



Edited by
Andy Neely

Business Performance Measurement

Unifying Theory and
Integrating Practice

Second Edition

CAMBRIDGE

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Introduction

Business performance measurement: unifying theories and integrating practice

Andy Neely

In July 2000 I wrote the preface to the first edition of this book, which read:

Performance measurement is on the agenda. New reports and articles on the topic have been appearing at a rate of one every five hours of every working day since 1994. A search of the World Wide Web reveals over 170,000 sites dedicated to it. In 1996, one new book on the subject appeared every two weeks in the US alone. Since 1994 Business Intelligence, a professional conference organising company based in the UK, has organised some 90 separate events on business performance measurement (BPM). Some 2,700 delegates from over 1,400 different firms attended these conferences. In terms of delegate fees alone, Business Intelligence has accrued over \$5 million. Add to this, the revenues received by other conference organisers, publishers, market research firms, software vendors and consultants and it is clear that business performance measurement is a multi-million dollar industry.

Like many multi-million dollar industries developments are rapid. Recent years have seen the introduction of new methods of measurement, such as activity-based costing, throughput accounting and shareholder value analysis. New measurement frameworks, most notably the balanced scorecard and the business excellence model, have taken the business community by storm. Data collected by the US research firm, Gartner, suggest that 70% of firms will be using balanced scorecards to measure business performance by the end of 2000. Other data, such as that collected by the US consulting firm Towers Perrin, indicate that the majority of firms have introduced their balanced scorecards during the last five years. Similar trends can be observed in the field of quality management. Self-assessment frameworks, such as those underpinning the Baldrige Award and European Foundation for Quality Management Award, have generated significant industrial interest and activity. Increasingly authors and commentators are

discussing the multiple roles of measurement. It is now recognised that measures allow managers to do far more than simply check progress. The behavioural consequences of measures are frequently discussed. The value of benchmarking and external comparisons is widely understood. The question of what data should be disclosed to external parties – especially shareholders – is actively debated. Organisations such as Skandia, the Swedish Insurance company, and Shell have begun producing supplements to their annual reports. Skandia's supplement discusses the value of the firm's intangible assets, while Shell's 1998 supplement, entitled *Profits and Principles – Does There Have to Be a Choice?*, describes the company's environmental performance. Other organisations, such as the UK's Cooperative Bank, have moved even further and structured their annual report around the "inclusive" framework, proposed by the Royal Society of Arts, Manufacturers and Commerce following their Tomorrow's Company Inquiry. The Cooperative Bank's "Partnership Report", for the 1997 financial year, reviews the bank's performance through the eyes of its seven partners: (i) shareholders, (ii) customers, (iii) staff and their families, (iv) suppliers, (v) local communities, (vi) national and international society and (vii) past and future generations of "Co-operators".

In the academic community people from a wide variety of different functional backgrounds are researching the topic of performance measurement. Experts in accounting, economics, human resource management, marketing, operations management, psychology and sociology are all exploring the subject. One of the major problems with the field is that they are all doing so independently. The accountants discuss their ideas with other accountants. The operations managers talk to other operations managers. Rarely is knowledge generated in one academic functional academic silo assimilated by another. Of course, the end result is a massive duplication of effort. In 1998 the first multi-disciplinary conference on performance measurement was held at Churchill College in Cambridge. Between them the 94 papers presented at the conference cited some 1,246 different books and articles. Of these, less than 10% were cited more than once and only 0.3% were cited more than five times. These figures are symptomatic of a field with vast richness, but unmanageable diversity.

A significant problem this gives is that there appears to be no agreement as to which are the important themes and theories in the field. Everyone writing about the topic has his/her own preferred references and freely cites them. While this diversity is appealing, it also hinders development, because it makes it almost impossible for generations of researchers to build upon the work of others. If the field of performance measurement is to develop as an academic discipline then it is essential that some boundaries are identified and some theoretical foundations agreed. It is hoped that this book will make some small contribution to facilitating this process.

The last six years have seen some significant changes. An updated version of the first paragraph today, writing as I am in September 2006, would read:

Performance measurement is on the agenda. The ISI Web of Knowledge lists 6,365 scientific publications on performance measurement for the time period 2001–5. This is equivalent to one new scientific paper appearing on the subject every seven hours of every working day. Add to this the practitioner and popular literature, and it is easy to see why a Google search now reveals over 50,000,000 websites dedicated to performance measurement. In December 2005 Amazon listed over 3,700 books on performance measurement, while the latest estimates suggest that there are close to 100 software vendors selling performance-reporting packages. Add to the software vendors' revenues the fees collected by conference organizers, publishers, market research firms and consultants, and it is clear that organizational performance measurement is a multimillion dollar industry.

These updated facts and figures tell only part of the story. In the last five years international interest in performance measurement has grown significantly. It is clear that other regions of the world, most notably the Middle East and Asia, are now just as interested in performance measurement as Western economies. Across the world, governments are requiring public services to develop and deploy more sophisticated performance measurement and management systems. And, in light of corporate governance scandals, requirements to disclose information are increasingly being imposed on organizations, by legislators and by the investment community alike.

Of course, topical subjects always attract members of the academic research community – either as critics or advocates. One of the joys of academia is the diversity of views that are held and expressed. In the preface to the first edition of this book I used data from the Performance Measurement Association (PMA) conference to illustrate this point, highlighting that at the PMA's first conference (held in 1998) the “94 papers presented... contained references to some 1,246 different books and articles. Of these, less than 10% were cited more than once and only 0.3% were cited more than five times.” Updating these figures provides an equally interesting picture. Recently I completed a citation analysis of scholarly publications in performance measurement (Neely, 2005). The headline finding of this study was that the 1,352 performance measurement papers analysed included 31,646 citations, covering 25,040 works and drawing on 16,697 different lead authors. In the entire data set twelve lead authors were cited between fifty and 100 times, 266 were cited between ten and forty-nine times and 11,929 (71.4 per cent) were cited only once.