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Introduction

Something tells us that the way in which the two farmers in the tale are evaluating their performance is not quite right. It seems that they were either measuring the wrong thing or measuring it in the wrong manner, or perhaps even both. We could argue that these farmers are old-fashioned and behind the times and that modern-day organisations do not make the same interpretative mistakes as these two men. However, we could also argue otherwise.

1.1 AN AGE OF EXTREME COMPETITION

First of all, here are some facts from the business world you may not be aware of:

- More shareholder value has been destroyed in the last five years as a result of mismanagement, wrong decisions, and bad execution of strategy than through all the recent compliance scandals combined. A recent Booz Allen Hamilton survey among 1200 large companies showed that at the 360 worst performers, 87 per cent of the value destroyed was caused by strategic missteps and operational ineffectiveness. Only 14 per cent could be attributed to compliance failures or poor oversight of the corporate boards (Kocourek et al., 2005).
- The average time a CEO or managing director occupies his/her position is continually decreasing, from an average of more than ten years 20 years ago to two and a half years nowadays. The main reason for his/her dismissal is underperforming, not ethical issues or illegal behaviour (Lucier et al., 2005).
- More than 50 per cent of managers take decisions based on gut feeling, not on hard facts, and 36 per cent have "black boxes" in the organisation, areas of which they have little knowledge (SAS Institute Nederland, 2002).
- Despite the widespread conviction that employee satisfaction and

employee loyalty have a positive effect on customer satisfaction and loyalty, and thereby increase the company's turnover and profitability, four out of ten organisations do not actively stimulate employee loyalty (Manpower, 2002).

- The rate at which companies lose their leadership positions in their industry, the so-called topple rate, has doubled in the last 20 years. The rate at which new companies enter the Standard & Poor's 500 and old respectable firms disappear from this list has almost doubled in the last 50 years. Only 40 per cent of Fortune 500 companies in 1980 are still on that list today. The average life span of an organisation, irrespective of its size, is now 12.5 years (Rooij, 1996; Foster and Kaplan, 2001; Huyett and Viguerie, 2005).
- Seventy per cent of the population consider their government to be not very effective and therefore are losing trust in it. Almost the same percentage of civil service officials are of the same opinion. Public trust in for-profit companies has declined from 60 per cent in 1980 to 40 per cent in 2000, while only 28 per cent of the population trusts business leaders to tell the truth, which is still 10 per cent higher than the trust in politicians (Morton, 2003; McKinsey, 2005).
- Return rates and warranty costs are dramatically rising while at the same time customer satisfaction levels are steadily decreasing, a strong indication of the deteriorating quality of products (Kleiner, 2005).
- Of recent mergers and acquisitions, only 17 per cent are reported to have added value to the combined company, 30 per cent produced no discernible difference, and 53 per cent actually destroyed value (KPMG, 1999).
- The majority of companies that get into a crisis find themselves in this situation because of internal factors, of which dysfunctional management (48 per cent of the cases) and inadequate management information systems (42 per cent) are the most common causes (Eyck van Heslinga, 2002).
- Most companies operate well below their true capabilities. It was calculated that on average companies can reach productivity levels of up to 85 per cent. Productivity can never be 100 per cent as companies always spend time on non-value adding activities (like training and meetings). In practice, enterprises have an average productivity of 61 per cent of their optimum capacity. The causes of this reduced productivity are insufficient management planning and control (40 per cent), inadequate supervision (32 per cent), ineffective communication (9 per cent), poor working morale (8 per cent), inappropriately qualified workforce (7 per cent), and information technology-related problems (4 per cent). This comes down to a staggering 87 working days lost per person per year (Proudfoot Consulting, 2003, 2004).

What do these facts have in common? They all indicate that organisations, both profit and nonprofit, are starting to collapse under the increasing pressure of demands placed on them by competitors, stakeholders, legislators, the investment community, and stakeholders in general. It is said that this is the age of extreme competition in which the combined forces of global competition, technology, interconnectivity, and economic liberalization make life for companies tougher than ever before (Huyett and Viguerie, 2005). Ever since the 1980s, business writers have been claiming that the world was getting more dynamic, turbulent, unpredictable, and competitive. Jack Welch, former CEO of General Electric, once said that the 1980s would be a "white-knuckle" decade of intensifying competition and that the 1990s would be tougher still. From a business point of view, in retrospect the 1990s were easy compared with today where businesses have to compete in a highly complex and constantly changing world. Nowadays, many trends and developments are fundamentally reshaping the global business economy. The most important ones are:

- *Globalisation*. In the so-called borderless economy, competition can literally come from every corner of the world. The globalisation of companies and brands makes it difficult to determine the home country and home market of many corporations. Companies have to be able to do business in many different countries with many different cultures. Cultural differences increasingly cause problems in doing business and marketing on a worldwide scale. Global mergers create corporations that are rich and powerful and have a turnover greater than the gross national product of many individual countries. This often causes tension between a company and the country it operates in, as the latter sees the company as an invader. Concurrently, regional economic power blocs, like the growing European Union, NAFTA, and ASEAN, create strong economic bases around the world. Manufacturing capacity continues to shift from Western economies to nations with cheaper labour (Rosen, 2000; Lawrence, 2002; Sadler, 2002; Bakker et al., 2004; Light, 2005; Starbuck, 2005).
- *Impact of new technology*. Increased connectivity, caused by the increasing possibilities and the rapidly decreasing costs of telecommunications and the explosive growth of Internet use, have created what is known as "the death of distance": distance is no longer an issue for doing business. Strict office hours are abandoned because people can be reached 24 hours a day. A side-effect of this development is that it makes it difficult for businesses to discern traditional consumer groups in specific countries: people can order and ship products from any place to anywhere in the world. At the same time, the interconnectivity causes identity problems because people find it increasingly difficult to identify themselves with a certain group. The rate at which new technology is invented and put to use seems to be still accelerating, giving rise to new possibilities and at the same time new unforeseen threats. The only way for many companies to cope with this is to merge or forge strong bonds with former competitors and suppliers. New materials and new manufacturing techniques, like nanotechnology, have the

potential to disrupt complete industries (Rosen, 2000; Sadler, 2002; Malone, 2003; Bakker et al., 2004; Light, 2005).

- *Rebound of Asian markets and ascension of China*. The hard-working nature of people in the Asian world, their strong social and family relations, and their raised educational levels are a strong foundation for Asian economies. It is expected that the existing industrial overcapacity will grow even more in the years to come, and that the struggle for raw materials like steel will intensify as a result of that. China is on the way to becoming the world's largest economy of this century (Rosen, 2000; Lawrence, 2002; Pacek and Thorniley, 2004).
- *The gap between the haves and have-nots*. The gap between those who have and those who have not is widening in many countries, as is the gap between rich and poor nations. The rich get richer, the poor get poorer. This increasingly causes tension between large groups of people and between nations, causing ethnic conflicts, wars and the rise of terrorism, eventually resulting in potential worldwide disruptive effects (Farashahi and Molz, 2004; Laudicina, 2005; Starbuck, 2005).
- *Environment*. Global warming and environmental pollution will accelerate, creating economic and political conflicts within and between countries, causing fights for scarce resources like water (Rosen, 2000; Laudicina, 2005).
- *Demography*. The population of developed countries is rapidly ageing: people live longer and their life expectancy is rising because of the advances in medical science and technology. At the same time, population growth is decreasing, making it impossible to maintain the economic growth rates of the last decades of the twentieth century. This will result in an increased struggle for the most valued employees, growing importance of hiring people from less-developed countries to supplement the national workforce, and decreased spending because of the high number of relatively poor pensioners (Martin, 2002; Laudicina, 2005; Light, 2005).
- *Intangibles*. Falling capital costs have caused enormous efficiency gains in operational management. In fact, capital is no longer a scarce resource today. It is intangible resources such as the knowledge, skills and mentality of the workforce that are important. In a world in which innovation becomes more and more important, organisations increasingly rely on the ingenuity and resourcefulness of their people. The "knowledge economy" is truly here (Doz et al., 2001; Bassi and McMurrer, 2005; Creelman and Makhijani, 2005; Niven, 2005).
- *Leadership*. The trends mentioned above require a new type of leader: a globally literate leader who can inspire people from many different backgrounds and cultural diversities, and who can adapt quickly to change and is able to take the organisation along. On top of that, the behaviour and attitude of this leader should be beyond reproach, and the leader should be able to continuously balance the interests of all company stakeholders (not just his/her own) and gain or regain their

trust. Unfortunately, only a few people qualify as this type of leader (Rosen, 2000; Davidson, 2002; Trompenaars and Woolliams, 2003; Davies, 2005; Useem, 2005).

- *Transparency and information*. The recent accountancy scandals and the subsequent new laws and regulations have dramatically increased the need for transparency in company results and operations. Analysts, banks, and shareholders as well as society have taken great interest in what an organisation is doing and fails to be doing. At the same time, the possibilities for generating data and management information have increased a thousandfold, causing the by now infamous "information overload." Governments can no longer control the flows of information and neither can top management inside the company. Customers can easily get comparative quality and price information on every kind of product and service (Martin, 2002; Waal, 2003; Light, 2005).

As it is the task of every manager to realise the goals of the organisation by achieving outstanding performance in the organisational unit he or she is responsible for, managers are working under great pressure to deal effectively with the aforementioned trends and developments. They are forced to:

> adapt faster and faster to growing international demands for flexibility and speed and to compete simultaneously on the basis of development cycle time, price, quality, flexibility, fast and reliable delivery, and after-sales support for their products.
>
> (Kasarda and Rondinelli, 1998)

As a result of the changes in industry and also the influence of significant changes in society, government agencies too are subject to change. They have to rapidly reshape themselves into nimble and flexible organisations which centre on serving the interests of citizens, a movement which is known as "new public management" (Zeppou and Sotirakou, 2002; Pollitt, 2003).

1.2 CURRENT TRENDS IN ORGANISATIONS

Contemporary trends in global competition, rapid technological developments and increased use of management information systems and the Internet, developments in planning and control and management thinking, and changing demographics are putting pressures on profit and nonprofit organisations. As a consequence, companies are having more and more difficulty in achieving sustained performance. They are forced to look for new management methods and to develop cutting-edge processes to deal with existing trends and developments. An extended literature study has identified the trends that are likely to consume a lot of management time in the next three to five years (Waal, 2003). It lists the following trends:

- *Development of an e-finance function*. An increase of e-business applications in the finance function is observed, to make the finance processes more efficient and effective.
- *Development of an enterprise intelligence function*. More and more organisations are developing an enterprise intelligence function, to streamline and coordinate all the internal and external information flows of the organisation.
- *Development of strategic skills*. Organisations increasingly develop the strategic skills of managers, so that they can function as true business partners.
- *Focus on behavioural aspects*. More and more attention is paid to the behavioural aspects of management and improvement initiatives. This is illustrated by the increased focus on change management aspects of major projects.
- *Focus on corporate governance*. Organisations are increasingly interested in questions of good, fair, and respectable management of the company, so the reputation of the firm is safeguarded.
- *Focus on cost reduction*. In addition to turnover growth, organisations are continuously looking for cost reduction opportunities.
- *Focus on creating value*. Organisations more and more focus on adding value to their organisations. They do this, for example, by introducing value-based management and Economic Value Added™.
- *Focus on intangibles*. There is growing attention for the reporting and subsequent management of intangibles such as knowledge, brands, and patents in order to track the more intangible side of the business.
- *Focus on integrity*. Organisations spend more time on ethical and integrity dilemmas than they did several years ago, again to safeguard the firm's reputation.
- *Focus on risk management*. Organisations show an increased interest in identifying and managing the material risks that they are running or will be running in the future while doing business.
- *Focus on turnover growth*. Despite difficult economic circumstances, organisations are initiating activities not only to reduce costs but also to improve their turnover growth. They are for example paying more attention to innovativeness.
- *Implementation of new laws and regulations*. Creating transparency for the outside world about the performance and risks of the company has become a major concern for organisations as a result of, for example, International Accounting Standards/Financial Reporting (IAS/FRS), Basel II, and Sarbanes-Oxley.
- *Improved implementation of projects*. Organisations increasingly focus on implementing and realising action plans from beginning to end to obtain maximum return, instead of developing multiple plans simultaneously which are not finished.
- *Making information flows more reliable*. Under pressure from recent accounting scandals, organisations have to make internal and external information flows more reliable.

- *More use of ICT*. Information and communication technology is increasingly used for the support of the business processes.
- *More benchmarking*. By comparing their own performance with that of competitors (external benchmarking) or other internal organisational units (internal benchmarking), organisations aim to improve their business processes and their performance.
- *More efficient budgeting*. Organisations are making the budgeting process more efficient by adapting or even removing it (also referred to as "beyond budgeting").
- *More forecasting of the future*. Organisations focus more on looking ahead than they used to do, to be prepared for future developments. They do this by introducing rolling forecasts which predict results six quarters in advance.
- *Outsourcing of processes*. Processes are increasingly outsourced to third parties in order to achieve cost benefits and quality improvement.
- *Use of more nonfinancial information*. Organisations show a growing interest in the reporting and management of nonfinancial indicators to better track their activities and performance. An example is the rise in balanced scorecard implementations.

These trends formed the basis of a questionnaire which was distributed on four occasions to Dutch and Belgian managers between 2002 and 2006. The respondents were asked to indicate which trends they regarded as the most important to them and their organisations, by rating them on a scale of 0 (not important) to 3 (very important). On the basis of the scores, the relative importance of each trend was calculated by adding up all points per development and dividing the total by the maximum number of points available (= number of filled-in questionnaires times 3 points). If for example a trend was regarded as very important by all respondents, it would get a relative importance of 100 per cent. The resulting relative importance scores for the 2005/06 questionnaire can be seen in Figure 1.1.

Figure 1.1 shows that almost all trends are considered important (50 to 70 per cent) to very important (more than 70 per cent) by the respondents. This indicates that modern organisations have to address many trends concurrently, which makes them very busy places. In order to deal more effectively with these trends, businesses are looking for effective management techniques. There is growing consensus that effective approaches to management offer organisations competitive advantage (Lawler et al., 1998). As a result, and in the wake of the landmark book *In Search of Excellence* (Peters and Waterman, 1982) and the recent bestsellers *Built to Last* (Collins and Porras, 1994) and *Good to Great* (Collins, 2001), managers have become increasingly interested in identifying the characteristics of high performance to help them in their quest for excellence (O'Reilly and Pfeffer, 2000).

An increasingly popular management technique in this respect is "strategic performance management." It has been calculated that new publications about strategic performance management have been appearing at a rate of

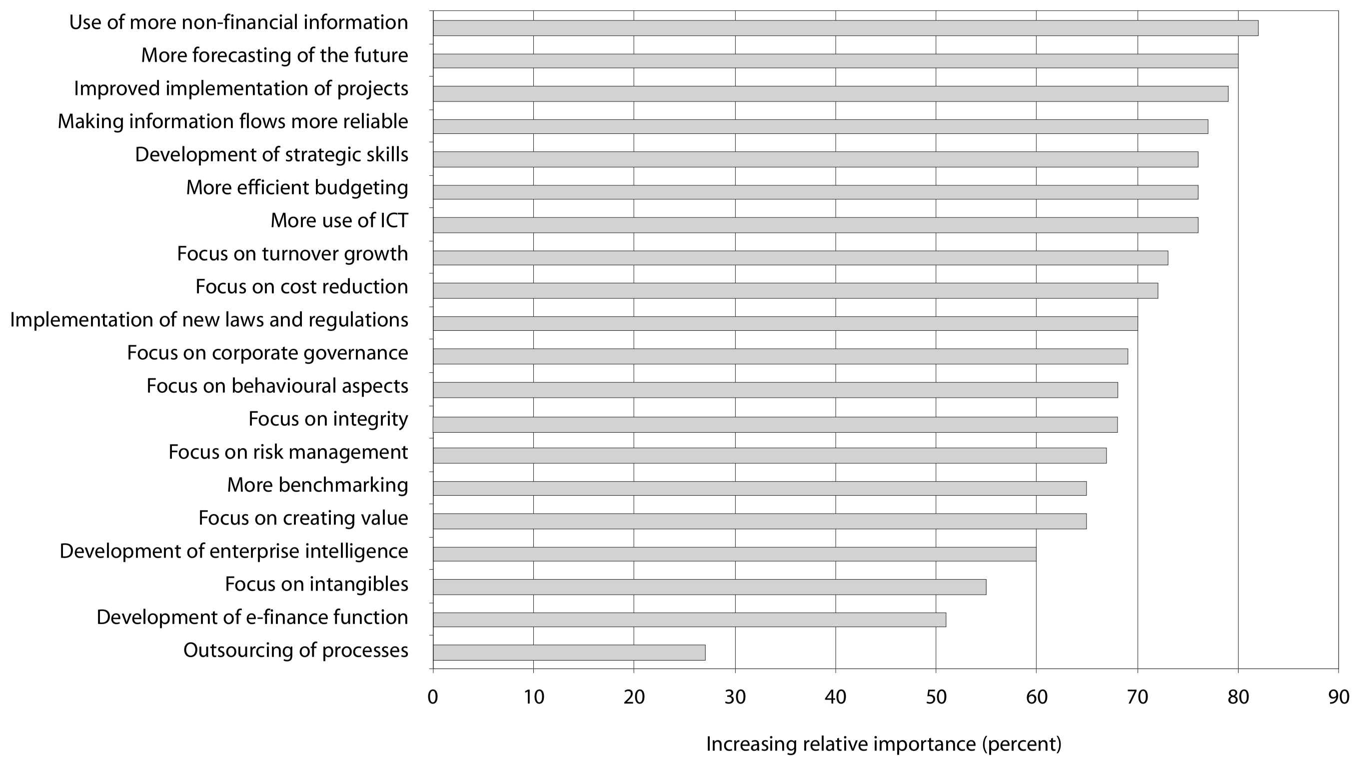

Figure 1.1 Current trends

one every five hours of every working day since 1994, and that there are now more than 12 million sites dedicated to this topic (Marr and Schiuma, 2002). This book describes how strategic performance management supports organisations in their pursuit of better performance. A well-designed performance management process stimulates managers to develop high-quality strategic plans, set ambitious targets, and track performance closely – all activities which help to achieve strategic objectives and consequently sustained value creation (Lobo et al., 2000). This book discusses new ideas and developments in the field of performance management which will help managers to improve the performance management process in their organisations.

1.3 HOW TO USE THIS BOOK

The aims of this book are to provide readers with an insight into the importance of strategic performance management for successful entrepreneurship, and to provide methods and techniques to implement strategic performance management and to make it work. Furthermore, the book aims to develop understanding and skills in handling the behavioural issues involved in strategic performance management. The text of *Strategic Performance Management* is based on material from my previous books, supplemented by much new material, which has been tried and tested during many university lectures and projects at organisations. After reading the book, readers will have an understanding of the theoretical and practical side of strategic performance management, including the following competencies:

- recognising and communicating the importance of strategic performance management for the success of the organisation
- analysing the quality and the intensity of use of the existing performance management system
- identifying the main challenges that an organisation faces during the improvement of its performance management system
- designing a high-quality performance management process and system
- promoting the behavioural aspects of strategic performance management; showing managers better ways of working with the performance management system
- discussing the latest developments in the field of strategic performance management.

The setup of this book is as follows. Chapter 2 starts with a short review of management control and information systems (the precursors of strategic performance systems) and of strategic performance management: the definition, the process, and its history. After that, the strategic performance management development cycle is introduced. This cycle, which consists of the various stages of the performance management process, is in this book used as a framework for Chapters 3–13. The various elements of the cycle are examined consecutively: designing a strategic management model, designing a strategic reporting model, and designing a performance-driven behavioural model. Some of the subjects discussed are responsibility structure, critical success factors, key performance indicators, the balanced scorecard, information and communication technology, exception and action reporting, performance-driven behaviour, competency management, performance management implementation, performance management in nonprofit organisations, and performance management in emerging countries.

Is this your organisation?

- Performance information is transparent, customised, and timely.
- Analysis of results are clear (*not only "what" but also "why"*).
- Management discussions (*vertically and horizontally*) are efficient.
- Management and employees understand and "think constructively" about the business processes.
- Swift (*corrective and preventative*) actions are taken if needed.
- "Everyone knows what to do."

If the answer to one or more of these statements is negative, there is a good chance that your performance management system needs to be improved.

Each chapter consists of two sections, theory and cases. In the theory section, the foundations of strategic performance management are discussed. In the case section, the theory is illustrated by one or more practical cases. They describe how concepts discussed earlier in the chapter were applied at real-life organisations. The real-life cases are followed by a fictitious case study, in serial form, of a company named Ultra Violet Design (UVD). The reader is allowed into the world of UVD as it is trying to improve its strategic performance management system. Each time, the UVD case closes with a number of questions for the reader to ponder on. Each chapter starts with a short overview of the chapter's objectives, and ends with a summary of the main points of the chapter, to provide the reader with a quick overview.

I thank all the case companies for the opportunity they gave me to learn from them and to pass these lessons on to the readers of this book. And, as with each of my books, I am greatly indebted to my wife Linda who has gone "beyond the call of duty" to make the original manuscript into a readable document and enjoyable book.

Key points

- ☑ The age of *extreme competition*, in which forces of global competition, technology, interconnectivity, and economic liberalization combine, makes life for organisations tougher than ever before.
- ☑ It is the task of every manager (profit, nonprofit, and government) to realise organisational goals by achieving outstanding performance.
- ☑ Effective approaches to management offer organisations competitive advantage. An increasingly popular management technique is strategic performance management.
- ☑ A well-designed performance management process stimulates managers to develop high-quality strategic plans, set ambitious targets, and track performance closely – all activities which help to achieve strategic objectives and sustained value creation.

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