WHY MEASUREMENT INITIATIVES FAIL

Andy Neely and Mike Bourne
Centre for Business Performance
Cranfield School of Management

Organisations, the world over, are re-engineering their measurement systems. The latest data from the Gartner Group suggest that between 40 and 60% of large U.S. firms will have adopted balanced scorecards by the end of 2000. On the conference circuit there is a clear increased sophistication of performance measurement theory and practice. But, despite all this activity, it is claimed that 70% of balanced scorecard implementations fail.

This article argues that there are two main reasons why measurement initiatives fail. The first is that measurement systems are often poorly designed. The second is that they are difficult to implement. The article will explore both of these reasons in more detail, but will begin by reviewing the revolution that is taking place in the field of performance measurement to set the scene.

The Measurement Revolution
The last 20 years has witnessed a revolution in performance measurement. The first financial ratios and budgetary control procedures were developed in DuPont and General Motors during the early 1900s. These were widely adopted and hardly evolved during the subsequent 80 years. In the early 1980s, however, people began to recognise that pure financial reporting was an inadequate basis for managing modern businesses. Times had changed, but performance measurement had not kept up.

In the late 1980’s there was a surge of interest in new measures, but the vast majority of people discussing their organisation’s measurement systems spoke about isolated initiatives. They talked about introducing measures of shareholder value, economic profit, customer satisfaction, employee satisfaction, internal operations performance, intellectual capital and intangible assets. At that time each of these individual measures of performance was designed to supplement the pre-existing financial measures.

Then, in the early to mid 1990’s the agenda shifted and more attention was paid to measurement frameworks, such as the Balanced Scorecard and the Performance Prism. Suddenly practitioners were interested in developing integrated, rather than piecemeal, measurement systems. There was a growing need to answer the question - “how can we be sure to select a balanced and integrated set of measures”. As more and more people started to work on this topic it became increasingly apparent that there was immense value in the act of deciding what to measure. The major reason for this is that the process of deciding what to measure forces the management team to be very explicit about they language they are using. No longer is it sufficient for the management team to say - “we want satisfied customers or happy employees”. Instead the management team has to explain what they mean by satisfied customers, because if they do not then there is no way they can decide how to measure whether
or not their customers are satisfied. Hence the act of deciding what to measure forces the management team to clarify their language and define precisely what their strategy encompasses.

The next major theme to emerge was the notion that measures, once precisely defined, offered an excellent way of achieving goal congruence or organisational alignment. Clearly defined measures, often linked to clearly defined payment systems, resulted in clarity of communication about what mattered to organisations. Hence many commentators in the field started to talk about the importance of measurement as a means of communication and encouraging implementation of strategy.

Of course it is all very well to have a clearly defined performance measurement system, that is well communicated, but unless the measurement system is successfully implemented its ultimate impact will be limited. Unfortunately many people in organisations appear to find the process of designing a measurement system far easier than the process of implementing a measurement system. There are several reasons for this, but they can be grouped into two different categories, which in turn explain why so many measurement systems fail.

The first set is actually to do with the process of deciding what to measure. Despite its apparent simplicity, far too often managers make fundamental mistakes when deciding what to measures and these in turn make implementation of the performance measurement system almost impossible.

The second set of reasons is to do with the implementation process. Even if the right measures have been chosen, decisions can be taken during the implementation phase which make the measures effectively impractical in a particular organisational setting. The rest of this article looks at these reasons for performance measurement system failure in turn and offers some thoughts on how to avoid the most common pitfalls.

Inappropriate Design of Measurement Systems

The key to designing a good measurement system is to start, not with the question ‘What should we measure?’ but instead with the organisation’s success map. The success map is a cause and effect diagram that explains the organisation’s strategy and the manager’s theory about how the business operates. The success map explicitly lays out the levers that managers can pull and the impact that pulling these levers will have on the business’ performance. A success map for a typical manufacturing company might, for example, argue that it is necessary for the business to improve operating efficiency. The way the business is going to improve operating efficiency is by improving delivery on time. The way the business is going to improve delivery on time is by reducing lead times and improving stock control. And the way the organisation is going to reduce lead times and improve stock control is by getting ideas from employees about how to achieve these ends (see figure 1).

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Insert figure 1 here: Sample Success Map

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Each of these statements, improve delivery on time, reduce lead time, improve stock control, gain ideas from employees, is effectively a lever that management can pull to achieve the overall objective, which is improve operating efficiency. By getting the right ideas from employees and implementing them it is assumed that lead times can be reduced and stock control improved. It is assumed that by improving stock control and reducing lead times, delivery performance can be improved. And it is assumed that by improving delivery performance, operating efficiency can be improved.

Once the success map has been described then it becomes possible to identify the right measures of performance, because clearly the appropriate measures will be those that relate to the levers that the management of the organisation deem are the most important to pull at this particular point in time.

Far too many organisations fail to understand the importance of the success map when developing their performance measurement systems and simply end up brainstorming what they should measure and then putting the resultant measures into some form of performance measurement framework. The net result is that in many cases organisations do no more, than simply repackage their existing measures when seeking to improve their measurement systems by implementing a balanced scorecard. Often the scorecards introduced by organisations do not reflect the organisation’s strategy and when other people see the measures on the scorecard they can see no rationale or logic for the measures. As a result people in the organisation start to question the validity of the measures. In such cases it is not uncommon to hear the complaint – before you asked us to focus on one measure – profit, or return on investment or market share. Then we understood what the priorities were and we could take action designed to help move us towards our goals. Now you have given us sixteen seemingly unrelated measures. How can I cope with this? I don’t know anymore what our priorities are? The net result, of course, is that the performance measurement system fails, quite simply because the new set of measures make no sense. They do not reflect the organisation’s strategy and they do not help people to understand what the organisation’s priorities are.

**Implementation Failure**

Even in those cases where the organisation manages successfully to identify the right set of measures, then all too often the measurement initiative fails because of difficulties during implementation phase. These difficulties cluster under three main headings – political, infrastructural and focus. The political challenges associated with measurement relate to the fact that many people feel threatened by measures. In far too many organisations there is a legacy of the measurement system being used as a big stick. Far too often people can recollect examples where senior management has used measurement data to score points over other managers and illustrate why they are failing to perform. In such organisations, especially where there is a culture of blame, measurement becomes almost impossible because nobody really wants measurement data to become available. The net result in many such cases is that people begin to play the numbers game. They worry about how to deliver the measure (or the number), rather than delivering real performance. Classic examples of this abound. In call centres, where the average time taken to answer the phone is used as a key measure, it is easy to find operators making lines ring busy when they are heavily loaded, simply to avoid particular calls being noted as unanswered within
the target time. Alternatively operators pick up phones and put them back down again without ever speaking to the person at the other end, just to ensure that the call is answered within seven rings.

In such settings it is essential that the measurement system be introduced in a way which eliminates or reduces the opportunity for it to be used as a big stick. Numerous organisations, for example, have decided to give access to the measurement data to those who are being measured before management. This means that those who are being measured have an opportunity to review the data and decide what actions, if any, need to be taken, before managers have even had the opportunity to review the performance reports. When the managers finally do see the performance reports, the only sensible question they can ask is “what are you doing to make the situation better”.

The second reason measurement systems fail in implementation is simply through lack of infrastructure in the organisation. We say simply, but in fact this is a major issue in many organisations. In most businesses the data to calculate particular performance measures exists in one form or another. The problem is that the data is spread throughout the entire organisation. It is held in unrelated, unlinked databases, often in inconsistent formats. It is not uncommon in organisations to find, for example, that customer satisfaction data are the property of an external third party that conducts the customer satisfaction surveys. Employee satisfaction data, similarly, are the property of a separate external third party that conducts the employee satisfaction surveys. Operational data are held in the operations function, possibly in an Enterprise Resource Planning (ERP) system. The sales department holds sales data. While financial performance data are held by finance. The ability to integrate these diverse data sets into a single database that really can be mined effectively, quite simply does not exist in many organisations. The amount of time, effort and resource required makes the task prohibitive and even when organisations set out to re-engineer their information systems infrastructure on the back of their measurement system redesign, they do not realise the enormity of the task they are undertaking. The senior management team may have been through a robust process and developed a set of measures that really reflects the organisation’s strategy, but then they are frustrated by the fact that it takes so long to get access to the data they require. In the meantime, the IT department is desperately trying to access and integrate these diverse data sources that exist within the organisation.

The time, effort and resource required is often the downfall of the measurement system and the route cause of the third major reason why implementations fail – loss of focus. Too often individuals get frustrated that the process of building up and implementing the infrastructure is taking too long. It is important at the outset to understand that building a measurement system is more akin to a long march than a quick hike. A quick hike is rapid. Things get done quickly. Changes are seen rapidly. The whole process is over soon, but the benefits usually don’t last.

Long marches can lead to permanent change, provided the march is completed. But on a long march people get tired and weary. So it is with the development of the infrastructure required for measurement. Senior executives have to recognise that this is a long, slow process. There is a real need in the organisation to boost energy levels regularly to ensure that the process continues through to completion. Without this the
frustrations with developing the infrastructure, with accessing the data, with clarifying definitions of measures and so on, mean that people quite simply get tired and bored with the process. Too often the organisation’s priorities shift and attention is no longer is devoted to the act of establishing the infrastructure, with the obvious result. A good set of measures may have been defined originally, but the infrastructure is never put in place, so they can never be used.

The Ultimate Sin
Performance measurement is too important and too costly to get wrong. Data on how much organisations spend on performance measurement are rare, but a recent study by the Hackett Group found that the average organisation spends 25,000 person days on performance measurement and planning for every 1 billion dollars worth of sales. This immediately raises two questions. How can the performance measurement process be made more efficient and how can the performance measurement process be made more effective.

The efficiency issue is associated with simplicity and automation. The trick is to measure as little as possible, but to ensure that you are measuring the things that matter. The effectiveness question is a completely separate topic, because many organisations quite simply fail to extract value from the performance measurement data. Even when they have been through the process of designing a good measurement system and then implemented it successfully, far too often nobody manages with the measurement data. This is becoming an increasing issue in modern organisations. There are a growing number of businesses that have put in place superb infrastructures to support their performance reporting systems. Then one observes that managers do not analyse the performance data. They are not aware of the tools and techniques that are available to help them understand the messages inside the performance data. They have no improvement process that is linked to the measurement data. They have no way of assessing whether any improvements that are seen are rapid enough or linked directly to the actions they have taken.

The whole process of measuring performance is completely wasted unless action is taken on the performance data that are produced. Far too often, and in far too many organisations, management fails to do this. They produce the charts. They produce the reports, but then they fail to analyse the data and decide what they are going to do differently inside the organisation to ensure that next month’s figures are better than this month’s figures. It is almost as if managers today have become so obsessed with measuring performance, that they no longer have time to act on the performance data once they have been gathered.

We need to recognise the changing nature of the measurement crisis. In the 1980s and early 1990s, the fundamental problem was that we were measuring the wrong things. Now the problem is that we are measuring too much. We need to stop trying to quantify everything that walks and moves and worry more about how to extract the value from the data we have access to. The process of designing measurement systems is well understood. The issues associated with the implementation of measurement systems are well recognised. The question that we need to address as we move into the 21st Century is how do we extract the maximum value from our performance measurement data?
About the Authors

Andy Neely is Director of the Centre for Business Performance at Cranfield School of Management and Professor of Operations Strategy and Performance. Prior to joining Cranfield University he held a lecturing position at Cambridge University, where he was a Fellow of Churchill College. Andy has been researching and teaching in the field of business performance measurement since the late 1980s. He chaired the first and second international academic conferences on performance measurement, in July 1998 and July 2000 respectively and has authored over 100 books and articles on the subject, including “Measuring Business Performance”, which was published by the Economist. He has consulted to and worked with numerous international organisations helping them to design, implement and extract value from their performance measurement systems.

Mike Bourne is a Lecturer within the Centre for Business Performance. He has spent the last five years researching the success and failure of performance measurement initiatives through helping the senior management teams from 20 different businesses through the process of designing and implementing their performance measurement systems. He is co-author of the book “Understanding the Balanced Scorecard in a Week” and editor of the forthcoming “Handbook of Performance Measurement” being published by Gee. Before his academic career, Mike held a wide variety of positions in industry from Production Management and HR to Strategy and Acquisitions and General Management.