PERFORMANCE MEASUREMENT AND EVALUATION

Block 4 The Broader Scene
Unit 12 Evaluating performance measurement
The Course Team

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Unit 12  Evaluating performance measurement

Prepared for the Course Team by Jacky Holloway

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Aims

You are likely to be studying this unit alongside your work on TMA 04, the mini-project, and in preparation for revision. We do not wish to introduce much new material, therefore, but aim to:

- review the ground covered by B889, noting its key messages for management practice
- explore where three of B889’s own stakeholders (students, their organizations and the Course Team) may go from here in designing, implementing, and operating performance measurement systems and procedures, and in sharing ideas and good practice
- assist in the process of revision for the examination.

Objectives

After studying Unit 12, you should:

- have reviewed the key points in all preceding units and identified issues you wish to explore further, in terms of study or practice
- be able to identify areas where the organization you have chosen to study for the course (and any organization you may investigate in future) can improve its structures and processes for measuring and evaluating its own performance
- be able to contribute to an emerging debate about the impact and importance of performance measurement and evaluation systems on the performance of all organizations
- have organized your thoughts towards revision for the examination and towards action you may wish to take in the future in the area of performance evaluation.
1 Introduction

Several motivating factors lay behind the decision to develop a course in the Open Business School's MBA programme on the subject of performance measurement and evaluation. Members of what became the Course Team felt that:

- more and more resources were being committed by organizations in pursuit of performance-related information, yet it was not clear how effective their efforts were in improving performance itself
- to respond to rapidly changing environments, organizations needed a broad portfolio of measures reflecting the many dimensions of performance that concerned their stakeholders – traditionally popular measures of inputs or financial outputs were inadequate if used alone
- effective performance measurement and evaluation required technical skills that were new to many managers and needed to be understood by all involved, together with underpinning knowledge
- performance measurement systems needed careful design, taking characteristics of the organization and its environment into account, if they were to have desirable and tangible outcomes
- implementation of new approaches to performance assessment required careful handling (in terms of motivation, culture and so on), perhaps even more so than other sorts of organizational change which were becoming increasingly common across all industrial sectors
- a critical examination by managers of their current assumptions about their roles was necessary as performance measures were developed
- the relationship between performance measurement and performance itself was not well understood, and such a course could provide opportunities for increasing understanding.

We felt that a course at MBA level could provide the opportunity to bring together teaching materials to help managers to tackle some of the practical, behavioural and theoretical issues that concerned us, in a way that might counteract the piecemeal nature of much teaching and practice in this area. We did not think the subject had been very widely explored in other management education programmes. We also knew that, in producing such a course, we would develop our own thoughts about the less well understood aspects of effective performance evaluation. As you will see later on in this unit, we still have a lot more to learn about how to make performance measurement and evaluation work well for our organizations and their internal and external customers and stakeholders. We expect to increase our understanding of this subject, too, as people study the course, try to apply its concepts and approaches and explore the wider issues that emerge.

So in this unit we want to concentrate on taking stock of the learning so far, and identifying subjects and issues for further attention. You will find it useful to have all of the earlier course materials to hand at various points in your work on this unit, together with your TMAs and notes from activities. If you study on the move you may prefer to skim the unit first and return to the activities when you can settle down with all of the materials in front of you.
2 Taking an overview of B889

As the aims and objectives for this unit indicate, it is time to take stock of the course: what it contains, what things it has done, how well it has done those things, and whether they were the right things in terms of the course aims. In this section you are encouraged to look back over all the course materials and to start organizing your thoughts.

Activity 1

If you were asked to describe the themes and managerial issues that B889 has covered to someone who was considering taking it in the future, what would be the main aspects you mentioned before going into detail? Make a page or two of notes and illustrate your answer with examples. (This is a broad hint to skim through the course materials and try to categorize the sorts of inputs to your learning that they have offered so far.)

Comment

We will all have picked out slightly different aspects of the course, but there may also be much in common. The course materials have, in my view, covered the following ground in particular.

- Some of the pressures from within and outside organizations to change their performance, and the need to reflect the interests of a variety of stakeholders when making such changes. (While aspects of Unit 4, Unit 5 and the ICL case study examine 'internal' performance, even these are presented in a wider context. Units 8 and 9 include direct responses to political change, and Units 10 and 11 and many of the case studies highlight the roles of stakeholders and environmental change.)

- The need to approach performance assessment with the intention to innovate, to evaluate the impact of the assessment processes regularly and to make changes where necessary. (Unit 1 considers the inadequacy of classic approaches to control in today's organizations; Unit 2 brings in the SIS approach to designing organizational changes and stresses the need for 'double loop' learning; and Unit 7 notes that managing quality improvement may require creativity and inventiveness.)

- 'Technical' inputs about operational activities, from commonly recognized functional areas or disciplines, illustrating the breadth of 'performance measurement'. (For example, the discussion of appraisal of individual staff members in Unit 4, of the productivity of a whole manufacturing operation in Unit 5 and techniques involved in environmental audit in Unit 10.)

- Recommendations of good practice when designing, implementing or operating performance measurement systems, including the need to be explicit about assumed causal relationships when considering intervention. (Sampling in market research from Unit 3, performance indicator design in Unit 8, reflections about models and theories in use discussed in Unit 11.)

- The impact of uncertainty and complexity within the organization and its environment, on performance and on measurement and evaluation. (These are key themes in Units 2, 6 and 11.)
How similar are the themes in my response to Activity 1 to the ones that you identified? I suspect my 'overview' was influenced by my having to explain what the course is about on many occasions while it has been in production; the materials have not been available to speak for themselves. You, on the other hand, will have reached this point in the course having (we hope) tried to apply the ideas in your own context while reflecting on a mix of practical and reported experience, and theoretical models, especially when you have tackled the TMAs. Your interests, any difficulties at work or with the course materials, and current priorities will all affect your perceptions of key aspects of the course, and so too will your view of what may interest the enquirer. However, if you did not identify the aspects of the course that I did, you may like to add my reflections to your own as you plan your revision and any future performance measurement activities, as an indication of the breadth of scope of this field.

An important aspect of the course that is not perhaps explicitly embraced by Activity 1 is the use of models, theories and analytical frameworks to help us to understand, explain and improve performance measurement and evaluation practice. Some course elements are mainly descriptive, some relatively abstract and others encourage a high level of 'hands-on' participation. However, taking the course as a whole, we have tried to achieve a balance between the reflective and active elements needed for individual and organizational learning and adaptation. (Recall the concepts of double loop learning, and Kolb's experiential learning cycle, introduced in Units 2 and 7 respectively, which can have an important influence on management style.)

We would like the longer-term outcomes of the course (and our MBA as a whole) to include an increased level of confidence among managers to use analytical frameworks to articulate their thoughts about 'what might happen if...’ models to test out these possibilities, and to use theories to explain why things turn out the way they appear to. There is a lot that is still unexplained about the operation and impact of performance measurement systems, so an equally important outcome is the identification of challenges to theory and areas for further research.

### Activity 2 – ongoing

While we are on the subject of the models, theories and analytical frameworks used in B889, we recommend that you review all the elements of the course, including the TMAs, and make a note of each of these devices: what, where, how used, your view of their value and any needs for clarification or help with applying them to real-world contexts.

The terms model, theory and framework have sometimes been used rather loosely, but they are actually quite distinct. For example models have been used in various ways: to help us present a complex situation or activity in a simplified way, drawing out its key elements; to help you to experiment before taking potentially risky action; to convey the essence of a generic structure or process as an ideal type, unlikely to be found but important for comparisons. Theories are particular sorts of explanations which underpin the interpretation of structure and behaviour. We have used the term 'framework' to refer to a theoretical context (e.g. systems theory) from which to view management problems, or a device for simplifying and organizing analysis (e.g. the notion of 'dimensions' of performance).
Not only may this exercise be a useful contribution to your revision, but also it should help you to assess how far some of the learning needs you identified early in the course have been met. Furthermore, it could act as an index to an intellectual and practical toolkit that we hope you will continue to use outside your B889 studies.
At the end of Unit 1 we warned you (and reminded ourselves) that 'there will be no one best framework, nor any easy answers. But by the end of the course you should be asking better questions about how organizations are and could be controlled, and managing more effectively because of your different approach to performance measurement' (p. 25). We mentioned the wide range of disciplines and perspectives that we intended to draw on in order better to understand organizational control and performance measurement. Finally we closed the unit with an optional section encouraging you to take stock of what you already knew, at the same time illustrating the wide range of management activities that we felt were directly relevant to performance assessment. We also asked you to consider the merits of developing a standard indicator of performance measurement experience.

In later units (Unit 2 and Unit 11 for instance) we drew on the work of several scholars to support our view that there is no single best framework and that we should not expect the development and operation of performance measurement systems to be completely rational and optimal. Within the broad context of the evaluation of education and training as it was covered in Unit 9, we revisited the notion of the diverse needs of different stakeholders and explored issues arising from the assessment of institutions, programmes and courses. In Section 6 we asked you to reflect on the assessment of your personal development, the Open Business School MBA programme and this course. This assessment was to be conducted in terms of the objectives held by stakeholders (especially you) for each of these areas. Here I would like to round off this 'stock taking' by considering what the implications of these assessments might be for the longer-term development of this course – that is, how we might use information about the outputs and outcomes of the course in the operation of double loop learning and control as discussed in Unit 2.

**Activity 3**

If you completed Activity 7 in Unit 1, look back at your responses to the checklist of experiences and any notes you made. If you did not complete that activity, look at it now.

(a) If you did not do the activity before, identify your level of involvement to date with the 12 areas of management experience listed there. Add a fourth level of responsibility: 'D - Gained new appreciation through B889 studies'.

If you have completed the activity previously, how have your ideas and involvement developed since the first attempt? How often does the new fourth category apply?

(b) What are your thoughts now about the potential value of developing a formal diagnostic test of managers' experience in the performance assessment field, based on the 12-point checklist there? What purposes could it be used for, and by whom?

(c) If the B889 Course Team were to develop such a diagnostic test, how might it be used in continual course development?

(d) What other provisos, assumptions or queries would you add to the two points made in the activity (about how to interpret scores from a changing population and whether to use them as a predictor of successful study)?
Comment

In Unit 1 we considered the development of a tool such as our previous experience audit ‘checklist’ as a means of assessing and comparing the level of experience of individuals within a large population, which we suggested might change over several years. The reflections there should have alerted you to the subtleties embodied in, first, using such a tool to measure a property of a population about which one has little other relevant information; and second, the scope for uncertainty in interpreting the findings.

Here I am more interested in how we might use such a tool to measure changes in certain ‘properties’ or characteristics of individuals during their study of the course and thus to see whether the course is achieving its aims. As well as providing a pre-course diagnostic tool to help students clarify their learning needs, the outcome of the ‘audit of previous experience’ in part (a) above could provide you and your organization with information about the value that the course has added to you as a practising manager. This could be a more sensitive measure if we added weights to the value of A, B, C and D responses or considered their relative positions on a continuum. We might debate whether a move during the course from B to A on each experience was as significant as, say, a move from D to C. Would it be particularly worrying for us and for you if you could not bring yourself to rate your experience even at D for some items? Perhaps we should also weight each of the experiences. This would help us to assess the contemporary relevance as well as the quantity of value added to students – ‘relevance’ being an increasingly important characteristic of higher education in the eyes of funding bodies and employers. Currently one might wish to show that a course which gave everyone at least an appreciation of
environmental audit was highly desirable, for instance; whereas one might not worry if your experience of staff appraisal was not much enhanced by the course as there are many other ways to gain such experience. In a few years' time an as-yet-unknown area of experience may be far more highly sought after. (Incidentally, this is an example of single loop feedback control. We are considering whether and how to adjust inputs to the course in the light of our assessment of its outputs against a target. The target, or comparator, could be a desired mean score on our ‘value added’ scale.)

Thus, if we collected ‘value added’ data from you and your fellow students we could use it to make claims about the contribution our course can make to organizations’ capabilities in certain performance-related activities, tailored to reflect the aspects that we thought our market may be most interested to hear. Of course, ‘relevance’ varies with organizational needs, cultures and so on. Clearly, we would not want to devise an assessment tool that showed that our course added little to the things most managers already know and can do, so we might choose what experiences to include in our list and any weightings with great care. As fashions in performance evaluation change, we could adjust the weightings or add new items to the list - but only if we could make sure (by adding new course material if necessary) that B889 continued to be a powerful way to increase students’ levels of experience. We would also, of course, be obliged to explain in full how we undertook our calculations, and what assumptions we had made about how far any change in student experience could be attributed to B889! The results of our test might not be very impressive to an observer who wanted to compare courses on the basis of their impact on students’ capacities for abstract conceptualization and understanding of theories, as well as behavioural outcomes. This is one reason for the inclusion of a formal examination and for the weightings that we have applied to the TMAs.

However, we might still find ourselves with an evaluation device that conveyed the wrong messages. If we have produced a well-written and effectively designed course based on The Open University’s 25 years of distance-learning experience, the most that we can be sure of is that the pre- and post-audit or retrospective review should show ‘a new appreciation’ (a D rating) of any concepts on our list that are included in some detail in the course. We cannot create opportunities for you to design a measurement system from scratch or record measures within an existing system, but by including this course in our MBA programme and giving appropriate guidance about course choice we have to hope that the people who choose to study it do so because they are in a position to benefit in terms of both theory and practice. Even at Masters level, by definition The Open University uses relatively few of the traditional entry criteria that are regarded by more conventional institutions as predictors of successful study; and your work on Unit 9 should have alerted you to the weaknesses of many such ‘predictors’.

So, although we might not extend the use of the audit of previous experience into the evaluation of B889, none the less we need to ask students – and tutors – how far the course has met their needs and expectations, and to identify feasible and desirable changes in the light of their responses. You will probably be asked about this fairly soon through an end-of-course questionnaire, and we should already have sought your views about the Residential School as well as being open to feedback through other routes. The outcomes of the examination and assessment process, including the pattern of student performance and the report of the external examiner, are key inputs to this evaluation and can be significant drivers of change in the short term.
Finally, how might we use a device like the audit of experience to help us plan major course developments of the ‘double loop learning’ variety? The short answer is we probably would not, certainly not without several other forms of data. We have suggested that we should always be alert to changing needs among our stakeholders and the market, and at some point fairly regularly we will need to explore not only whether the course aims are being achieved but also whether those aims are still appropriate enough for an Open University MBA course in performance measurement and evaluation. Are they also still in keeping with the objectives of the Open Business School MBA programme as a whole, as these too have been adapted to changing needs?

In this section we have moved between reviewing how your individual experience has been affected by studying this course, considering whether we can generalize from individual experience in a meaningful way, and debating whether we could interpret data from this sort of source so as to guide future changes to the course. In the next section we will move back to the larger arena of organizational performance and review—what we know about the relationships between the organization, its performance measurement systems, its performance and its environment.
4 Evaluating performance measurement – standing back

4.1 Broadening the scope for performance measurement

Way back at the start of this course we asked you to read and reflect on the 'performance measurement manifesto' set out by Robert Eccles. We suggest that you read this again now, look up your earlier notes and consider how far, if at all, your views on Eccles' arguments have changed since the start of the course. Did you originally feel he was exaggerating his case, perhaps? Have you been convinced now that, to be of sustained use to managers, performance measurement has to go well beyond the 'bottom line'? If you agreed with Eccles at the outset, have you developed stronger views about any particular parts of his case?

A recent study by the Economist Intelligence Unit (EIU) and KPMG management consultants (EIU/KPMG, 1994) bears out Eccles' arguments, finding widespread senior management dissatisfaction with their companies' performance measures on the grounds of excessive financial orientation, unduly narrow focus, inadequate levels of detail and being too historical. Rethinking performance evaluation was particularly necessary for companies expanding across national borders. International comparisons also showed British investment priorities and practices in a poor light in the eyes of Christopher Haskins, chairman of the major foods group Northern Foods plc, in a radio programme in which he roundly dismissed the view that control of wage costs was the key to national competitiveness ('Opinion', BBC Radio 4, transmitted 28 October 1993 and 8 February 1994). He cited the undue attention to quarterly share returns and the resulting tendency for rapid divestment at the first sign of a fall in dividends as key factors in the UK's poor track record in industrial investment in recent decades and the resulting decline in corporate and national performance. He advocated a far closer relationship between investment bodies such as banks and pension funds and the public companies whose shares they own, to the extent of representation by investors on company boards. This, he contended, would give investment managers a greater appreciation of the essential needs for companies to make long-term investments in capital equipment and research and development such as has traditionally been found in Germany and is becoming more common in the USA. While not being a panacea, Haskins' critique of institutional short-termism was supported by the views of a number of other commentators who held more diverse views on other aspects of performance. Haskins concluded that government intervention in the regulation of capital markets, combined with a greater willingness on the part of institutional investors and directors to take a long-term view and invest in equipment and staff development, were critical to British competitiveness and to providing what shareholders, staff and customers deserve.

Haskins' and Eccles' critiques of 'traditional' performance measurement have underpinned a view which we have sought to develop throughout the course—that, in order to contribute to organizational survival in the 1990s and beyond, performance measurement must be designed to be holistic. People from all functional areas should play a part in designing and using integrative performance information systems, encouraged by visibly committed senior
management. A diverse selection of measures is required to counteract the short-termism that characterizes a reliance on financial performance, to give guidance about the future and to enable comparisons to be made with competitors and exemplars, not just the organization’s past. The performance measurement structure and its underpinning information systems should incorporate all the metrics necessary to enable the organization to pursue its strategy.

Eccles describes roles for external as well as internal stakeholders, suppliers as well as customers. Without using the term, he advocates a double loop approach: ‘a revolution that never ends’. Performance measurement should evolve and improve continually to meet changing needs.

His article is a useful contribution to two key questions which run through B889 - ‘Are performance measurement and evaluation working? ’If not, why not? ’. The EIU/KPMG study found that managers in financially successful companies were more likely to feel their organization’s systems were effective. Cause and effect are implicit here, but Eccles recognizes the importance of matching performance measurement structures and processes to organizational characteristics: ‘... its history, culture and management style’. We will consider this contingency approach below.

An important aspect of your work for the mini-project will have been any disjunctions that you found between your organization’s practices and the needs of its internal and external context. By asking you to adopt a critical stance we intended that you would not only examine the extent to which your organization was operating ‘current good practice’ (as described in various parts of the course materials), but also become aware of the need to make appropriate choices. This matching of approach with context was explored in some depth in Unit 7 when we looked at quality management, and is implicit in several other parts of the course. Obtaining a broader picture of the sorts of disjunctions that occur in different organizations, and how organizations can respond successfully, is a subject that needs further research.

### 4.2 What are performance measurement and evaluation for?

To make some headway with the question ‘Are performance measurement and evaluation working?’, it would be appropriate to explore what these activities are intended to do in the first place. From time to time in B889 we have discussed this explicitly, but more often we have taken the purpose of these activities for granted.

**Activity 4**

Now that you have been an active observer of performance measurement and evaluation over a number of months, what do you feel have been the main purposes behind it? Note both official and unofficial purposes.
Comment

In my own research some years ago (Holloway, 1990) I felt that at least three common purposes could be observed in all industrial sectors: goal attainment, control and a sort of social inevitability in modern societies. None was without some scope for debate particularly as the purposes seen by different stakeholders would quite likely differ, and a disjunction between the official and operational purposes was often suspected, becoming a source of conflict. I have no reason to feel that this characteristic has become less problematic today, although perhaps our subsequent experience of severe economic recession has meant that some sort of performance measurement has come to be regarded as a necessary evil by more stakeholders. Your views on the purposes of performance measurement and evaluation will have influenced your approach to this course, and are in themselves an interesting topic for further research.

To expand a little, here are my earlier thoughts on 'Why measure organizational performance?', which I would like to consider in slightly more detail.

Goal attainment?

The obvious, rational purpose of performance measurement is to ensure that objectives and targets are being met, and evaluation of the outcome of this process will indicate the nature and magnitude of any action to be taken. However the nature of such objectives as well as their content will have implications for the measurement process.

Goals which can reasonably be required to be optimized or maximized, objectives which are relatively specific and widely endorsed, may make the choice of tools for measurement and evaluation comparatively simple. Even so, there are likely to be different interests and viewpoints providing a range of perspectives on what appropriate approaches comprise. Individuals may be interested in the performance of their subordinates because of its effect on the way their own performance is assessed, regardless of higher level organisational objectives. Organizations characterized by heterogeneous activities and aims, ambiguous information and uncertainty about the relationships between inputs and outputs make performance evaluation relatively problematic (Klein, 1982; Lloyd, 1988).

Performance and control

If organizations did not interact with their environment or involve independent-minded human components, organizational processes could take place in a predictable way and it would only be necessary to ensure that inputs were commensurate with the desired outputs. But it is rarely useful to see complex organisations as such closed systems. Our lack of understanding of causal relationships and the significance of (often unpredictable) influences from the organizational environment impose a need to monitor intermediate outputs and (where possible) eventual outcomes and be prepared to adjust inputs so as to bring performance closer to desired levels.
Social inevitability?

Much organizational activity involves some notion of accountability, of those making decisions or carrying out tasks being obliged to a more or less significant extent to answer to others for the standard or nature of their actions. Whether in commercial organizations or public services, judgements of the adequacy of actions may be based on comparison with cultural mores (including expectations of ethical conduct), objectives (more or less explicit), legislation and in some cases professional expectations.

Performance evaluation in various forms seems to be an increasing preoccupation in capitalist and socialist economies (there were some at that time!), commercial and not-for-profit organizations; all appear to be paying increasing attention specifically to the achievement of their own goals and comparisons with others (Pollitt, 1986; Mullen, 1985). Many people are employed to collect, process and communicate performance data about small or larger parts of organizations – for example, audit, work study, inspectorates of various sorts. Perhaps human expectations in the developed nations about the extent to which nature and the physical environment can be controlled, and desires to shape our own lives in and outside work, have increased with time.

(Holloway, 1990, pp. 47-8)

Exploring these three purposes leads to several potential sources of insights into our key questions. First let us consider 'goal attainment'. The value of assuming that a rational unitary approach can explain organizational objectives has been questioned at various places in this course as well as in others (such as B881 Strategic Management). Perrow (1961, 1972) distinguished between official, operative, official operative and unofficial operative goals. 'Operative' goals tell us far more about the activities which the organization will actually be engaged in, and indicate competing values and options which can follow from the same, more generalized, 'official' goal. 'Official operative goals' will influence decisions between competing priorities, reflecting alternative values, and may come to be seen as ends in themselves. Official goals will constrain operative goals, however, as the pursuit of the latter depends on their plausibility in terms of the former. Such 'goal displacement' may explain some of the frustration felt by an organization's external customers. Their complaints may not result in satisfaction because they are based on expectations reflecting official goals, while the service or goods they receive, and which more junior managers may feel it is reasonable or feasible to provide, reflect operative goals.

Perrow also described less legitimated, 'unofficial operative' goals which may be more difficult to discern. These may have more significant, even worrying, implications for controlling and changing performance, and for accountability. Economic and political interests will shape the ends pursued by individuals and groups. These may be considerably at odds with the official, legitimated goals; their impact will reflect the power and influence of such groups in the organizational structure. They may be a force which inhibits or promotes change.

So, although we have made quite heavy use in B889 of the systems intervention strategy, which starts off by assuming that goals and objectives can be agreed and then pursued when performance measurement or other organizational activities are designed, we need to be constantly aware that this assumption may be open to question. Even if 'top line' objectives are relatively specific and widely endorsed, the secondary objectives held by various stakeholders may diverge widely. At least we may need to acknowledge explicitly that for the
purpose in hand we are assuming that objectives can be clarified, but that if we uncover significant uncertainty we may need to adopt an alternative approach or apply some caveats to our decisions. In the concluding section of Unit 2 you met an uncertainty matrix with a distinguished pedigree which is reproduced here (Figure 1). It is worth referring to it now and in any future activity involving the diagnosis of performance-related problems and the design of performance measurement systems.

As well as the 'certainty over objectives' axis, the uncertainty matrix asks us to consider how much we really know about causal relationships in the situation which has attracted our interest. Taking the 'control' role for performance measurement, we are reminded of the central role which systems concepts can play in helping us to understand or at least ask questions about causal relationships. I would argue that an awareness of systemic characteristics (inter-connectedness, synergy, purpose, complexity, defined by interested observers) in a performance assessment context is essential if discomfort, dysfunction and failure are to be avoided or minimized. Thinking in systems terms will not prevent conflict occurring in performance assessment, nor should it, but it can reduce the risk of unnecessary trauma or waste which can follow when assumptions about cause and effect are unfounded or incorrect.

Our third hypothesized role for performance measurement and evaluation – that it is a social inevitability today – leads to a whole raft of further questions that should change as practices change. You have met the work of Christopher Pollitt on the performance of universities in Unit 9. He has been observing performance measurement and management in public services in the UK and abroad for several years and in an earlier study (Pollitt, 1986) he noted some significant shortcomings in public service practices that in my view are almost equally relevant to the private sector. For example, he was concerned that:

- the use of performance assessment as a cost-cutting exercise or to reward or penalize staff militates against learning and professional development.
- voluntary participation is desirable especially if the scheme involves the rating of performance of individual members of staff
- diversity of services must be recognized (his concern was over the uncritical importation of techniques from the private sector into public services; I would argue that any innovation needs to be considered in the context of the organization receiving it)
- a direct input from consumers/the public should be regarded as legitimate
- new data collection systems are likely to be needed for new assessment purposes
- there are problems related to the adoption of a short-term, mechanistic, efficiency focus, and to the satisfactory aggregation of judgements of performance.

Activity 5

Consider these strictures from the point of view of the organization you have been observing for your mini-project. How relevant are they there, and what are the implications for future management action?

You may have noticed that many of Pollitt's concerns are consistent with those expressed by Deming and Juran which were outlined in Unit 7. However, despite these long-standing cautions, the performance assessment bandwagon has rolled on, relatively untouched by reflection on its effectiveness in many cases, other than with hindsight. We have considered three purposes for performance measurement and evaluation by which we could start to judge its effectiveness; doubtless there are many other possibilities. We have also assumed that there is scope for its more effective operation, but that we need to understand more about what may or may not make it work to the benefit of as many stakeholders as possible.

4.3 What makes performance measurement and evaluation work?

In producing B889 the Course Team wanted to provide an alternative approach to the tendency, which you have probably also observed, for organizations and managers under pressure to turn to the latest technique or recipe for performance improvement. By the time that a serious performance problem has been recognized, it may seem rather too luxurious to stand back and say 'before we take any decisions, let's gain a clearer view of what is really happening and
agree where we want to get to’. However, there are now enough examples of performance measurement and evaluation failures to suggest that adopting the latest trend or an approach recommended by someone from outside will not necessarily work for your organization. There is a need to match characteristics of the performance evaluation system with those of the organization and its environment. What is less clear is which are the key variables that need to be matched. This matching, or understanding how factors interact in different ways including causal relationships, is what I am referring to as a contingency approach and it was first introduced in Section 5 of Unit 2.

Referring back to the aspects of the course identified in response to Activity 1, I think it would be appropriate to look for relevant factors or variables at several different levels:

1. the performance measurement system (such as a performance indicator package) or technical tool or process itself
2. the performance measurement system within its organizational context (which may be a subsystem such as a department)
3. the whole organization
4. the organization within its social, political, economic and technological context or environment.

Before attempting to solve performance measurement problems it is important to examine their characteristics and identify the level(s) at which intervention is needed. (If you have studied B880 The Competent Manager, or P679 Planning and Managing Change, this may put you in mind of the ‘Pugh Organizational Development matrix’ which is used to identify the most appropriate level for an OD intervention.)

Identifying the most appropriate level(s) for intervention can help us to prioritize the sort of intervention that may be needed. For instance, at level 1 above, we may make headway simply by addressing technical characteristics of data collection and analysis (recall the characteristics of a good performance indicator listed in Unit 8, Box 2); or we may need to consider softer aspects such as the user-friendliness of measurement tools or data, or gaining co-operation of staff in data collection. At levels 2 and 3 particularly we need to consider whether attention is being directed at the most relevant dimensions of performance, bearing in mind the values and objectives of the organization (or sub-organization) and groups within it. At each level we should be aware of systemic feasibility, the acceptability of performance assessment structures and processes to all stakeholders and not just the most powerful ones.

This may be the point at which satisficing takes place – I may have a pretty good idea about how the problems I perceive can be solved at one go, for instance by replacing the entire board of directors or changing EU legislation or letting customers have a say in investment decisions. But more realistically I would be better occupied in ensuring that in my department we train ourselves to be more competent users of statistical information, so that we can present our customers with a more valid set of choices when the opportunity arises.

This takes us back to the identification of contingency factors to explain why performance measurement and evaluation does or does not work well. The case for a contingency approach has been made in some detail within the field of management accounting, together with a recognition of its limitations. As this is a central part of management control, with important implications for organizational efficiency and effectiveness, we will treat it as an example from which we may generalize to other forms of management activity.
The role for contingency approaches

Contingency theory is a general term for a branch of organization studies in which the structure and management of an organization is seen as being dependent on a number of factors reflecting the uncertainty arising from the wider environment. This reflects a rejection of the search for a single model of how organizations work. The contingency theory literature includes many familiar names (Mintzberg, Lawrence and Lorsch, Child, Emery and Trist, the Aston studies of Pugh et al., Woodward, Perrow ...), conveniently catalogued by Ezzamel (1987) and Waterhouse and Tiessen (1978). Characterized by a relatively high level of empiricism, their works range from a search for the one key determining variable of organizational structure or effectiveness (the organization’s environment, age, power distribution or size, technology), through complex multivariate models to the more flexible and less deterministic approaches of some systems theorists. Ezzamel, and Waterhouse and Tiessen, also sum up some of the criticisms levelled at contingency research:

- lack of conceptual clarity (How is ‘organizational effectiveness’ defined, and from which viewpoint?)
- limited attention to theoretical development
- poor sampling design and inappropriate use of statistical models
- a lack of capacity to handle multiple contingencies resulting in the replacement of the determinism prescribed by theoretical models of classical organization theory with an alternative form based on an expected response to a given contingency factor and a denial of the potential for choice.

It would certainly seem inappropriate, therefore, for research to focus on identifying and prescribing an ideal combination of organizational characteristics and contingency variables for performance success. None the less, if we take the view that the world is sufficiently ordered for some sort of useful pattern to be found in organizational responses to contingency factors (a ‘modernist’ rather than ‘post-modernist’ stance, see below), as well as displaying many inconsistent and unpredicted responses, a contingency approach can help us to understand more about the ways in which accounting and other forms of management control affect and are affected by organizational processes and characteristics.

In considering the value of contingency approaches to the design of budgetary control systems, Otley (1987) notes that, while studies claiming to identify generalizable relationships have not stood up to close scrutiny, narrower studies can reveal interesting interrelations such as the importance for successful performance of consistency between accounting principles in firms which have merged or been taken over. An earlier study by Bruns and Waterhouse (1975) provides a useful example of empirical research into budget administration behaviour as an example of performance management. They concluded that control systems (including budgets) need to be matched to organizational type, and that variance in budget-related behaviour is at least partly explained by contextual features (e.g. size) and structural variables such as the degree of concentration of authority. In terms of management satisfaction and effectiveness their research showed that large process-dominated organizations could be more satisfying to work in than is often supposed, as size may be correlated with distribution of authority, increased participation in planning and greater involvement by managers. So, changing organizational structure could lead to more effective budgetary control.
Waterhouse and Tiessen (1978) argue that a contingency approach to research on management accounting systems holds considerable promise for theory development. 'Moreover many MAS activities are concrete and identifiable managerial processes with documented outputs (e.g. budgets). Therefore research on MAS variables may be a means of conceptualizing and observing more abstract processes such as goal formation, power attempts or conflict resolution' (p. 112). A cautious and critical assessment of the design and outcomes of contingency research would seem to be indicated, in order that its very real potential in the development of suitable and effective performance evaluation activities and systems can be realized.

**Activity 6**

You have seen that contingency theory and research has played an important part in understanding the effectiveness (or otherwise) of management accounting. B889 has covered a wider range of disciplines, and in places we have adopted a contingency approach to illustrate factors which are important to their effectiveness; but much work remains to be done. From your work on this course, and particularly for TMA 04, you may have become aware of shortcomings which internal or external stakeholders feel apply to your organization's performance assessment practices. Note any contenders for contingency variables that could be explored through research, formally or in the course of your day-to-day work in future, and consider how such research might be developed.

**Comment**

I came up with the following possible contenders, thinking of the needs of the Open Business School:

- affordability to the organization
- availability of requisite skills and understanding within the organization
- compatibility between structure of the performance measurement system and organization
- transparency of purpose, appropriate degree of participation of internal stakeholders in system design
- technical and political acceptability to external stakeholders
- compatibility with organizational culture(s), reward systems and values
- an appropriate degree of complexity of the system vis-à-vis the complexity of the organization
- compatibility of time scale and operational cycles between performance measurement system and organizational processes.

The research to establish just how important any of these variables might be would be pretty complex, but insights from other fields such as organizational behaviour and occupational psychology would suggest that many of them should be taken into account in systems design anyway. Some factors may be prerequisites (such as affordability), although perceptions of what would be worth affording may be affected by cultural compatibility. A factor I would particularly like to explore is the 'complexity' element — if I could define the level of complexity within our organization, could I then say just how sophisticated (e.g. in terms of number and nature of performance indicators) an effective system would need to be?

Forms of research would need to be chosen with care. In this sort of speculative area it might not be appropriate to seek out large data sets and carry out regression analysis and the like; qualitative case studies informed by secondary
data might be more helpful. You have probably found from your work on TMA 04 that you can gain valuable insights by comparing your individual organization with a small number of others – triggering new questions is as relevant as seeking confirmation of expected answers through mass data collection. The underlying aim must be the design of performance measurement and evaluation systems which have a positive impact for as many stakeholders as possible, thus reducing the risk that current performance information will be ignored and future warning signs will be missed.

At this stage it is probably most appropriate to conclude that no single variable is likely to hold the key to the design and operation of effective performance measurement and evaluation systems. Even if some of the possibly relevant factors listed above could be proven to be of particular importance in certain circumstances, it is important not to treat organizational needs as if they were static. As organizations, their customers and other stakeholders, and the wider environment change, our monitoring and control systems themselves need to adapt. As well as the 'single loop' adjustment of inputs and 'double loop' adjustment of objectives, we must aim to design adaptive systems and keep the need for change constantly under review. This is one of the essential characteristics of the 'learning organization' – but that's another story!

4.4 Return to systems thinking

Ezzamel and his colleagues stress in particular that research design must be able to cope with complex wholes and systems dynamics, disequilibrium and change. I would like to conclude this unit by returning to a field from which such design for both research and practice may draw.

In B889 we have presented you from time to time with insights and examples from 'systems thinking', drawn from a spectrum which extends from the quantitative modelling of operational research and traditional cybernetics, through Stafford Beer's management cybernetics and more interpretative approaches such as Checkland's 'soft systems analysis', to an emerging school of critical systems thinking. Our 'systems intervention strategy', while having origins in hard systems thinking and systems engineering, aims to bring in some softer elements – the notion of the problem owner, the potential for initial system description to reflect influences and values as well as tangible structures, and so on. However, this is still but a small part of a diverse discipline which offers a range of models of relevance to the design and operation of performance measurement systems.

Rather than present a potted history of systems thinking and practice at this late stage in the course, we suggest you read the article in the Appendix, 'Modernism, post-modernism and contemporary systems thinking', which provides both a short overview of the main strands in systems thinking today with the added bonus of a reasonably accessible 'thumbnail sketch' of post-modernism. If, like me, you find new 'isms' generally unattractive, you may still feel it is worth skimming the article as post-modern interpretations of everything from art to zoology seem to pop up in the media with remarkable frequency. More importantly, the article should give you some impressions of the world of systems thinking that may provide you with valuable analytical and reflective tools in the future. The references are a good basic toolkit if you do want to follow up any of the approaches.
The activity at the end of Unit 11, concerning the Tate Gallery in St Ives, reminded us of degrees of uncertainty about the short, medium term and strategic challenges facing managers and their organizations. It also prompted us to identify stakeholders, examine how to measure less tangible things, and become more aware of how dramatically the climate has changed for many organizations in recent years and is continuing to change. Not only will the organization's objectives develop, but so too will those of their stakeholders - the Tate galleries nationally, the community in St Ives, the Cornish and wider UK tourist industry, local authorities and so on. Any one of these stakeholders could be interested in asking better questions about their organization's performance, and any one of such groups may benefit from the capacity of managers to ask better questions about performance measurement and evaluation itself.

We could spend some time here suggesting what those 'better questions' might be, but this would be to risk prescribing questions based on today's concerns when tomorrow's needs may be very different. However, some underlying principles can be stated, which we hope that the course has enabled you to work with in new ways:

- Performance measurement does not operate in a vacuum, nor is it neutral. Recognize who is asking the questions, and consider why.
- Performance-related data cannot usually speak for themselves. What relationship is claimed between data and the system of interest? What can the data really help to prove?
- Performance measurement systems are like any other management systems, they need to be designed to be fit for the intended purpose. There may be many purposes, explicit and implicit.
- Performance measurement is rarely of use in isolation. To be of value it has to be placed in a context, and the interactions in that context have to be modelled and understood.
- Performance data tell us little until they are compared with aims, objectives, targets or goals of relevant stakeholders. For managers this evaluative activity is central.

As we said in the Course Guide, we cannot control the attainment of the learning outcomes and management development that we hope will result from your study of B889. However, we can probably predict some unfinished business for you, as we can for ourselves. For members of the B889 Course Team, there is much research to be undertaken on how performance measurement, undertaken more or less effectively, affects organizational performance. In this regard we will always be interested to learn from the experiences of students and tutors. For you, we hope that you can put into practice many ideas from B889 and continue to reflect on your management practice long after the course is finished.
References


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Cover

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Appendix

Appendix

Modernism, post-modernism and contemporary systems thinking*

By Michael C. Jackson

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