategy before identifying appropriate performance measures. This should lead to performance at all levels of the organisation that is consistent with the strategy of the organisation, and help it to meet the needs of a wider group of stakeholders.

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