

MANAGING WITH MEASURES: THE STAKEHOLDER PERSPECTIVE [1]

Andy Neely and Chris Adams, Cranfield School of Management

THE STAKEHOLDER REVOLUTION

The days when companies could survive and prosper by focusing on the wants and needs of one stakeholder – the shareholder – are long gone. The days when organisations could survive and prosper by focusing on the wants and needs of two stakeholders – the shareholders and the customers – are also numbered, if not yet already passed. Despite the fact that ‘customer relationship management’ is one of today’s hot topics and ‘customer focus’ was the rallying cry for many of the management revolutions that swept the business world during the 1980s and 1990s such as Just-In-Time, Total Quality Management and Business Process Re-engineering – it is only a single-step improvement on what has tended to happen in the past, not a complete solution. Other worthy initiatives have tried to place greater emphasis on other individual stakeholders, such as Human Resource Management for example, but have tended to lose site of the broader picture.

Now, and increasingly in the future, the best way for organisations to survive and prosper in the long term will be to think about the wants and needs of all of their stakeholders and endeavour to deliver value to all of them. Simply focusing on a subset of seemingly influential stakeholders – typically the shareholders and customers – and ignoring the wants and needs of the rest is shortsighted and naïve in today’s information-rich society. One only has to observe some of the recent experiences of global organisations to understand the impact that other stakeholders – consumers, employees, suppliers, regulators, legislators, activists and communities – can have. Here is a more or less random half-a-dozen international examples to illustrate the point:

- Caterpillar – world renowned for its products, also goes down in the history books for enduring one of the longest running strikes ever. In a bitter seventeen-month dispute with the Union of Auto Workers, the company lost some three million working days.
- Bridgestone/Firestone – car maker Ford Motor Company has been waging a very public battle in the US with its Japanese-owned tyre supplier Bridgestone/Firestone. The spat has been about assigning responsibility – in other words, the blame – for tread separations on Ford’s Explorer model that have been the cause of over 150 road deaths. Firestone attributes the cause to vehicle design, Ford to faulty tyre production. The product recall and other associated costs, not least legal ones, involved are astronomic.
- Mars – despite the adverse publicity, the confectioner was considered fortunate in 1998 when it was found not to have breached the UK’s Food Safety Act after a mouse’s head and shoulders were discovered in a Topic bar. A woman had eaten most of the bar before discovering what she described as ‘a grey furry-looking object’. Mars said that the mouse parts had come from a consignment of hazelnuts from Turkey. In a separate incident, in 2001, the company was forced to destroy between two and three million Twix bars after beetles were found in its flour supply. Its quality control inspectors found black flecks in the popular snack’s biscuit base.
- Roche and BASF – Roche of Switzerland and BASF of Germany were fined a total of \$725 million by the US Justice Department for indulging in antitrust cartel arrangements in their respective vitamins businesses. Executives also received fines and custodial sentences.

- Exxon-Mobil – campaigners from several hundred non-governmental organisations (NGOs) launched ‘an international day of action’ against the US oil company in July 2001. Protesters targeted offices and petrol stations around the world to highlight the firm’s stance on issues ranging from climate change to human rights.
- McDonald’s – the company may serve fast food, but it certainly takes it time in court. McDonald’s has the somewhat dubious honour of being the litigant in the UK’s longest ever libel trial, which lasted some two and a half years. With its annual income of over \$30 billion, McDonald’s took on two unemployed British protestors – David Morris, an ex-postman and Helen Steel, an ex-gardener, who between them earned some \$12,000. The protestors decided to defend themselves. They kept McDonalds in court for a total of 313 days and had the chief executive over to give evidence. The legal fees alone are said to have cost McDonald’s approximately \$10 million. While the impact of the adverse press and publicity is immeasurable. Over 250 press reports, a book and a sixty-minute documentary have all been produced, questioning why McDonald’s ever decided to take the protestors to court in the first place. In addition, the original leaflet that first sparked the libel action has been published on the McSpotlight internet site – to date this site has been accessed by over 12 million people [2]

Of course, some firms also neglect to look after even the longer-term interests of their shareholders. The recent accounting shenanigans and consequent melt-downs at Enron and WorldCom have received so much adverse press that further comment is hardly needed from us, other than to say that this represents just the tip of an iceberg (many other examples exist) of corporate deception and executive irresponsibility driven by a short-term shareholder value culture to the exclusion of all other longer-term business considerations. If further evidence were needed of the breakdown of a system solely aimed at satisfying the immediate wants and needs of one stakeholder – and, ultimately, failing to do so spectacularly – at the expense of all others, then this must surely be it.

STAKEHOLDER VALUE

Increasingly, responsible CEOs the world over recognise these issues. They understand intuitively the complexity inherent in the management of global organisations. They accept that today the way to protect and deliver long-term shareholder value is to find a way to deliver multiple stakeholder satisfaction. Speaking in September 2000, for example, Anders Dahvig, CEO of Ikea, the Swedish furnishings company, said:

“The world has changed enormously in the past decade... All of us now act in ways we did not 10 years ago. Globalisation means stakeholders and responsibilities everywhere, which have to be managed. It’s quite a different level of complexity” [3]

In a similar vein, Chris Fay, Chairman and Chief Executive of Shell UK is quoted in the Institute of Chartered Accountants 21st Century Annual Report as saying:

“The days when companies were judged solely in terms of economic performance and wealth creation have long disappeared. Today, companies have far wider responsibilities to the environment, to local

communities and to the broader society. These are not optional extras. They are not the 'icing on the cake'. I believe that Shell UK's wider social responsibilities form a fundamental and integral part of the way in which we do our business. They are vital to our long-term economic performance" [4].

Comments and views such as these have led to the emergence of new standards for corporate reporting. Shell, for example, now release a supplement to their annual report entitled 'Profits and Principles', which explains what Shell is doing to ensure that it delivers value to society, as well as to its shareholders. The UK's Co-operative Bank has gone even further and reports how well the business has performed against the expectations of all of its stakeholders – shareholders, customers, staff and their families, suppliers, local communities, national and international society, past and future generations of 'co-operators' – in its annual Partnership Report. More formalised approaches to stakeholder accountability and reporting are being developed and documented. The Institute for Social and Ethical Accountability, an international membership organisation based in the UK, for example, has been involved in the production of The Copenhagen Charter – A Guide to Stakeholder Reporting – and the development of the AA1000 stakeholder reporting framework.

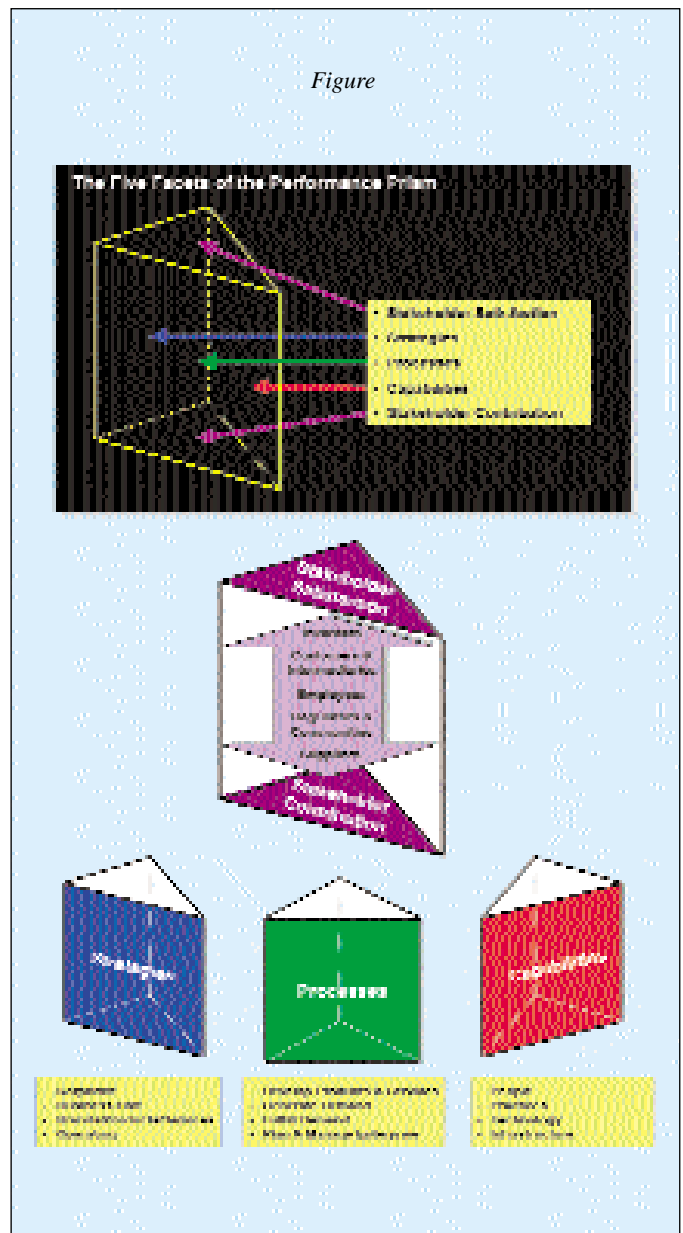
These, and numerous other examples - the current debate about company law reform, the increase in the powers of regulators, the emergence of socially responsible investment funds, and protests at a host of G7, G8 and EU meetings - illustrate a growing trend. It is that executives in organisations across the world recognise and accept that the business empires they manage have a broader role to play in the 21st century than simply and only delivering value to their shareholders. This is not to say that generating shareholder value is unimportant. Nor is it to suggest that shareholders should take their place at the back of the stakeholder queue. Indeed, quite the converse is true. Whereas some shareholders may not be pleased to learn that their interests seem to have been at least partially marginalised, that notion will only apply to the few (in value terms) that are short-term investors. Most long-term investors already realise that for companies to be successful over time they must address multiple constituencies. If companies do not give each of them the right level of focus, both their corporate reputation and their market capitalisation are likely to suffer. The point is that the only sustainable way of delivering shareholder value in the 21st century is to deliver stakeholder value.

So, what is stakeholder value and how can executives be sure that the organisations they control are delivering it? The truth is that there is no simple answer. There is no off-the-shelf solution. There are no well-established methodologies for assessing whether or not organisations are creating and delivering stakeholder – as opposed to shareholder – value. True, there are a number of sub-methodologies, such as techniques for measuring customer and employee satisfaction, and for comparing performance using benchmarking principles. And there are too, a number of partial solutions, most notably the ubiquitous but decade-old balanced scorecard (that effectively assumes that the only stakeholders that matter are the shareholders and customers). But how do these sub-methodologies and partial solutions integrate with one another? How do they enable executives in organisations to track whether the strategies they are pursuing, the processes they are operating and the capabilities they are developing are actually enabling the organisation to deliver stakeholder value today, and will continue to be able to do so in the future? The answer, of course, is that they don't. This does not mean that they are not valuable solutions. It just means that they are partial solutions. What is lacking is an integrative framework that builds upon these partial solutions and presents a rounded picture of what executives have to manage and measure if they are to be sure that the organisations they control are to deliver sustainable stakeholder value. And put quite simply (and

somewhat ambitiously) it is the aim of this article to present briefly such an integrative framework – namely, the Performance Prism.

THE PERFORMANCE PRISM

The Performance Prism framework consists of five interrelated facets, see Figure. The first facet – Stakeholder Satisfaction asks "Who are the stakeholders and what do they want and need?". This facet is deliberately broader than the balanced scorecard view of stakeholders, which encompasses only shareholders and customers. No mention is made in the balanced scorecard of employees. No mention is made of suppliers, alliance partners or intermediaries. And no mention is made of regulators, the local community or pressure groups. Yet all of these parties can have a substantial impact on the performance and success of an organisation. In contrast, this first facet of the Performance Prism explicitly demands that organisations consider who their key stakeholders are and what it is that they want and need.



The second facet concentrates on Strategies. Traditionally it has been argued that measures should be derived from strategy. In fact this is wrong. The only reason an organisation has a strategy is to deliver value to some set of stakeholders. The starting point has to be "Who are the stakeholders and what do they want and need?" Only when these questions have been answered is it possible to start to explore the issue of what

strategies should be put in place to ensure the wants and needs of the stakeholders are satisfied. Therefore, the second facet of the Prism asks “What are the strategies we require to ensure the wants and needs of our stakeholders are satisfied?”.

The third facet of the Performance Prism – the Processes facet asks the question “What are the processes we have to put in place in order to enable our strategies to be delivered?”. Here we are talking about processes in the sense of the generic business processes that underpin the common operations of most organisations. These are:

- develop new products and services
- generate demand
- fulfil demand and
- plan and manage the enterprise.

For each of these (normally cross-functional) processes, it should be possible to identify specific measures that allow management to address critical questions that they need to be able to answer. For example, it might be necessary for an operations executive to ask “Is my organisation’s fulfil demand process working efficiently and effectively?” and “If not, how will I know which sub-components of it are the cause of its inefficiency or ineffectiveness?” And so on through the other key processes and their sub-sets.

The fourth facet of the Performance Prism, the Capabilities facet, is perhaps the least widely understood. Capabilities are a relatively new but important management concept. They are the combination of people, practices, technologies and infrastructure that together enable execution of the organisation’s business processes (both now and in the future). They are the fundamental building blocks of the organisation’s ability to compete. Without the right people, practices, technologies and infrastructure in place, it is impossible to execute or improve the processes. The key question associated with this facet then becomes “What are the capabilities we require in order to operate and develop our key processes?”. As soon as this question has been answered, then it becomes possible to identify measures that allow the organisation to assess whether it has the required capabilities in place now, or has plans to implement them, and whether they are being sufficiently nurtured and protected.

The fifth and final facet of the Performance Prism is the Stakeholder Contribution facet. This facet has been included as a separate component since it recognises the fact that not only do organisations have to deliver value to their stakeholders, but also that organisations enter into a relationship with their stakeholders which should involve the stakeholders contributing to the organisation. Take employees, for example. Employees want from an organisation a safe, secure place to work. They want a decent salary and compensation package. They want recognition and fair treatment. They might also want an opportunity to influence the organisation. But, *in return*, the organisation itself wants its employees to contribute to the business. It wants them to offer ideas and suggestions, to develop skills and expertise, to advocate, to turn up for work and to remain loyal to the business – training replacement staff costs money.

This symbiotic relationship between the organisation and the stakeholder is true for all classes of stakeholder, whether we are talking about investors, customers, employees, suppliers, alliances, or the local community. Each has its own *quid pro quo*. All other measurement frameworks we have researched fail to recognise the reciprocal relationship between the stakeholder and the organisation. It is a critical and unique feature of the Performance Prism.

It should be noted that the Performance Prism is not a prescriptive measurement framework. Instead, the Performance Prism is a framework, a tool, which can be used

by management teams to influence their thinking about what the key questions are that they want to address when seeking to design their performance measures and measurement systems, and so manage their business. You get what you measure.

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About the authors

Professor Andy Neely is Director of the Centre for Business Performance at Cranfield School of Management and Professor of Operations Strategy and Performance.

Prior to joining Cranfield University, Andy worked at The Judge Institute of Management Studies and held a lecturing position at Cambridge University, where he was a Fellow of Churchill College.

He has been researching and teaching in the field of business performance measurement since the late 1980s, chaired the first and second international academic conferences on performance measurement, and co-ordinates the Performance Measurement Association

Andy is a frequent speaker at major international conferences and has completed numerous research and consulting projects and authored over 100 articles and books, including “*Measuring Business Performance*”. He has consulted to and worked with a variety of organisations including 3M, Accenture, Diageo, Hogg Robinson, KPMG, NatWest, Pilkington, Posten, Reckitt & Colman, Rolls-Royce Aerospace and Schering.

Chris Adams is a Visiting Fellow at Cranfield School of Management’s Centre for Business Performance and an independent consultant.

Until 2001 Chris worked at Accenture (formerly Andersen Consulting) for thirteen years, providing strategy, process and capability performance improvement consultancy services to client organisations.

Prior to his consulting career, Chris gained 22 years of experience in industry with DuPont in a wide variety of customer service, logistics supply chain, quality management and internal support management roles.

Together Professor Andy Neely and Chris Adams 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*”.