

THE PERFORMANCE PRISM IN ACTION – A CASE STUDY

Andy Neely and Chris Adams, Cranfield School of Management

In the September 2002 issue of *Control* we provided an outline of the Performance Prism Measurement and Management Framework [1]. We explained there why a new framework was needed for today's business environment, how a broad view of stakeholder perspectives was fundamental to doing business in this climate, and we defined the five facets of the Performance Prism framework: Stakeholder Satisfaction, Stakeholder Contribution, Strategies, Processes and Capabilities.

We were then asked us if we could provide a practical example of an application of the Performance Prism and so this article summarises one such case. For the purposes of a short article, this case study must necessarily be brief and illustrative. For an expanded version of this case, please refer to Chapter 11 of "*The Performance Prism – The Scorecard for Measuring and Managing Business Success*" by the authors [2]

THE DHL EXPERIENCE

The principles of the Performance Prism have been applied beneficially in a number of corporations in a broad range of industries, including not-for-profit organisations. However, the first and probably the most rigorous operational application so far has been at DHL, the international express courier company [3]. The project was initiated following a discussion between Drew Morris, a Director of DHL UK, and one of the authors at a round table meeting – a mutually supportive learning forum that meets quarterly to share and discuss performance measurement and management issues – organised by Cranfield School of Management's Centre for Business Performance.

Following further discussions with the authors, DHL invited us to show how the new framework could work for them. As context, we should note that DHL had previously employed consultants in an effort to implement a 'balanced scorecard' approach, but had subsequently abandoned it. So, gaining acceptance of a new framework was always going to be a challenge. The following narrative outlines the key events that led to DHL's executive team adopting a new performance measurement system for their business by applying the Performance Prism framework.

DHL UK began implementation of the Performance Prism in late 1999, when sales for the division were in excess of £300 million and the business employed almost 4000 people, across 50 locations. At that time DHL UK's Managing Director, David Coles, and the company's Business Process Director, Drew Morris, had a concern that the division's performance reviews were in danger of becoming too tactical in orientation.

The UK executive team would meet on a monthly basis to review the division's performance. They would examine the UK operation in terms of its ability to achieve 'notional result', DHL's internal measure of profitability. They would also review the division's operational performance. One of the problems with the latter was that the number of definitions of operational performance was vast. For DHL, operations can be reviewed in terms of packages shipped (either by weight or number), packages delivered (on time, to the right destination, in one piece), packages collected (before a specified time or from a specified location), packages lost (or re-routed), and so on. The volume and variety of transactions within DHL meant that the UK executive team could easily get engrossed in incredibly detailed and repetitive reviews of the division's operational performance at their monthly meetings. While

interesting in themselves, such detailed reviews might easily overlook the strategic content. Their performance review meetings were losing purpose, clarity and, above all, structure. A not untypical scenario in many organisations, we suggest.

Once the executive team recognised that the structure of their performance reviews was driving this behaviour, they began to explore how they could and should restructure them. They began by making them longer and less frequent, moving from a monthly one-day review, to a two-day quarterly performance review (QPR), which was explicitly described as strategic in orientation. Clearly, operational reviews still needed to happen and took place on a regular basis, but these were deliberately separated from the executive team's strategic reviews. In effect, the operational reviews became functional in nature with the quarterly performance review providing a forum for strategic debate. Next, the executive team began to consider how they should structure their quarterly performance reviews and what they should discuss. It was at this point that the Performance Prism framework was introduced to them as a way of thinking through this issue.

APPLYING THE PERFORMANCE PRISM: THE DESIGN PROCESS

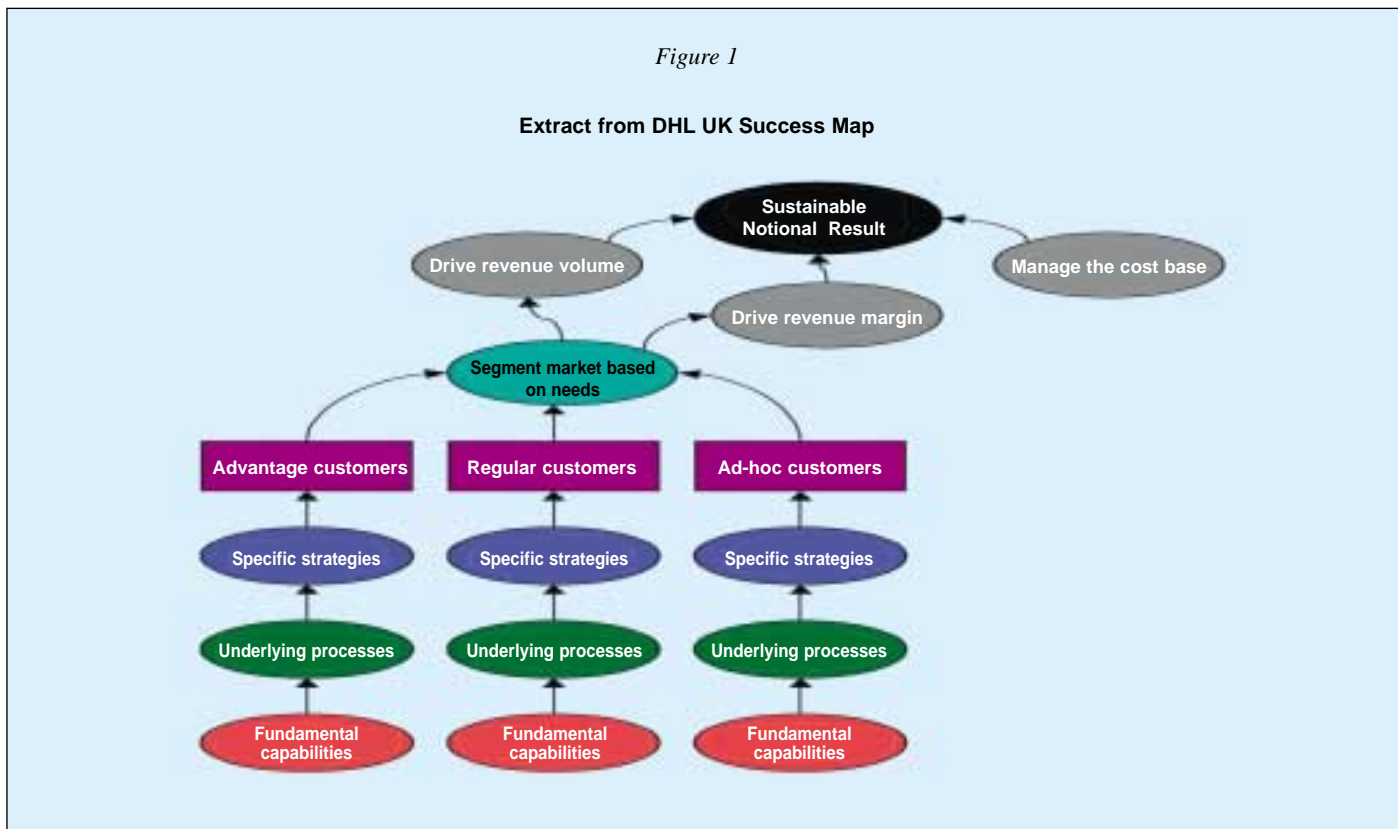
In the book, we identify four fundamental processes that underpin the development and deployment of a performance measurement system: the Design process; the Plan and Build process; the Implement and Operate process; and, finally, the Refresh process. For the Design process, we also recommend the application of several helpful techniques to assist the process. Among the most critical of these in relation to this case example are:

- **Success Mapping** – a workshop-based process of identifying what each key stakeholder's wants and needs are and how these are (or will be) satisfied through the organisation's strategies, processes and capabilities.
- **Measures Design Template** – a formal process of defining each measure selected, its data source, its frequency, how it will be used, and so on.
- **The Ten Tests** – a validation process for evaluating whether the measures selected will actually do what they are intended to do (especially in driving the desired behaviours).

During the design phase, the executive team at DHL participated in a series of workshops where they explored their shared understanding of the organisation's strategy and plans for the future. The first round of workshops was structured so that the executive team identified the wants and needs of their stakeholders (and their contribution to the business). The outputs from this first round of workshops were taken as the inputs to the second, where the executive team were asked to identify the strategies, processes and capabilities the organisation would need to have in place in order to satisfy the wants and needs of each of its stakeholders.

Take, for example, customers as a stakeholder. DHL had to begin by recognising that the organisation had several different kinds of customers. Broadly speaking, they categorised their customers into three separate and distinct segments – Advantage, Regular and Ad Hoc – based on customer needs. Specific strategies, processes and capabilities relevant to each of these customer segments were then identified, giving rise to the outline success map shown in Figure 1.

Figure 1



One of the most practical ways of developing the success map is to continue to iterate through this process of identifying the appropriate strategies, processes and capabilities for each stakeholder – and distinct stakeholder subsets, such as the customer segments described above – in turn. Clearly, there can be some repetition within each of the subset success maps but, provided it helps to define the relative importance of satisfying particular stakeholders’ wants and needs, this should not be an impediment.

The other advantage of developing separate success maps for each stakeholder is that this starts to reveal the hierarchy of stakeholder wants and needs. In DHL UK’s case, for example, it became apparent early in the process that a significant stakeholder for the business was the European regional head office, located in Brussels. The head office’s primary requirement was that DHL UK hit its budget and delivered the agreed ‘notional result’ (DHL’s internal measure of profitability). In fact, head office’s demands were a proxy for its investors’ wants and needs.

To deliver this, DHL had to execute its strategies for growing business volumes, maximising margins while optimising expenditure and working capital. Growing business volumes and maximising margins involved the business developing an excellent understanding of its customers’ wants and needs, and then delivering against these – hence the link with the customer segment success maps. So delivering to the head office’s needs was not just about delivering to customers’ needs. DHL UK also had to seek ways of continually improving its operating efficiency, by enhancing its business processes, often through the application of information technology.

Once the separate success maps for each stakeholder have been developed and the links between them identified, then it is relatively easy to integrate them into a single success map for the business, which addresses the questions embodied in the Performance Prism framework, namely:

- **Stakeholder Satisfaction and Stakeholder Contribution** – who are the key stakeholders, what do they want and need, and what do we want and need from them?
- **Strategies** – what strategies do we have to put in place to satisfy these sets of wants and needs?

- **Processes** – what critical processes do we require if we are to execute these strategies?
- **Capabilities** – what capabilities do we need to operate and enhance these processes?

This integrated success map inevitably ends up as a complex picture. But, despite its complexity, the picture is meaningful to those who were involved in developing it and, perhaps even more importantly, the picture actually illustrates graphically the complexity of the business environment that the executives concerned have to cope with and operate within. However, it can be simplified to its bare essentials for internal communication purposes.

Obviously the DHL executive team could not discuss every issue on the success map at their quarterly performance reviews. However, they wanted to understand whether the linkages encompassed in the business’s success map were valid and, if so, whether they were being enacted. This is where many organisations go wrong, for they tend to leap immediately into measurement under the misguided assumption that, if they specify the right performance measures, then they will be able to track their progress. Sure, if you have the right performance measures, you’ll be able to track progress; but which elements of progress are most important to track? Given that it is impossible for an executive team to track every strand of activity in a typical success map, how can you narrow down the strands to the most meaningful few?

The ‘trick’ used at DHL UK was to encourage the executive team to think about the questions that they wanted to be able to answer in the light of the material contained on the success map they had developed. Fundamentally, the executive team was being asked: *what is it that you as an executive team need to know in order to decide whether the business is moving in the direction you want it to?*

Clearly, this could be addressed simply by asking: what performance measures do you need? But the problem is that measures are merely a source of data. They tell you how many packages you have shipped. Or how many packages have arrived on time. Or how many customers you have lost. Or how many customers you have won. But each of these

Figure 2

A Sample of DHL's Questions

		Today . . .	←	→	Tomorrow . . .
Stakeholders	Stakeholder satisfaction	Strategies	Processes	Capabilities	
External customers	<p>How are our customers feeling and what are they doing?</p> <p>What are our competitors doing?</p>	<p>Are we positioned well in the market?</p> <p>Is our revenue quality strategy working?</p> <p>Is our revenue volume strategy working?</p> <p>Is our customer relationship management strategy working?</p>	<p>Do we have the processes in place to support our revenue quality, revenue volume and customer relationship management strategies in the long term?</p>	<p>Do we have the money needed to sustain market leadership?</p> <p>Do we have the human resources to drive differentiation and segmentation?</p> <p>Do we have the right product offering?</p> <p>Do we have the information to manage these processes?</p>	
Internal customers (DHL network)	<p>Are we delivering service against network expectations?</p>	<p>Is our network service strategy working?</p>	<p>Are the processes in place to support our network service strategy?</p>	<p>Do we have the capacity in place to satisfy forward network demand?</p>	
Brussels (Regional head office)	<p>Are we going to deliver Notional Result target for the year?</p> <p>Will the shape of the Notional Result be in line with GCC expectations?</p> <p>Are we generating cash flow in line with targets?</p>	<p>Does the combination of cost, revenue, people & service strategies meet the long-term requirements of GCC in terms of Notional Result?</p>	<p>Are the processes we have in place supporting our cost management strategy?</p> <p>Are receivables in line to cover investments?</p> <p>Are we achieving ROI on our investment decisions?</p>	<p>Will we have the capabilities in place to:</p> <ul style="list-style-type: none"> - Exploit technology? - Review & refine processes? - Continue to innovate and change? 	

statements is narrow. As an executive in a business, I do not necessarily want to know the minutiae of how many packages we delivered on time. Or how many new customers we have won. I don't want data. I want information. I want answers to questions. The measures are merely a means of accessing data that allows me to answer questions.

So, the starting point has to be not what should be measured but, instead, what questions should we be asking? And this is exactly the approach taken by DHL UK's executive team. The third set of workshops, therefore, focused on getting the executive team to think about what questions they would like to be able to answer at their quarterly performance reviews, given the structure of the success map they had developed. The executive team spent a significant amount of time debating this issue and in doing so developed a robust framework of questions, structured around the Performance Prism, but derived from their success map. See Figure 2 for a sample of some of the questions identified (we cannot be more explicit for commercial reasons).

Once the right questions have been identified, it becomes relatively straightforward to think about what should be measured. Hence the fourth and final set of workshops for DHL UK focused on what measures are required, and thus what data is needed, to answer the questions identified by the executive team. These workshops involved the business's performance analysts, as well as members of the executive team. DHL UK is exemplary in that each member of the executive team has one or more performance analysts reporting to him/her. The role of these analysts is to provide insights into business performance for the executive team – hence

their engagement in the process of deciding what and how to measure at this early stage. The Measures Design Template and the Ten Tests of a good measure, as highlighted above (but explained fully in the book), were also applied. The end result was a set of measures that mapped onto the specific questions that the executive team had identified.

APPLYING THE PERFORMANCE PRISM: THE PLAN AND BUILD PROCESS

Once the measures had been selected and defined, DHL entered the Plan and Build phase of the process. The organisation was fortunate in that it already had in place much of the data capture infrastructure, so there was only a limited need to develop reporting capabilities (not always the case elsewhere). DHL did, however, invest a significant amount in education and process facilitation – and, with the benefit of hindsight, it is clear that this investment was fundamental to the success of the implementation programme.

The first investment DHL made was in the use of an external facilitator for the process, supported by an internal facilitator who was also the business's improvement programmes manager. The external facilitator was a recognised expert in the field of performance measurement and brought with him the credibility to drive specific changes through. The internal facilitator played an invaluable support role and was able to keep the momentum behind the process and address any concerns that members of the senior management team might have, but not be willing to express in a public forum. These two facilitators, with the support of the Managing and

Business Process Directors plus the improvement programme manager's team, were able to shift the mindset of the executive team away from detailed operational reviews and onto more strategic debates.

This process was a subtle and, in fact, somewhat elongated one. But this is often the right approach, given that the process architects are effectively trying to enable an organisational culture change. Essentially, all the process involved was constant reinforcement of the key messages underpinning the Performance Prism framework: Focus on Stakeholders, align Strategies, Processes and Capabilities. Ensure measures are used to answer questions, not simply as an end in themselves.

APPLYING THE PERFORMANCE PRISM: THE IMPLEMENT AND OPERATE PROCESS

The starting point for the Implement and Operate process was to restructure the agenda for the business's quarterly performance reviews, so that the discussions that would take place would reflect the key questions that the executive team had decided they should be addressing. The new structure was introduced during the June 2000 quarterly performance review and evolved over the next 12 months.

A year after the launch of the process, and following regular appraisals prompted by the performance manager, the executive team were still convinced that they were now focusing on the right questions during their quarterly performance reviews.

So what was the out turn for DHL? What do the members of the senior management team think of their new performance reporting and review process? What new insights has the process resulted in? And would DHL recommend this approach to others? We can't of course speak on behalf of DHL on this matter and some insights obviously must remain confidential; all we can do is report some of their views and experiences with using the Performance Prism that they were willing to share with us.

June 2000 QPR

"The June QPR was the best board meeting I have ever attended, in this or any other company" – DHL UK, HR Director.

"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" – DHL UK, Business Process Director.

"This approach encourages us to work together on the key business issues rather than emphasising individual functional responsibilities" – DHL UK, Managing Director.

The initial QPR, the first one in the new format, took place in June 2000. Following it, the HR Director, the Business Process Director and the Managing Director made the comments shown in the *June 2000 QPR* box.

By June 2001, a year later, the business had evolved its QPR process much further. At this time, the Managing Director wrote to the performance analysts saying:

"Thank you for your excellent input to last week's QPR. The overall focused content and clear communication of issues contributed enormously to us spending quality time on key issues. Having established these, we are committed to following up through driving improvement on the top issues agreed."

"We thought our early QPR meetings were good, with your help we are practicing what we are preaching in achieving continuous improvement in the QPR process itself."

APPLYING THE PERFORMANCE PRISM: THE REFRESH PROCESS

The process for DHL UK did not end with the implementation of the Performance Prism and the new quarterly performance review meeting structure. Instead, DHL have continued to evolve their measurement system and review processes throughout the last 2 years, and will continue to do so in the future. At the time of writing, they are in the process of cascading the performance review process down through the organisation and have already reached the stage of all operations and sales managers structuring their local performance reviews in the same way.

DHL UK understands that it is involved in a journey of discovery. Naturally, its executives will not now let their performance measurement and management processes stagnate. Instead, they will continually evolve the practices they have adopted so that their effectiveness as management tools will be constantly enhanced. The role of the Performance Prism in this journey has been a vital one in that it has provided a logical and coherent structure for the board to shape their performance measurement and management system. As David Coles, Managing Director, says, "We could have reached that same state of measurement maturity without the structure provided by the Performance Prism, but we would never have got there so fast or so completely".

REFERENCES

- [1] Neely, A and Adams, C., "*Managing With Measures: The Stakeholder Perspective*", *Control*, Vol 28, No 7, September 2002 pp 29-31.
- [2] Neely, A, Adams, C. and Kennedy, M., "*The Performance Prism – The Scorecard for Measuring and Managing Business Success*". Financial Times Prentice Hall, 2002.

ACKNOWLEDGEMENT

We are extremely grateful to the DHL executive team for allowing us (and our colleague Yasar Jarrar) to co-operate with them and to summarise this practical case example in some detail here.

David Coles, DHL UK Managing Director, will be speaking at a Conference on 12th June 2003 at the Cranfield School of Management.

About the authors

Andy Neely is Professor of Operations Strategy and Performance Director of Cranfield's Centre for Business Performance and Managing Partner of The Performance Practice. He is author of the book *Measuring Business Performance* and chairs the Performance Measurement Association.

Chris Adams is a Visiting Fellow at Cranfield School of Management's Centre for Business Performance and an independent consultant. He was previously with Accenture.

Together they have co-authored a number of articles and white papers illustrating the application of the Performance Prism framework – these include "*The Performance Prism Perspective*", "*The Performance Prism in Practice*", "*Measuring eBusiness Performance*", "*Measuring Business Combinations and Alliances and Managing with Measures in a Downturn*". They are also authors of "*The Performance Prism – The Scorecard for Measuring and Managing Business Success*" book, published by Financial Times Prentice Hall in 2002.