The Measurement of Organizational Performance with a Focus on Stakeholders: A Performance Prism Approach

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Abstract

The measurement of organizational performance has undergone changes in relation to its measurement focus. From a uniquely financial perspective, it began to consider other non-financial perspectives, as well as to include a cause and effect relation between the operational dimension and the strategic dimension of organizations. Based on this current view, Performance Prism presents itself as a performance measurement system alternative to be used by organizations, with its main focus being the stakeholders in its field of operation.

The objective of this study is to present a conceptual approach to the measurement of organizational performance by means of a review of literature, introducing the Performance Prism as the system for this measurement. Besides introducing the entire conceptual structure, based on the authors who proposed the model, Andy Neely and Chris Adams, this paper introduces a theoretical review regarding the concepts of performance measurement, differentiating the new tendencies of new approaches and showing the relation between performance measurement systems and the management of organizational performance.

The Performance Prism model presents itself as a new performance measurement system alternative within the current need that goes beyond the financial approach.

In relation to the Balanced Scorecard, a broadly used model nowadays, Performance Prism stands out for having a broader aspect with regard to the stakeholders considered, which are the model’s core focus.

However, literature shows that the Performance Prism does not stand out yet as a broadly used model in the world. We conclude that this model can contribute towards organizations that seek changes in how they manage performances, mainly due to the fact that most often the stakeholders that belong to the environment in which they are inserted are who
generate the sustainability of these organizations, and therefore it is reasonable that they should be the focus of this organizational performance.

**Keywords:** performance measurement; performance prism; stakeholders.

1. **Introduction**

   The measurement of organizational performance has undergone changes in relation to its measurement focus. From a uniquely financial perspective, it began to consider other non-financial perspectives, as well as to include a cause and effect relation between the operational dimension and the strategic dimension of organizations. Based on this current view, Performance Prism presents itself as a performance measurement system alternative to be used by organizations, with its main focus being the stakeholders in its field of operation.

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2. **Measuring performance in the new context**

   For a long time, performance measurement was focused only on financial indicators, failing to address other perspectives influencing an organization’s global performance.

   Eccles (1998) understands that not considering financial indicators as the basis for performance measurement and treating them solely as a single aspect in a broader array of indicators is a requirement for this current competitive environment.
Bogan and English (1997) present a differentiation among performance indicators in past and current contexts. Figure 1 shows the indicator set known as “old performance indicators”, focused on finance.

Source: Bogan and English, 1997, p. 60

Figure 1 – Old performance indicators

Figure 2 shows the approach with quality seen together with the financial aspects. Currently, other non-financial dimensions are included, as well as stakeholders such as clients and employees. In this context, changes shown in Figures 1 and 2 reflect the transformation of this performance measurement approach using only financial indicators into a set of financial and non-financial indicators.

According to Cavenaghi (2001), for years financial performance measurement was seen as the only way, the correct and legitimate way of assessing effectiveness and efficiency in an organization.

Drucker (1998) stresses that, regarding performance, it is important to consider the strategic approach that goes over an organization’s internal boundaries, overcoming the vision contemplating cost centers and approaching issues like proprietary and third-party technologies, changes in economy, markets, clients and future targets and financial markets.
Dornier et al. (2000) see performance indicators as a guide for making investments, defining goals and also benchmarking vs. the actual status, in addition to a facilitating instrument for predicting and reducing uncertainties, identifying high priority actions, helping in engaging and managing staff and being a dynamic tool reflecting the organization's behavior.

For Simons and Dávila (2000, p. 73), “classic financial indicators for measuring performance, i.e. return on net assets, return on assets and return on sales, are useful, but are not specifically destined to reflect the company’s quality of work when implementing strategies”.

According to Corrêa and Caon (2002), traditional corporate performance measurement systems, in addition to focusing almost exclusively on financial indicators, did not support adequate decision making by the executives, since they did not adequately reflect the level in which the organization is being able or unable to reach meet strategic goals.
According to Miranda and Silva (2002), any action to be implemented in a company needs follow-up to know to what extent it is progressing regarding defined goals and which corrective actions should be adopted if required. According to these authors, companies need to valorize performance measurement for the following factors:

- Controlling the company's operating activities;
- Feeding employees’ incentive systems; and
- Controlling planning.

Thus, performance measurement needs to be a part of the control process, involving strategic, tactic and operating levels, continuously assessing planning and actions implemented under different perspectives, such as clients, processes, collaborators, shareholders and other that can interfere with an organization’s global performance, not solely contemplating the financial perspective.


To Neely et al. (1995), a performance measurement system must contain individual indicators, but inter-related regarding a specific environment, as shown in Figure 3. According to these authors, when designing a performance measurement system the following aspects must be considered:

- What performance indicators are to be used?
- What are they used for?
- How much will they cost?
- What benefits will they bring?
According to Lebas (1995), measuring performance and managing performance are not separated. He states that there is an interactive process between those two aspects. Performance management is an organizational philosophy supported by performance measurement. According to the author, approach types are different, but in the first case, it is worried with related issues, such as training, incentives, compensation, management style and communication. In the second case, it is aimed at measuring potential, inputs, outputs and deviations.

Bititci, Carrie and Mcdevitt (1997) understand the performance measurement system as the information system that represents the core of the performance management process. Figure 4, presents the performance management system according to the authors and the position of the performance measurement system.
For these authors, performance management is the process in which a company manages its performance aligned with corporate and functional strategies. The goal of this process is to promote a continuous, proactive control system where functional and corporate strategies are outspread to all business process, activities, tasks, and people and feedback is obtained through a performance measurement system, allowing for an adequate decision making management.

According to Martins (1998), the performance management process must be the way in which a company manages performance, aligned with corporate and functional strategies and goals derived from these strategies. According to this author, strong market competitiveness characterizes corporate environment, requiring products with quick technologic innovation.
and short life cycles, forcing the performance management to be aligned to these concepts, as presented below:

- Acknowledgement of manufacturing (operations) as the missing link in company strategies and a subsequent source of competitive advantage;
- Appearance of Total Quality management as a management philosophy – continuous improvement for products and processes;
- Leaving the mechanistic view of the world for a systemic view;
- Company aimed at the satisfaction of its stakeholders;
- Multiple competitive criterions: quality, cost, reliability, time, flexibility, innovation and service;
- Importance of integrating the company's supply chain, both external and internal; and
- Valuing teamwork and proactive decision making, anticipating potential future problems.

Regarding the performance measurement system, Martins (1998) sees it in the core of the performance management process, integrating all relevant system information, such as strategy development and review, managerial accounting, management by objectives, non-financial performance indicators, bonus incentive structure and individual performance evaluations. For this author, new performance measurement systems must possess the following characteristics:

- Be aligned with competitive strategy;
- Contemplate financial and non-financial indicators;
- Drive and support continuous improvement;
- Identify trends and advancements;
- Be clear in cause-effect relationships;
- Be easily understood by employees;
- Encompass the entire supply chain process;
- Real-time information and be dynamic; and
- Evaluate the group, not the individual, in addition to influencing the attitude of collaborators.

For Corrêa and Corrêa (2005), performance measurement systems are part of the control and planning cycle, crucial for operations management, provided that performance indicators provide the means for collecting performance data that, after evaluated according to certain standards, support the decision making process. According to these authors, establishing an adequate performance evaluation system is crucial for influencing desired behaviors in people and in operations systems so that certain strategic intentions are more likely to become actions aligned to the desired strategy.

Thus, performance measurement systems provide, through a set of information, support for the performance management process, which has a broader approach. When designing a performance measurement system, one must understand the adoption of measurements, in terms of acquisition costs, justification and utilization and these must be inter-related, being part of the organization’s planning and control cycle.

4. Performance Prism as a Performance Measurement System

Evaluating organizational relationships with its main stakeholders and their links to strategies, processes and competencies can be a way to leverage and improve corporate performance.

For Frost (2000), depending on business nature, stakeholders can be external, internal clients, regulation authorities, shareholders and others. This author understands one should consider all stakeholders involved with the organization, to the extent of if one is forgotten in
the management and evaluation system, consequences can be dramatic for the business. “Our business is to create value for our stakeholders; our first job is to know who those stakeholders are and what they value in our performance” (FROST, 2000, p.31).

The Performance Prism was created by Nelly and Adams (2000). These authors proposed the model from the premise that several approaches or methodologies for measuring performance have their own context; nonetheless, they all seek to measure performance. In this context, these authors propose the Performance Prism, stating that it is a broader model, since it considers the five surfaces of a prism.

According to Adams and Neely (2003), in the structure of the Performance Prism, stakeholder satisfaction, as well as its contributions act at the core of the search for success in an organization. For the authors, even though process perspectives, strategies and competencies are involved and serving as supporting perspectives to reach stakeholder satisfaction or receive their contribution, as shown in Figure 5, stakeholders are the focal point of Performance Prism.

According to Neely, Adams, and Crowe (2001), the model has been applied in a real number of situations. It has also been used in mergers and acquisitions, aimed at improving these processes.

Adams and Neely (2006) understand that the Balanced Scorecard, proposed by Kaplan and Norton (1992), takes only three stakeholders into account: investors, clients and employees. The Performance Prism also considers employees, vendors, intermediaries, regulation authorities and the community. The model considers stakeholder satisfaction and contribution in a unique way.
Since this model is derived from the process strategy, thus acknowledging the required competencies, the Performance Prism promotes a more comprehensive approach and stimulates views at a magnified angle, in other business dimensions, where possibly performance is missing in the measurement structure. The result is much more realistic for business leadership (ADAMS; NELLY, 2006).

Each of the fine surfaces of the Performance Prism represents a key area crucial to success. The weight of each surface will depend on established strategic goals, such as cost reduction, brand increase, research synergies and others.
Figure 6 presents the five surfaces of the Performance Prism model and its approaches.

Each surface of the Prism must represent an approach perspective - processes, strategies, competencies, contribution and stakeholder satisfaction – in performance measurement.

Source: Adams and Neely (2006, p.2)

Figure 6– The five surfaces of the Performance Prism model

For Adams and Neely (2006), the following are fundamental questions that must be considered when approaching the Performance Prism:

a) Who are our key stakeholders and what do they want and need?

b) What strategies are we using to meet their needs and desires?

c) What processes are needed to put them into practice and reach these strategies?
d) What competencies are required to operate and augment these processes?

e) What do we want and need from the stakeholders to maintain and develop these competencies?

This way, the Performance Prism model, in addition to considering perspectives of processes, strategies and competencies, also considers stakeholders contribution and satisfaction. It focuses on stakeholders involved in the environment of an organization through five perspectives, considering stakeholders satisfaction, stakeholders contribution and deriving objectives from this process strategy and evaluating inherent competencies to support them.

5. Final Considerations

Through the approach mentioned here, developed using a bibliographic research on the theme, it is possible to see that the Performance Prism model is a new alternative as a performance measurement system within the current perspective, going beyond the financial approach.

Compared to the Balanced Scorecard, a model widely used currently, the Performance Prism is different because it possesses a broader aspect regarding the considered stakeholders, who are also the core of the model.

This model also has a cause-effect relationship structure that follows an orientation from stakeholders demand, over which the strategy is designed, driving processes and competencies for an organization that wants the satisfaction of these stakeholders.

Because it is a more recent model, compared to others, consecrated by their application in organizations, the Performance Prism still does not represent a widely used model
worldwide. Nonetheless, it can contribute to organizations seeking changes in the way they manage performance, especially because most of the times, their stakeholders generate the sustainability of these organizations, thus being only reasonable that are central to the organizational performance.

As a recommendation for future studies, it is required to study the application of the Performance Prism in depth, allowing for a review of its adaptability and effectiveness in a larger set of organizations, since there are currently a few cases regarding the application of this model for measuring performance in literature.

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