



FINANCE &
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Business performance management: When not to measure

FINANCE DIRECTION INITIATIVE

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As part of an ICAEW group looking to build stronger connections between ICAEW and academia, Chris is open to being contacted about any aspect of this report — you can contact him directly on c.ford@lancaster.ac.uk, or through the Lancaster University Management School website.

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Foreword

Finance professionals are well versed in the use of measurement to drive organisational success. The risks are that we end up measuring too much while overlooking the limits of measurement and ignoring the alternatives. These risks are exacerbated by accounting commentators, including ourselves, who produce numerous outputs focused on measurement, such as how to choose your key performance indicators.

The limitations of measurement get less coverage but some ideas are well established: the quote that 'not everything that can be counted counts, and not everything that counts can be counted', wrongly attributed to Einstein, seems to be well known among accountants; Goodhart's law from the 1970s argues that when a measure becomes a target, it ceases to be a good measure. More recently, in ICAEW's 2016 P.D. Leake lecture on embracing ambiguity in decision-making, Professor Paolo Quattrone highlighted the value of introducing deliberately conflicting measurement in order to foster debate. This is in stark contrast to the mantra of searching for 'one version of the truth'.

This report seeks to further counter-balance any bias towards measurement by focusing our attention on when **not** to measure.

Drawing on a range of research, the report explores many ways of guiding our organisations, ways which do not depend on measurement. It also highlights some of the ways in which measurement can undermine performance. Successful finance professionals know that a nuanced understanding of business performance management, which reflects a deep understanding of our organisations and the people who work in them, enables them to support other managers more effectively. Having a critical look at when to measure, and when **not** to measure, will help us in our pivotal, performance management role.

Rick Payne
ICAEW, Finance Direction Programme

Executive Summary

'What gets measured gets managed. What gets managed, gets done' is a compelling mantra, but practicing managers know that reality is not quite so simple. While measurement brings consistency and a way of cutting through the narrative to the 'real story', it also comes at a cost, in terms of systems, staff and time; there is also a very real risk of focussing management on the wrong indicators or activities, on what can be measured rather than what should be attended to, especially in dynamic business environments.

This report sets out a series of ways in which we can better understand performance management and control, extending beyond the naturally dominant themes of measurement and key performance indicators (KPIs). Sometimes we may have to confront, and accept, that not everything relevant can be measured. In particular the report highlights that managers need to think very carefully about adding layers of measurement when:

- performance is heavily dependent on intrinsic motivation;
- relationships are more important than transactions;
- innovation is a key goal;
- other forms of social, personal and informal accountability are already powerful drivers of employee behaviour; and
- a new project, joint venture or start-up needs flexible but effective performance management.

In the report we look at each of these management challenges in depth, drawing on both new and established research, as well as many practical examples. We explore the many alternative ways of guiding our organisations towards the achievement of their goals.

To achieve this aim we look at performance management using five different perspectives.

1. Maintaining intrinsic motivations.
2. Control systems types – from transactional to relational.
3. Control for both stability and innovation.
4. Whole-system analysis and the accountability audit.
5. Systems lifecycles.

These perspectives allow us to generate new insights on how to analyse, construct and develop a performance management system. From each perspective a range of specific 'ideas into action' are developed, to ensure that the thought leadership work of this report can be immediately put into practice by finance professionals and business managers. The five perspectives and key action points emerging from them are summarised below. The rest of this report takes a detailed look at each of these areas, using powerful theories and real world examples to highlight new ways of thinking about performance management and measurement.

1. Maintaining intrinsic motivations

If intrinsic motivation is important in your organisation, this section aims to help you understand how it can be harnessed, or destroyed.

The intrinsic desire to discover new things, help people in need, or solve complex problems, can be a powerful motivator, often just as powerful as extrinsic rewards such as financial incentives. However, there are potential conflicts between these motivational forces – when you add formal controls you can change or destroy the positive behaviours driven purely by personal, internalised values and desires. As a result, some organisations can build controls that unwittingly pit intrinsic and extrinsic motivations against each other.

Actions that stem from the ideas in this section are focussed in two areas: how to understand motivations, then how to manage so as to link these motivations to organisational goals.

Understanding motivations

- **Document the obvious.** Build an evidence base of what you know, see, and discuss about the motivational drivers within your firm. Treat this knowledge as an organisational resource that may underpin control systems development.
- **Experts, interviews and focus groups.** Talk with HR and staff to find out how, from multiple perspectives, your firm supports, discourages, or is ambivalent towards their individual, personal motivations.
- **Embed new processes.** Use exit interviews and appraisals to learn about personal motivations, how they influence behaviour and what people perceive are their opportunities to satisfy personal goals through their work.

Managing and linking to your goals

- **Attention without reward or sanction.** Where employees are already aligned to your goals they simply need information on what needs to be done, not control systems to guide their actions.
- **Competitions and awards.** Tap into intrinsic motivations through well-crafted competitions or annual awards, and exploit your communications systems to reward high achievers by building their reputations and status.
- **Values based recruitment.** Screen applicants for their values, if you believe you can secure a better fit with firm values and ways of working.
- **Holistic versus micro management.** Reward good performance with greater role autonomy by stripping out metrics or performance monitoring requirements.

2. Control systems types – from transactional to relational

If strong relationships are a critical aspect of your business and you have to manage at a distance, this section highlights the challenges and risks of building a highly transactional performance management system.

The context within which a control system is created is loaded with expectations and cultural norms relating to what a control system should 'look like'. These factors, unconsciously applied, create certain types of systems: at one extreme there is the highly transactional system where a strong hierarchy tends to impose goals, targets and performance measures from above, at the other is the relational system where greater communication, debate and shared reasoning leads to the development of performance expectations that are 'owned' by the individual, rather than the firm.

Ways in which the ideas from this section can be put into action include the following.

- **Identify control origins and types.** Take steps to understand the types of control systems that affect you, your team and your wider organisation. Identify where the power to control lies, and how powerful stakeholders behave on the relational-transactional spectrum.
- **Incorporating different influences.** Look for the route by which different stakeholder influences are incorporated into the organisational control system. Pay close attention to how expectations are communicated, targets set, and reports delivered.
- **Points of translation, protection and tension.** Identify where tensions exist as accountability demands travel down through the hierarchy – points where demands are translated, blocked, softened or ‘managed’ by senior figures to ‘protect’ their subordinates.
- **Measurement implications and rationales for change.** Create a clear, holistic analysis of how these control tensions affect individual managers and therefore how they might be adapted.

3. Control for both stability and innovation

If you fear measurement will reduce innovation this section explores ways of promoting and managing innovation in a controlled way.

Stable control environments can lead to well defined metrics, limited budgetary slack, and ultimately a system that can inadvertently kill innovation before it has been able to take hold or prove its potential value. This section looks at ways in which some firms have addressed the need to introduce controls covering both stability and innovation.

Here are ways in which the ideas from this section can be put into action.

- **Identify where, when, and how much do you want innovation to happen.** Determine your innovation approach, whether you want to focus activity within certain departments, or access some perceived, untapped potential across the firm.
- **Look at how you measure success currently.** Innovation requires risk taking. Assess the ways in which innovation is measured and rewarded, and determine how such rewards motivate or discourage such activities.
- **Create bounded opportunity spaces.** Use budgetary slack or limited freedoms to encourage early stage idea generation – give the people you want to be innovative some resources and time to experiment.
- **Reward good process.** Remove or reduce fear of failure by shifting perceptions of success or failure – reward good process irrespective of outcome, and shift outcome risk from the individual to the organisation.
- **Identify and benefit from innovation killers.** Harness the critical thinking and challenge of people who may kill innovations, without allowing them to destroy new ideas before they are fully developed or the opportunity is exhausted.

4. Whole-system analysis and the accountability audit

If you think formal and informal accountabilities are working against each other this section helps you explore the relationships in a systematic way.

Accountability is the catch-all term for the requirement to create and deliver accounts of behaviour, performance or intentions by a firm, a group or an individual. This can mean formal accounts, which might be both financial and non-financial in nature, but also the many ways that we account for ourselves and our decisions in a much more informal way, to colleagues, stakeholders, society at large, or to our own internalised moral compass.

Understanding a control system from the perspective of the individual, rather than the firm, means first getting to grips with all the different forms of accountability that people experience. This section provides an analytical model to guide us when mapping out and auditing accountability, as we seek to understand what really controls the actions of individuals. Ways in which the ideas from this section can be put into action include the following.

- **Focal-point studies.** Do a small-scale accountability study on a key group or team, and see what it tells you about both the site of interest, but also the value of this approach.
- **Low-hanging fruit.** One simple question can help you to identify easy targets for action, and generate motivation through empowerment: 'If you could remove one metric or control from the organisation to make your life easier, what would it be, and why?'
- **Rationalise and thin out reporting.** An accountability audit may identify overlaps between informal and formal systems. Experiment with slimming down or removal of certain reports, based on your ability to identify where the biggest 'returns-on-management' can be made by reducing the formal accountability burden.
- **Reinforce the social.** Carefully construct formal controls and rewards that augment positive, pre-existing social groups. Reinforcement of social accountabilities can support within-team engagement, learning and mutual support.
- **Ethics and data quality.** There are many powerful forces that drive behaviours yet which remain very private to individuals, such as religious beliefs. Be aware of the ethical issues involved in any accountability study, not only relating to what you ask, but also how you store, use and share your data.

5. Systems lifecycles

If you are investing in a major new project, spin-out or joint venture, then this section presents a life cycle perspective on measurement and control system design.

We would not expect a new start-up to have the same control systems in place as a multinational. Yet as firms embark on more project based working, either internally or through external collaborations, joint ventures and spin outs, there are many more sub-units that look a little like start-ups. Creating and evolving the control system to match the evolution of new ventures is the focus of this section.

- **Vision, values and focus.** Maintain a consistent, shared awareness of core vision and values, and use this to focus all activities and avoid strategic drift.
- **Assess predictability.** Assess the areas and levels of predictability that a new project is facing, compared to your core business. This will determine how much flexibility and increased communication need to be built into the control system for the new entity.
- **Monitor managerial evolution.** Start-up oriented managers operating at speed and with high degrees of freedom can fail to record and analyse their decisions. Finance professionals can help map and analyse the decisions, activities and outcomes, to pave the way for future systematisation efforts.
- **Experiment as needed.** Projects can test new performance management approaches, as well as develop specific products. Use budgetary slack and managerial freedom to empower change agents, and give these management innovations time to work.

Overall considering when to measure, and when not to measure, is as important as considering the metrics which may help business performance.

1. Introduction

Practicing managers know that performance management is not a simple, neat or even easily defined task. While the use of financial and non-financial measurement can bring consistency and a way of cutting through the narrative to the 'real story', it also comes at a cost, in terms of systems, staff and time. There is also a very real risk of focussing management on the wrong indicators or activities, of reducing staff motivation or crushing innovation along the way.

This is why finance professional and business owners must ask themselves – what do we need to measure and why? What information do I need? How will people respond to these measures? Will this information help me to achieve my goal? Am I measuring everything from a 'fear of missing out' the crucial piece of data? Or collecting and reporting a multitude of metrics because it's easier than analysis and management? The questions we ask of ourselves, our organisations, and our systems are potentially endless because – fundamentally – the future is unknown and the way people, markets and competitors respond to our decisions are unpredictable.

The result can be a desire to measure and measure and measure; to collect data and produce reports and monitor everything in an attempt to control everything. But this is unrealistic, impossible to achieve, and often completely counterproductive.

In the era of 'big data' it is important we remember that sometimes less really is more: The choices about what **not** to measure can have as great an impact on success as choices about what we ought to measure. Creating focus, clarity and appropriate forms of accountability requires highly selective measurement approaches. This report sets out a series of ways in which we can better understand performance management and control, extending beyond the naturally dominant themes of measurement and KPIs. Our aim is to explore the many other ways of guiding our organisations towards the achievement of their goals.

To achieve this aim we explore multiple aspects of performance management from five different perspectives. Each of these perspectives offers a different way of seeing management, measurement, control, the roles we play, and the nature of the systems we create. The ideas and theories we develop are based on a blend of recent and well established research.

Alongside this analysis we offer practical guidance for managers, focussing on ways that these insights can be transformed into action within organisations. By highlighting both the practical ideas and their research origins this report offers a rich, multidimensional view of performance management. The five perspectives we consider are:

1. Maintaining intrinsic motivations

The intrinsic desire to discover new things, or help people in need, or solve complex problems, can be a powerful motivator, often just as powerful as extrinsic rewards such as financial remuneration or career advancement. This section explores the interactions and potential conflicts between intrinsic and extrinsic motivations, and how some metrics can unwittingly pit them against each other.

2. Control systems types – from transactional to relational

The context within which a control system is created is loaded with expectations and cultural norms relating to what a control system should 'look like'. These factors, unconsciously applied, create certain types of systems, which may or may not lead to optimal performance and strong goal alignment through the organisation. This section investigates different typologies through a detailed case study.

3. Control for both stability and innovation

Stable control environments can lead to well defined metrics, limited budgetary slack, and ultimately a system that can inadvertently kill innovation before it has been able to take hold or prove its potential value. This section looks at ways in which some firms have addressed the need to control for both stability and innovation.

4. Whole-system analysis and the accountability audit

Understanding a control system from the perspective of the individual, rather than the firm, means first getting to grips with all the different forms of accountability that people experience. This section maps out the accountability landscape, creating an analytical model to guide us when auditing accountability, as we seek to understand what really controls the actions of individuals.

5. Systems lifecycles

We would not expect a new start-up to have the same control systems in place as a multinational. Yet as firms embark on more project based working, either internally or through external collaborations, joint ventures and spin outs, there are many more sub-units that look a little like start-ups. Creating and evolving the control system to match the evolution of the new venture is the focus of this section.

Why these new perspectives on performance?

The most widely used, respected and understood models that guide the design of performance management systems are rooted in pre-internet era research in large, mostly American corporations. Budgeting, incentive systems, balanced scorecards and so on, while often questioned, have stood the test of time, suggesting that they add real value to businesses, but equally there are many more perspectives on performance now. The forces of globalisation, employee mobility, access to technology, revolutionary new business models, increased understandings of the value of skilled knowledge workers – these are some of the many factors that change the way we look at managing performance today. Modern research in this field builds on knowledge that emerged in more stable, predictable times, bringing in theories from the fields of innovation, ecology, sociology and philosophy to help shape our understanding of modern management.

In this report we look at this changing world through a variety of lenses, each drawing on a blend of respected theory and recent research in multiple organisations, in order to provide practical examples of how these different views can inform control system choices. The report will not try to offer silver-bullet solutions, because these simply do not exist in the multifaceted world of performance management. Many authors have tried, but a look at the companies cited in books, magazines and scholarly articles tells us one thing: yesterday's proclamations of success have too often been followed by failure. Instead, we offer a range of insights that can underpin our measurement – or non-measurement – decisions.

2. Maintaining intrinsic motivations

If we do something out of our own sense of curiosity, or compassion, or sense of personal responsibility, will we do it even better, or more often, if we are offered some external incentive? Does paying for performance, or sanctioning for poor performance, have an additive effect: do we get the benefit of both the intrinsic and the extrinsic motivators? Or is there some interaction between these that might change the outcome in unpredictable ways? These questions have been the subject of much study, not only by modern philosophers but also researchers in the fields of innovation and accountability.

Morality and accountability – the day-care example

The American philosopher, Michael Sandel, gives a simple example of how formal measurement, accountability and an attempt at extrinsic control can easily backfire. The story is of a day-care centre for children that is trying to encourage some parents, who are often late picking up their children, to come on time. They decide to implement a penalty system, with certain fees imposed on parents depending on how late they are. The result was that more parents were more late, more often. Sandel argues that this is because the very nature of the transaction had been changed from a moral one to an economic one. Where previously parents may have rushed to collect their children, even if a little late, out of a sense of duty or respect towards those people who were caring for them, now they had a simple economic decision to make: is the work I am doing worth more than the cost of a 30 minute fine?

We see problems through our own eyes, and for Sandel this is a morality issue. However, from an accounting perspective we can see this as a case of accountability system design failure. The nursery manager had not fully understood the social, interpersonal accountability that already existed, a form of control that was already working to some extent. Instead, all that was seen was a control gap that needed to be filled with some form of technical accounting. The process of systematisation did not augment the social accountability, but rather it replaced it. Badly.

Motivation mismanagement – the healthcare example

Robert Francis QC highlights a more complex and extreme example of an over-reliance on measurement in his comprehensive report on the failings at Mid Staffordshire NHS Foundation Trust, in February 2013. In his letter to the Secretary of State, and throughout his analysis, he reports on the excessive focus on 'reaching national access targets, achieving financial balance and seeking financial trust status... at the cost of delivering acceptable standards of care.' His findings and recommendations are all about how a culture of care, rather than a culture of measurement, must be strengthened across the NHS. We assume that people go into nursing or medical careers out of some desire to serve the social good, but as with the nursery example, do we drive out the intrinsic, belief-based accountability to patients and society by implementing extrinsic, formal performance measurement systems? Clearly the relentless pursuit of efficiency goals resulted in a performance management system that had hugely dysfunctional and damaging effects.

Harnessing the intrinsic desire to innovate

As we move further away from a society where secure employment and the institutionalised worker were the norm, we have to accept greater worker independence, and with it the idea that the knowledge, experience and networks of our key staff become more precious just as they become more mobile. If organisations want to successfully manage, motivate, and retain a high performing workforce, then it is essential to build a richer picture of what makes them do what they do in the workplace. We also need to construct management systems that work with, rather than destroy, intrinsic motivations.

Examples of success in this area can be seen in the technology and pharmaceutical industries. Both industries rely on highly motivated, intelligent and inquisitive individuals to deliver innovation and new product development, even if one industry measures innovation timelines in weeks and months while the other in years and decades. Long-established initiatives in two large multinational organisations, one in the information and communications technology (ICT) sector, the other in pharma, build on the individual motivations and natural inquisitiveness of employees. Rather than allowing only dedicated new product development teams to create or seek out new opportunities, any staff member can work up a proposal for any new initiative and pitch it to an internal panel something like a 'Dragons' Den'. If successful, they will be given a mandate to develop their ideas, which likely means setting up and managing a new group within the organisation. This form of innovation is not merely a small addition to the established ways of working, but rather it is an essential component of the competitive advantage of these firms – it has yielded some of their most important innovations, and at the same time helped them to retain key talent.

It could, of course, be argued that the prospect of long-term rewards from the employer is what motivates these people to innovate, but given the high levels of effort required, and low levels of success in front of the innovation boards, that seems unlikely. Rather, in both cases, it appears that the natural desire to experiment is what these firms have tapped into. Only once the value of the proposition begins to emerge do we see formalisation begin to occur, as more resources are brought to bear on the emerging opportunity and metrics are constructed to help manage and assess this new organisational entity.

Since excessive measurement and management can drive out intrinsic motivations and result in lower performance, it's important to first understand these human performance drivers, then link them to organisational activity.

Understanding motivations

➔ **Document the obvious.** As business professionals we know a great deal about what motivates us, our teams and those new to our organisations, but we seldom document this or treat it as part of a performance system. Change this habit, create an 'intrinsic and extrinsic performance drivers' folder, and begin the process of bringing this into your holistic understanding of performance and control.

➔ **Experts, interviews and focus groups.** There are three easy ways to get a rapid understanding of how your firm supports, discourages, or is ambivalent towards the individual, personal motivations of your staff:

- speak to HR or other experts;
- interview a range of staff members who you know are well connected and likely to 'feel the pulse' of the organisation; and
- have some small group discussions on the topic facilitated by a quasi-independent internal or external expert.

These three approaches will generate a lot of data, so look for common themes, but don't work alone as your personal biases are very likely to affect your interpretations.

➔ **Embed new processes.** Do you have a systematic and robust approach to exit interviews, so you understand not only why staff leave but also what influenced their performance while at the firm? If not, create such a system and make sure it is consistently and effectively implemented, not just treated as a tick-box exercise. You can also build questions and discussions about personal motivations into performance reviews, or develop an anonymous questionnaire – if constructed carefully this can be an extremely powerful tool.

Managing and linking to your goals

➔ **Attention without reward or sanction.**

Where individual motivations are well aligned to organisational goals, you need only let people know about problems and they will fix them. Employees who care about sustainability do not need waste reduction targets and incentives, they just need information to show where the issues are, and recognition for their efforts and the resultant outcomes.

➔ **Competitions and awards.** Ad-hoc competitions and employee awards events all provide a form of challenge-by-choice that stirs the intrinsic desires of many people to demonstrate their personal expertise in a certain domain. Any prizes or rewards for winners need to be sufficient for participants to not feel exploited. In addition, by elevating the status of those winners and their ideas through strong internal and external communications, you can create a virtuous cycle of participation year on year.

➔ **Values-based recruitment.** When you know what values and personal motivations seem best aligned to your organisational goals and ways of working, you can more carefully select applicants who are likely to be a good fit. For many multinationals value-based questioning is often embedded in both psychometric testing and interview design.

➔ **Holistic versus micro management.** Reward good performance with greater role autonomy by stripping our metrics or performance monitoring requirements that do not actively support the manager in their role – ie, metrics that are more for performance monitoring from above. Experiment with a sampling approach to data collection, or reduce reporting frequency, to free up management time and attention for operational and strategic activities.

3. Control systems types – from transactional to relational

Broadbent and Laughlin, two of the most renowned authors in the field of performance management and accountability, studied the contexts in which control systems evolve. Their aim was to explore how different settings – with all their different kinds of human behaviours and assumptions about how to run an organisations – lead to very different types of control systems. They shift the focus of attention away from the question ‘what are the activities we’re trying to measure and manage?’ to make us think about ‘what kinds of communication, interaction and approaches to accountability do we value and wish to embed here?’

What they suggest is that there are two ‘ideal types’ of control system, sitting at opposite ends of a spectrum, and these types shape every element of how control operates throughout the system, how people communicate, consider information about performance, and sanction poor performance.¹

The opposing ideal types of control systems they propose are termed:

- **‘Transactional’**, where very clear targets are defined, the means to achieve them are often highly specified, and interactions tend to be highly instrumental, based on contractual requirements largely ‘owned’ by the contractee.
- **‘Relational’**, where desired outcomes are discursively agreed, achievable through multiple routes that are also subject to practical discussion, and authority is agreed through dialogue, with the contractor retaining some sense of ownership of the performance criteria. The long-term sustainability of the relationship between parties is often as much a goal as the achievement of individual, more specific objectives.

It is important to understand that it is not the elements of the system (eg, budgets, contracts or performance reviews) that point to one ideal type or another, but rather it is how these elements are created, agreed and used in practice.

When analysing or designing a control system, it is quite common for the managers involved to be so enculturated or set in a certain way of thinking about performance management that they naturally veer towards one ideal type. The choice is often unconscious, and many of us do not realise the nature of the system we have built or are already embedded in. However, the theory argues that the approach should be matched to circumstances, not only at the organisational level but also in the way that different teams, functional areas or project groups are managed. In this way the system should be able to better manage and motivate individuals and teams, generating higher returns with lower management effort, because the entire system is optimised to the people and activities it is trying to manage.

To put some practical flesh on the academic bones of these ideal types we look at the study of a large, multi-site organisation – a National Health Service (NHS) Foundation Trust – that has multiple ideal types of control embedded within it, with challenging consequences. While the context chosen for this research is healthcare, the findings, challenges identified, and learnings for management are equally applicable to any geographically dispersed organisation that allows individual units some level of control autonomy.

¹ Broadbent, J., & Laughlin, R. (2009). ‘Performance management systems: A conceptual model.’ *Management Accounting Research*, 20(4), 283–295.

'Ideal type' tensions – causes and effects

The distinction between transactional and relational control systems shines a clear light on the tensions within the performance management system of this particular NHS Trust. During this research it led to an important debate within the executive team about the challenges this posed to them and the managers at each hospital or clinic.

The external control context

Clearly any NHS organisation is subject to considerable external scrutiny, but new commissioning arrangements combined with changes in the broader context following the Francis report have increased that external pressure quite dramatically. Looking at commissioning, the recently formed Clinical Commissioning Groups that are responsible for awarding most of the contracts to Trusts, are made up primarily of General Practitioners (GPs) with limited experience of management on this scale. These groups are obliged to seek best value, often through competitive tendering, and monitor the resulting contracts through extensive use of metrics. The newness of these bodies means that they are often uncertain about the kinds of services they want to commission in the long term. Therefore the contracts are often short, with high levels of repeat-contract uncertainty. This reduces investment incentives for suppliers (the Trusts), increases the pressure on them to cut costs and removes any slack in terms of time, staff availability or budgets to explore new service innovation.

This combination of increased monitoring, short-term focus and lack of investment incentives brought on by the commissioning approach is exacerbated by a general increase in scrutiny from regulators. The heavy criticism meted out to regulators by Francis in his review means that they, too, need to be seen to be performing their role with great diligence, and many people would rightly agree with this. However, the consequence of all of this external pressure is that NHS Trusts must now collect, analyse and report performance across a wide array of metrics every month, while simultaneously facing demands to cut management staff and protect 'front line services'.

The internal control context

Within this particular NHS Trust the commitment from top management, including the CEO and chair, to building good relationships and strong communication was quite noticeable. However, the majority of communications with operational management directly responsible for running hospital wards and community-based teams goes through a performance management team. This performance management team imposes a wide range of data collection, variance analysis and document review expectations on those managers in order to gather the metrics required by commissioners and to construct the sizeable reporting suite of formal, monthly non-financial indicators for review by the board. Only through this formal process can the board satisfy its assurance requirements.

The effect on clinical performance

The overall effect of these external and internal factors is the creation of a highly transactional control system within the Trust. This system seeks to satisfy external stakeholders' desire for assurance of good practice, but in doing so places significant managerial and administrative pressure on clinical staff. This is the exact opposite of what most users of the health service and clinical employees, might want, in terms of the culture and ways of working that it is likely to foster. We do not want highly transactional doctors and nurses, but rather we want to interact with them in a highly relational way and to know that clinicians are collaborating and sharing information in a similar way, for our benefit.

So how do individual, clinical staff and their immediate managers function in this highly communicative, relationship-oriented way with patients and colleagues, a way so deeply associated with the relational 'ideal type', when they are subjected to such transactional pressure from above? Possibly more importantly, what effect does this tension between the highly prized culture of care, and the apparent culture of measurement, have on the service that patients receive?

Three answers present themselves: firstly, as the Francis report shows, in some instances the answer is simple – the powerful transactional system wins and the culture of care disappears. A second option is that a protective layer of management exists, and this can clearly be seen in some hospitals or regions, particularly when they are geographically separate from their head office. These operational managers do all they can to shield those who have contact with patients from any direct communication emanating from above. They foster a highly relational system of control in patient-centred environments while managing the information and scrutiny burdens of the dominant transactional system, as far as possible without placing demands on clinical personnel. The third option is that some staff develop a form of control ambidexterity. They appear able to compartmentalise the transactional system, focus on their caring day job, and then return to the formalities when needed. To achieve this they generally treat the formal parts of the system as secondary, retaining a strong professional and emotional grip on the primacy of their relationships with patients.

Alignment of governance and control type – wider lessons

In this health service example we see that the desired ways of working with service users – patients – is fundamentally out of alignment with the control context being created by the powerful governing bodies. This is a real challenge for the NHS in the UK because in the Francis report it is suggested that all of his proposed culture change recommendations can be carried out within the current structures and commissioning protocols of the NHS. Francis seems to harbour a powerful desire to return to the notion of a caring profession where communication, shared understandings of patient needs, and motivational management are the norm. However, the actual systems and processes in place both outside and inside the NHS re-inforce the exact opposite kind of performance management approach.

This analysis has many parallels in commercial organisations, in particular those with geographically dispersed centres of operation, or multiple and potentially conflicting stakeholder groups that must be managed and balanced. The cause and effect relationships of different systems choices, not merely the metrics used but the overall package of controls and ways of working, need to be traced through the many strands of operational and reporting activity. The goal is for the complete reporting system to not only provide the right information to shareholders, but also to enhance our 'return on management (ROM)' in the medium to long term.

This imaginary measure – ROM – is a term coined by Robert Simons and Antonia Davila in 1998.² Thinking about it helps us avoid a headlong rush into generating masses of data and performance reports, or identifying quick fixes to individual problems at the expense of addressing more fundamental concerns. But it is overly simplistic to think only about the volume of data being collected, analysed and disseminated. It is also about how we match the ways of working that we want, and the kinds of staff that we want, to the types of control systems that we use to manage them. If there is misalignment between these things and we need a kind of 'translation layer', where managers feel the need to protect their subordinates, the resultant inefficiencies will be significant, not to mention the personal pressures being placed on those managers.

Metrics need to improve management performance in total, not simply at senior level, which means always considering ROM and the managerial implications of data collection, analysis, review and response. But the metrics and reporting systems do much more than this: they embody the deeper values of the firm and the way it wishes to communicate, as indicated by the ways in which the data is used, discussed and given power over people. When staff begin to fear, resent or ignore the reports then it signals more than performance management issues, possibly deeper cultural issues linked to tensions between transactional and relational forces within the organisation.

2 Simons, R., Davila, A. (1998). 'How high is your return on management?'. *Harvard Business Review*, 76, 70–81.

Taking a step back from the active, daily management control issues, to think about what kind of system you are using and why, can be very insightful and reveal underlying issues that need to be resolved.

- ➔ **Identify control origins and types.** Take steps to understand the types of control systems that affect you, your team and your wider organisation. Identify where the power to control lies, and how powerful stakeholders behave on the relational-transactional spectrum.
- ➔ **Incorporating different influences.** Look for the route by which different influences and control expectations are incorporated into the organisational control system. Pay close attention to how expectations are communicated, how reports are delivered and how targets are agreed – where do these things sit on a spectrum between ‘highly communicative and negotiated’ at one extreme, and ‘completely impersonal, imposed and non-negotiable’ at the other.

- ➔ **Points of translation, protection and tension.** Follow the demands for accountability as they travel through the organisation, from powerful internal or external stakeholders to the actual places of work, and data capture. Identify where tensions exist – points where demands are translated, blocked, softened or ‘managed’ by senior figures to ‘protect’ their subordinates.
- ➔ **Measurement implications and rationales for change.** Create a clear, holistic analysis of how these control tensions affect individual managers and how they might be adapted, by considering:
a) opportunities for rationalising data demands in terms of inputs, analysis and response expectations;
and b) ways of formally realigning the system to utilise a blend of control types consistent with the needs of all stakeholders.

4. Control for both stability and innovation

A key issue identified in the previous section is the potential conflicts that can exist within single organisations. Different departments, operational groups, geographic regions or project teams naturally develop different ways of working, of directing behaviour towards organisational goals, and of measuring success along the way. If there is some stability in management then these approaches become deeply embedded, and individuals adapt to them and normalise this way of working as being 'the right way to do things'. Assuming performance is acceptable, then maybe they are right. Within a stable environment people tend to believe they know what controls are needed to get the right results, after many years of experience, so performance metrics become established and managers manage their activities accordingly.

The danger of such efficient and responsible resource management is that it can have the effect of removing budgetary slack and managerial freedom: two factors strongly associated with experimentation and innovative thinking, and often with employee job satisfaction too. Much innovation research has looked at how dominant systems can inadvertently close down new ideas, merely by reinforcing established ways of working. This is an important aspect of the theory of Open Innovation. This concept was first proposed by Henry Chesbrough of the University of California, Berkeley in 2003.³ Chesbrough looked at some of the most significant technological advances being made in the San Francisco Bay area in recent years, and how the organisational divisions that were creating breakthrough technologies struggled to function within their established structures.

Chesbrough studied many firms and concluded that in many cases it was only when highly innovative divisions or project teams were spun out into new, arms-length enterprises that they were able to flourish. He identified this as one form of open innovation, allowing ideas to move in and out of an organisation to exist in the spaces that best suited their developmental needs.

The ideas in Chesbrough's first book had a huge impact on both business and academic research in the field of innovation management. The Berkley Innovation Forum, headed by Chesbrough, is supported by some of the largest corporations in the US and much effort is made to ensure that research and business interests are advanced together. But one challenge that has endured for many organisations is this: What if we don't want to spin out every great idea or project into a separate company? What if we want to keep some of our best people here, to learn from them and their ways of working so we can have more successful projects like this? What if the project is itself an experiment and we need to understand it fully so we know what made it work, and why?

Examples of how different companies addressed these questions are shown in the box Intrapreneur management (p20). In each case we see organisations wanting to develop or promote innovative ideas, products or ways of working, while keeping those ideas and the related staff inside the firm. The first two cases are success stories, while the third shows how systems misalignment can prevent success and at significant cost.

³ Chesbrough, H.W. (2003). *Open Innovation*. Boston: Harvard Business School Press.

Intrapreneur management

a In section 1 on maintaining intrinsic motivation (p12) we looked at two examples of how innovation panels – where employees pitch their ideas for new projects – were used as a way of channelling intrinsic motivations. However, the rationale for these processes extends well beyond a desire to motivate and retain staff. As well as keeping the projects in-house, these programmes can develop valuable skills across the entire workforce – senior staff on the assessment panels develop their ability to spot, appraise and channel new ideas, the applicants learn to be critical and analytical of their own ideas before making their pitch, and then if the project is approved the team that is formed to run it will be working under a manager who has shown high levels of commitment and project knowledge. For some pharmaceutical firms this intrapreneurial approach, with its move away from large, formal and top-down innovation management, has revitalised the drug discovery pipeline. In one global accounting firm you cannot proceed to senior partner status in some countries until you have completed a set period of time on the Innovation Panel: it's seen as a core part of partner development.

b By the time a major international bank launched their new mobile payments platform, the project to develop it had already achieved many of its goals, before any customers even signed up to the service. The reason for this was that this was a project with twin goals – to create a great product that customers would want to use, but also to devise and test a new, cross-team, innovation process complete with a different way of managing performance.

The senior management team had identified a possible need to adapt some of their ways of working across the organisation, but rather than try to redesign the whole system top-down and enforce a new approach, they set out upon a natural experiment. The valuable lessons from this single project about how to work in multidisciplinary teams, under very different control structures, were rolled out through training and other events across the organisation, with those involved acting as powerful champions of change.

c Of course there are also examples of failures, where the management and control systems in place fight against new ways of working. In another multinational technology firm a major initiative to develop 'open innovation' practices was taking place – where ideas and solutions are sought from multiple external sources as well as through more usual internal routes. Significant investments were made in identifying high-performing individuals, training them, putting them through in-depth team challenges and consultancy exercises, before they were re-embedded into their different areas of the organisation. The aim was to deliver ground-up, champion-led, culture change and encourage new ways of working to propagate. However, the performance management system did not adapt, the incentive structures for their (more senior) line managers did not encourage these new ways of working, and since the network of new thinkers did not yet have the ability to deliver novel solutions as quickly as more established options, their novel approaches were quickly discarded. The pursuit of immediate performance objectives in this high-challenge, high-reward technology consultancy setting, simply did not allow the degrees of freedom needed for new ways of working to take root.

What these examples show us is that it is possible to identify and then address the risk that the control system itself will stifle the success of a new project, department or innovative venture. Before leaping to the conclusion that we need some kind of quasi-autonomous structure to house our new activity we can look to manage the risks either within our existing control structures, or through some internal modifications. To do this we must build a rich, holistic picture of our organisational control system and see how it affects the people who work within it, which is discussed in the next section.

If we want to benefit from new ideas and creative staff, we need to understand how our systems balance stability and efficiency against the necessary riskiness of innovation.

➔ **Identify where, when and how much you want innovation to happen.** It may be beneficial to restrict innovation incentives to specific individuals or teams responsible for product or process development; however, you may have identified latent, untapped talent across the wider organisation and be seeking a way to unleash the creativity lurking in unforeseen places.

➔ **Look at how you measure success currently.** Given that innovation can be both time consuming and risky – in that some failures have to be expected on the route to success – does your current system encourage and reward experimentation, or do the personal risks outweigh the rewards? Critically assess what kinds of people – if any – are being motivated to engage in innovative activities.

➔ **Create bounded opportunity spaces.** Provide enough resources to allow early stage ideas to flourish, through either formal or informal processes. More formally, new ideas can be pitched to managers or dedicated innovation experts and then allocated a limited budget, and specific timelines, for investigation. Less formally, give certain individuals or departments a degree of budgetary slack to allow them free reign in their experimentation, and do not measure or regulate what they do with this slack. It's their 'private sandpit'.

➔ **Reward good process.** If you are seeking to increase innovation then fear of failure needs to be reduced. For those who wish to pursue a novel idea, remove or replace some of their individual or group targets and shift to limited measures of good innovation process, so the risk of failure shifts from being an individual one to an institutional one, while still delivering some upside benefits to those who generate truly valuable innovations.

➔ **Identify and benefit from innovation killers.** Some people or systems kill innovation, either accidentally or deliberately, because their goals are not aligned with those of the innovator or their new experiments in product or process design. Yet innovation killing individuals can be valuable critics, so listen to their concerns, identify their fears, and address them positively to ensure that the 'innovators' and the 'stabilisers' in your organisation act to support each other in the longer term.

5. Whole-system analysis and the accountability audit

Accountability is the catch-all term for the requirement to create and deliver accounts of behaviour, performance or intentions by a firm, a group or an individual. In its simplest and most obvious form it represents the obligation of the senior management team to account for their actions to external investors, through the annual accounts, to governments and tax authorities, and to society at large through any additional disclosures such as those relating to the firm's wider responsibilities as a good corporate citizen. Naturally we expect some trickle-down of this accountability through the hierarchy of the firm, as managers work to achieve certain goals then account for their success or failure.

However, in order to design a highly effective and efficient control system, we need to look far beyond simple hierarchical accountability and understand the many other types of accountability that exist, and that guide the actions of individuals. In addition to the creation of formal KPIs, we need to look in the spaces where accounting and financial measurement does not exist, yet where people give accounts of themselves and their actions in multiple other forms. These accounts includes the ways we hold ourselves to account, as we reflect on our own actions and measure them up against our beliefs, morals and self-image.

This investigation of accountability in all its forms requires us to start from a different place when looking at the system. Rather than focussing on the organisation and how it achieves its goals, we instead look at the individual and identify how they experience accountability and how this directs them towards certain kinds of behaviours.

As accountants we tend to take a very specific view of the term 'accounts', especially when we put it together with the word 'audit'. Yet people and organisations give accounts of their actions and behaviours in a multiplicity of ways, to themselves and to others, and each employee experiences many different demands for accountability. This can include very high-level interactions such as the face-to-face encounters between CEO, CFO and senior fund managers, where they must verbally account for not only their performance to date, but their intentions and strategies for the future. Equally it can include the informal yet powerful need to account to members of your peer-group or subordinates for any errors you make that result in more work for them, a missed group bonus, or damage to their sense of identity as a high-performing team. These discursive, social and often emotional forms of accounting are all part of the control mix. Before designing or adapting any formal, measurement-based system, it is worthwhile considering, in a holistic way, the full mix of accountabilities that are already at work. To ignore this step is to potentially ignore the powerful yet invisible threads that bind people and teams to each other, and to their goals.

An 'accountability audit' is a purposeful investigation of all of the different forms of account giving that take place within an organisation; an investigation that puts the focus on the individual. In simple terms, this form of audit asks the question: 'what controls are being experienced by each person, how do these controls interact, and what effect are they having on behaviours and performance?' It forces us to seek out the various, sometimes competing, demands placed on individuals and attempt to understand how they are experienced, balanced and responded to, both positively and negatively.

The approach we take aims to build up a node-linkage model of accountability.⁴ We are already well used to such models in their simplest form: the organisation chart or organogram. These generally identify individuals or job roles (the nodes) and the

⁴ Berry, A.J. (2005). Control in networks. In Berry, A.J., Broadbent, J., & Otley, D.(Eds.) *Management Control: Theories, Issues and Performance*. London: Macmillan.

reporting lines between them (the linkages, where hierarchical accountability exists). The accountability audit acts as a way of enriching this model, allowing us to see not only the hierarchical links, but many others too; in so doing it gives us insight into all the different forms of accountability at play in any setting.

To develop such a model for any one organisation we must rely on interviews and individual or group discussions, in conjunction with formal documents, organisation charts, and the review of actual reports in whatever form they take. The process is guided by two simple frameworks that steer our questions and our analysis – one to unpick the types of accountability experience by an individual (so focussing at a single node), the next to examine the ways that accounts are actually created and communicated (so focussing on how the linkages are constructed). The creation of such a detailed model is not generally possible for an entire organisation, so this discussion focusses on how to do this for a single individual (or node). It is then a case of determining what the purpose of your review is, and what kind of sample is required, to build up the information you need about how accountability is functioning, in its broadest sense.

Accountability as experienced by the individual (one node)

There are many different forms of accountability that we all experience in our daily working life. The table, 'Types of accountability experienced by individuals' (below), brings together a number of specific, different forms of accountability that can be identified using two different criteria.

- **Internal or external** – if demands for accounts come from inside the organisation then they are internal, while those that arise from individuals, groups or senses of responsibility that exist outside of the organisation are considered to be external.
- **Formal or informal** – formal accountabilities are those that are part of the specific ways of working, of accounting for actions and decisions, that exist in organisational life both inside and outside of the firm; the informal category captures all other forms.

Figure 1: Types of accountability experienced by individuals⁵ (nodes)

	Formal	Informal
Internal	<p>Hierarchical – the formal reporting structures that go up to immediate managers, the board, and other governance groups or committees.</p> <p>Structural – formal requirements to provide information, reports and updates on performance to those in other areas of the business who require information for their own operation purposes, or collect performance data.</p>	<p>Social – the social bonds between colleagues, project groups, professional groups or social teams create expectations and a sense of accountability for actions, decisions and the maintenance of individual and group reputations.</p> <p>Self-regulatory – systems and structures you put in place to manage yourself, to ensure satisfaction of hierarchical and structural demands.</p> <p>Personal – answering to your own internal, moral compass for those aspects of organisational life that you have strong emotional, personal attachments to.</p>
External	<p>Professional – the formal requirements and demands for performance and accountability that are required by professional bodies and other regulators of personal conduct.</p> <p>Disciplinary – where employees have direct links to customers, shareholders or other powerful external stakeholders these groups have a disciplinary effect, often through contracts or formal processes, on behaviours and decision-making.</p>	<p>Personal – answering to yourself for actions relating to responsibilities or commitments beyond work, perhaps relating to family, society or nature.</p> <p>Higher principal – a higher principal is an individual, who could be a notional patient in a health care setting, or a deity, to whom you feel ultimately accountable.</p>

⁵ The accountability types identified here are drawn from multiple academic research studies, which are listed individually in the references (p31).

The formal-internal accountabilities are relatively straightforward to identify, in that they are the established routes through which the firm is managed and organised. This includes the need to report or somehow give an account to one or more managers (hierarchical), and the requirements to submit information or reports to other departments or co-workers (horizontal-structural). Formal-external accountabilities require a little more work to identify, but they are still relatively transparent and open to review, whether this relates to relationships with customers, investors or other powerful stakeholders (disciplinary), or the institutes, trade bodies and unions that expect certain behaviours of their members (professional). And finally the techniques and processes people use to manage themselves (self-regulatory) which may be as simple as a to-do list in order to deliver those other formal accountabilities.

Identifying the informal accountabilities presents a more challenging task, since it requires a degree of trust and openness between the person asking the question (the 'auditor') and employees. Through discussion it is possible to discover how the bonds between individuals and groups act to reinforce certain ways of working, for example the support structures within a group that generate learning, collective motivation (or demotivation) and shared responsibility, or the wider social network that facilitates inter-departmental activities and knowledge sharing. These are all social accountabilities, where individuals have ways of expressing their needs, and responding to those of others, outside of any formal system. Equally important informal accountabilities are the individual principles and personal morals of workers, which may guide their behaviours in tandem with, or perhaps in conflict with, organisational control systems or values. We also need to understand what accountabilities to powerful others (higher principals) exist – for example an NHS manager's dedication to the notional patient in a healthcare setting, someone's commitment to a deity, or something more ordinary like a strong sense of accountability towards family and children. From well-accepted issues such as maternity leave, to more recent changes in paternity leave, through to the very recent issues of religious symbols and clothing in the work place – these all highlight the strong sense of accountability that many people have beyond the workplace, which employers need to understand and address.

By identifying each accountability type and beginning to question how powerful they are, whether they feel appropriate, insufficient, excessive, in harmony with each other or in conflict, we begin to see what our management-created control system is doing as part of the wider accountability system experienced by an individual. Within this audit we may start to pick up ideas of how tensions are already being managed. For example, one large, international bank with a reputation for working its staff very hard also gives them up to six half-days off per year specifically for managing their domestic life. The simple challenge of staying in for a plumber to come and fix your boiler is made easy, without feeling like you are wasting precious holiday time, and is a small but important way that the organisation respects employees' personal and social responsibilities at home. Does it compensate for the long hours and hard work? No, the salary and bonus do that, but this acts to mitigate some of the conflicts that could make working in this environment more difficult to sustain.

Analysis of the linkages

We next turn our attention to the linkages, which represent both *how* and *where* people actually deliver their accounts of activities and performance. Looking at this in detail makes us think about many unconsciously held beliefs about how to hold people to account for all kinds of minor and major activities. Within hierarchical accountability, for example, there are many choices to be made: do we want long reports in fixed formats delivered in hard copy or summarised updates delivered in person? Do we prefer face-to-face or email communications, formal meetings or a chat by someone's desk? Do our systems expect real-time data entry and analysis, with all the benefits and pressures that this brings, or are there lags built into the collection, analysis and dissemination process?

To help us analyse the linkages we can draw on theories that highlight three different aspects of 'how' accountability is enacted: mode, extent and visibility. Firstly, the mode concerns the general category or types of information being offered in an account. Managers may choose to prioritise one mode over another when making demands of their subordinates,

for example giving primacy to either operational information and activities, or financial data, based in part on their own ways of processing but also the reporting requirements that they must adhere to as information moves up the chain. Some managers prefer to blend modes if they believe this will generate either the most accurate, or most favoured, picture of performance, for example blending strategic ideas and plans with accounting information when arguing for resources to support a project with as yet uncertain outcomes.

Secondly, the extent concerns the intensity of the accounts that are expected. This extent can range from demands that seem excessive, burdensome and unnecessary to the account giver, through to the opposite extreme where no accountability is demanded but rather it is offered as a gift by a willing and eager employee: perhaps someone keen to support an activity because of their personal beliefs or goals, or wishing to prove their worth above and beyond expectations. Such gifts may come with intangible returns, such as the good feeling of a contribution well made, or they may act to encourage others to engage with them in other ways.

Thirdly, the visibility of accountability considers how accounts are delivered, whether through remote reporting and control-at-a-distance, or more powerful face-to-face encounters. Such meetings may positively blend social and hierarchical types of accountability to create a useful dialogue that is typical of the more relational 'ideal type' discussed in the previous section. But, equally, they might create an onerous burden on those being held to account, such high levels of visibility can generate a heightened sense of exposure by the account giver, which some may thrive on, while others may find it uncomfortable.

Turning to the issue of 'where' accountability is enacted, we need to consider this in terms of both time and space. The giving of accounts is not only a historical reporting act in a single moment of time, but can also relate to future intentions, actions or outcomes. The compilation of these multiple accounts – the way an individual or organisation explains its actions, omissions and intentions to the world – can have a real impact on perceptions of their moral and ethical identity. For organisations this might refer, for example, to environmental commitments made in their accounts, which may be there simply as a matter of accurate reporting, but are likely to also be included as a way of constructing a positive ethical association with a firm or brand. For individuals we build our own ethical identity in the workplace by our ability to give accurate accounts of our decisions, behaviours and forward plans. Not everyone is reflective enough to see how their ways of accounting over time have a real effect on the ways they are managed, promoted (or not) or selected for projects.

Furthermore, the spaces where accounting takes place cannot be regarded as neutral, but rather they can produce different emotional responses. At its most extreme we have seen the fear produced when individuals are summoned to their bosses' office to account for their actions or intentions. Equally we can see deliberate attempts by executives to dress casually, act non-hierarchically, and visit workspaces where employees are comfortable in order to offset any hierarchical barriers to more engaged and open accountability discussions.

Combining nodes and links

There is no formal model for bringing these analyses together. No silver bullet for deciding what works and what does not. However, what these ideas aim to offer is a highly systematic analytical framework that guides us to question every part of the way our organisations hold people to account for the actions, omissions and intentions.

This form of analysis lets us construct a holistic view of the systems of accountability within an organization. The framework gives a way of structuring and communicating our findings, such that they can be more explicitly understood. The combination of the types of accountability experienced by people, along with the five elements of enactment that address both how and where accountability takes place, is what defines the system at any moment in time. However, it is important to remember that this is a static representation, a snapshot in time. In the next section we will look at system change, and how different stages in the evolution of a system can lead us towards very different measurement approaches.

Analysing the ways that people within your organisation experience accountability, in all its different forms, can lead to powerful new understandings of what drives their behaviours. This notion of the accountability audit can be applied in various ways, and the ideas below can be used to generate a range of useful insights.

➔ **Focal-point studies.** There may be a certain key role or group within your organisation that demands greater management attention. Carrying out an accountability study at this one focal point, working with the individuals concerned if possible, has many potential benefits in terms of both knowledge generation and good employee engagement. Starting small allows you to practice the technique, and assess its value for other applications.

➔ **Low-hanging fruit.** Dealing with the low-hanging fruit of metrics removal – if that is a goal you have – has many benefits: employees feel empowered, managerial time is saved, and the very act of allowing staff to determine what controls are taken away creates a moral obligation on them to then ‘prove’ through their behaviours that such a control was not necessary. This begins with one simple question: ‘If you could remove one metric or control from the organisation to make your life easier, what would it be, and why?’ The answers may be revealing.

➔ **Rationalise and thin out reporting.** The accountability audit allows you to identify specific overlaps between informal and formal systems, and to identify how or where these might clash. This information can lead to experiments such as the

slimming down or entire removal of certain reports, based on your ability to identify where the biggest returns-on-management can be made by reducing the formal accountability burden.

➔ **Reinforce the social.** Understanding the power of social groups within your organisation allows you to construct formal controls and reward systems that augment their positive effects. This may require changes to bonus schemes to incorporate greater emphasis on group rather than individual outputs, or the introduction of new organisational or physical structures to reinforce existing, informal within-team engagement, learning and social support mechanisms.

➔ **Ethics and data quality.** There are many powerful forces that drive behaviours but which remain very private to individuals. You need to determine, in advance, what your approach is to this information – decide how much you want to know, how much you should know, who will be responsible for asking questions of staff, and how will the answers be recorded, stored and used both now and in the future. Unravelling the social workings of the firm may uncover information that is uncomfortable, so be prepared to deal with this issue.

6. Systems lifecycles

Choosing a performance management approach sometimes requires us to step back from immediate operational issues, and think about the evolution of our organisation. We don't expect a small, entrepreneurial start-up with a handful of staff to have a control system that is very similar to a large, established and stable firm. In the case of a new business, it is likely that the intrinsic motivations of the founder and their first carefully chosen team would be tightly aligned to some shared vision and goals. Working closely together means that the physical proximity and informal, day-to-day monitoring, which exists naturally in such a setting, can dramatically reduce the need for formal targets and activity measurement. This is important because in these early stages of a new organisation or project it may be very difficult to specify, then quantify, the right performance markers on the road to success. Of much greater importance is to have a control system that supports dynamism – with enough freedom to experiment and innovate.

As firms grow and the lessons they have learnt become embedded into organisational structures and processes, so the approach to performance management evolves. Size brings separation, as functional experts take control of increasingly specialist activities, and information flows are increasingly formalised and digitised. The agency problem begins to become important: how do the owners of the firm ensure that their agents, the appointed directors and managers, act in their best interests? This is when the entrepreneurial, highly engaged, vision-led approach to management control is progressively replaced by performance management systems that aim to align self-interested individuals with organisational and shareholder goals. The great challenge with a growing company is how to transition from something that's steered primarily by experience, intuition and vision, to something with a structure and metrics that do not change the whole dynamic within a successful team, or cause dysfunctional behaviours.

The following example highlights the challenge of investing in a new organisation, developing a performance management approach, and ensuring a successful transition from experiment to established entity. This research has been used in conjunction with well-established theories to help us get a better understanding of what to measure, and what not to measure, when we establish new projects or invest in new ventures.

The evolution of control at Stevenage Bioscience Catalyst

One of the most significant biotech investments made in the UK in recent years was the decision by GlaxoSmithKline (GSK), the Wellcome Trust, and the UK government to co-fund a very new kind of not-for-profit biotech incubator. The Stevenage Bioscience catalyst (SBC) was created with a clear vision, shared by its founders – to create an organisation dedicated to driving growth in the number and quality of successful biotech start-ups in the UK, thereby supporting the pharmaceutical industry, and unlocking the potentially valuable innovations happening across UK universities. This new incubator was given funding to purchase premium laboratory equipment for tenants, had access to much scientific expertise within GSK and maintained a highly engaged team of directors with each of the funders placing a senior figure on the board. The newly appointed CEO was required to develop and grow a network that would allow SBC to connect university scientists with pharmaceutical companies, investors with new spin-outs, and leverage those networks in order to grow a viable ecosystem of firms that would have a long-term impact on patient benefit in the UK and around the world.

While this seems like a remarkably joined up vision of what an incubator should be, nested within are many different understandings of what 'performance' and 'success' can look like. For GSK the focus is on securing a long-term pipeline of successful biotechs within the

UK, for future collaborations or acquisitions, while at the same time helping to develop a culture of collaboration and external knowledge seeking within GSK. For the Wellcome Trust a primary goal is the creation of strong links with universities, to ensure that good science has the best chance of exiting academic labs and entering the market place, ultimately for the benefit of patients and society. For government the goals relate to job creation, regional and national investment, and the overall competitiveness of UK Plc. These are the funders' perspectives, which take a very macro view of success, but then there are the individual tenants who must be attracted to come to SBC in the first place. In order to be deemed successful SBC needs to give every tenant the best chance of success, and in so doing it will not only fulfil its scientific role in the short term, but will become an incubator of choice, with a highly valued and sought after incubation process.

With such a collection of powerful stakeholder expectations, and such a new business model, it is clear that defining performance metrics suitable and sufficient for all interest groups is difficult. Instead, at the outset, SBC took the approach of recruiting a CEO whose values and beliefs were well aligned with the goals of the investors, in terms of their desire to build an open, collaborative ecosystem of scientists working towards the growth of bioscience in the UK. This CEO had the experience and personal networks needed to give confidence to potential tenants, and a depth of knowledge of biotech incubation that allowed him to experiment with different ways of working, with the support of his board.

Just a handful of metrics were used, and these deliberately avoided anything that would reinforce a place-based view of the incubator – one that made it look more like a landlord seeking to maximise rental per square foot. Generating rents was a long-term hygiene factor for success, but not in any way part of the vision. Recruiting tenants had to be about scientific potential, not ability to pay, although the expectation is that this would naturally follow the science.

One critical and strictly enforced metric, therefore, was that 75% of tenants had to be intellectual property (IP) generating. This measure was to ensure that preference was always given to people with ideas, with science that needed to be nurtured through the SBC incubation process. In fact, this metric acted as a powerful communicator of managerial intentions and it was broadcast both externally and internally, to show that this place was dedicated to scientific advancement. Decisions about what type of science to allow in, how to support people once they arrived, and the development of the ecosystem were not subject to such stringent metrics as these were areas where experimentation and subjective judgement was still of great importance.

The challenge, however, is what happens as this early, entrepreneurial phase of the incubator's life comes to an end. The strong beliefs of the founders, the powerful narratives of success coming out in various case studies, and the highly engaged board who can see that their new approach, their experiment, is 'working' are important. However, over time, a shift occurs in the expectations of the funders, in particular with the arrival of a new government, with new priorities. This shift is not necessarily that they want SBC to do anything fundamentally different, but rather that SBC feels obliged to create increasingly robust evidence of performance, with reports that start to employ more metrics, based on a more systematic breakdown of the building blocks of success. Even though the business model of SBC is very different to that of its funders, the way it communicates success needs to be something that has validity to all stakeholders. Consequently, at some stage it needs to start 'speaking their language', which might be a much more accounting-based way of communicating. This becomes critical when new funding is sought for expansion, or new partners are making decisions about which bioscience hub to work with.

Systems change and the dominant languages of accountability

The way in which SBC came into being is an example for how significant, perhaps highly innovative, new projects come into existence: driven by their own strongly-held beliefs, key individuals with access to resources are able to articulate a clear vision, linked to strategic goals, and bring together a powerful enough guiding coalition to shape the new entity in accordance with that vision. This can apply to all manner of activities,

whether they are internal projects or external joint ventures being created by large organisations, or start-ups and spin-outs created by ambitious entrepreneurs with a handful of supporters.

The lessons from this research of control systems evolution at SBC, as well as other similar joint ventures and internal innovation projects, is that whatever the vision or beliefs are that drive the creation of the new enterprise, they are unlikely to sustain it in the long term. This is because the sponsoring individuals, those with the power and influence sufficient to start a project, must ultimately be held to account for the investment decisions they have made. This holding to account may, at first, be allowed to take place in the form of narrative accounts – the testimonies of key individuals such as other investors, customers, or contacts that the project is going well. But the dominant system of accountability has a powerful gravitational pull, and in time the language used will be expected to either replicate, or in some way mirror, the language of the investors. This applies whether we are looking at internal projects that have, temporarily, been given breathing space to get established, or new ventures that have a limited window of freedom before investors require evidence of progress. If that reporting language is primarily one of numbers, ratios, and key metrics then if the new project wants to legitimise its long-term role, it must speak that same language.

Throughout this research it has been noted, time and again, that individuals who run innovative, experimental projects find it challenging to respond to this shift in language. Frequently they will have developed a system of reporting that fits their chosen internal system, likely to be one that is highly relational and built on the understanding that success is very much reliant on the depth of tacit knowledge and skill within the team. If they have not invested sufficient time in analysing their own activities, and attempting to systematise their ways of working, they are unlikely to have the answers to requests for greater reporting rigour. However, the timing of this work requires a delicate balance to be struck – poorly crafted metrics constructed too early may create a focus on the wrong activities, outcome levels, or process steps, resulting in reduced performance as the metrics take hold.

Ideas into action

Strongly held beliefs and shared visions can be sufficient controls in the early stages of a new venture, but as the life cycle progresses we need to think carefully about the evolution of our control systems.

- ➔ **Vision, values and focus.** To establish successful metrics, managers must first understand a whole series of cause and effect relationships between different actions and outcomes. However, too great a focus on operational metrics can lead to strategic drift, so first ensure that there are high levels of shared awareness, understanding, and acceptance of the core vision and values of the organisation. Use this to focus your effort on identifying the end goals of all activities.
- ➔ **Assess predictability.** Take a hard, critical look at the internal and external context for your new project and assess the levels of predictability that you are facing, in comparison to those of the core business. The more differences between 'normal operating conditions' and the new environment – whether that relates to product type, market shape, size and speed of change, supply chain issues, and the internal operating environment – the more important it is to build flexibility and high levels of communication into the control system design for the new entity.

- ➔ **Monitor managerial evolution.** Managers operating with relatively high degrees of freedom in start-up situations can fail to record and analyse their decisions, and naturally so, if they have a very forward-looking mentality. Finance professionals need to closely analyse these decisions and their consequences, both discursively and through whatever process or outcome measures are available, to better understand the complexity of different relationships. By searching for correlations between a whole range of financial and non-financial metrics, and the actual performance of all aspects of a project, you can begin to build a control system that mirrors the actual activities of the successful manager.
- ➔ **Experiment as needed.** Projects may be designed to test new performance management approaches, as well as develop specific products. Be mindful of the temptation to revert to the norms that may surround you, and may be embedded in your own thinking. If you are setting performance goals for such projects, allow some budgetary slack and managerial freedom, or risk destroying the management innovations that you seek.

7. Conclusions

Finance professionals and financially aware managers have a broad range of logical, analytical skills that make them ideally suited to the creation of performance management systems that extend well beyond the financial measures that exist within their own technical domain. However, while our financial training gives us robust structures for the analysis of business activities and the creation of reporting approaches, we often lack similar frameworks for addressing wider issues of accountability, personal motivations, and more creative or innovative behaviours.

This report sets out a range of perspectives that help us tackle these alternatives perspectives on performance. This is by no means meant to somehow replace the extremely important and robust approaches that underpin our discipline, but rather to augment these, through the development of a new set of analytical tools.

The ways in which these research-based ideas are applied will largely depend on the situation that you find yourself in, the challenges you face, and the goals you have set for both the organisation you are in, and the performance system that you want to build. In this report we have offered some starting points, some initial suggestions on how to convert theory into action, as well as some short case studies that exemplify the best (and sometimes the not-so-good) practices that have been seen and documented throughout this research. While there are no silver-bullet solutions that can be applied to every situation, there are steps you can take that could dramatically improve your understanding of the performance management systems you have, the systems you want, and how to make them a reality.

Deciding 'when not to measure' does not mean that we are faced with binary choices, or decisions about what to fill our time with if we're no longer measuring things. Rather, this report aims to offer alternative actions, ideas and insights to incorporate into our ways of managing. When we sense that a performance system is not working effectively, or that staff are playing to the targets without achieving our intended goals, the analytical approaches presented in this report offer new ways of tackling these challenges.

Certainly there is more research to be done in this area, and we hope this report starts some further discussion and debate about good practices, common routes to success, and problems that have been overcome along the way. The three-way interactions between finance professionals, ICAEW, and academics will be vitally important in years to come, as we seek relevant information, useful solutions, and the best possible education and training for the performance managers of the future.

References

This report draws on a wide range of published research, which itself is built on the work of far too many academics to name here. The references below cover the primary sources referred to either directly or indirectly in the text, but a more complete set of references can be seen in the publications linked to the different research projects used to inform this report (as shown in the appendix below).

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Appendix – the research

This report is based on a number of discrete but inter-related research projects. These include:

- A study carried out by The Big Innovation Centre looking at the open innovation practices of its 11 multinational corporate partners. (2010)
- The longitudinal study of a major charity fundraising project, which brought together the Royal Family, the military, two charities, property developers, foreign governments and some of the world's most renowned mountaineering experts to design and deliver an abseil from the Shard. (2011–12)
- A preliminary PhD study looking at the activities of two research sites, one in finance and one in bioscience, each of which was intent on fostering greater collaborations within their network of scientists, funders and partners. (2012–13)
- An 18 month study of a large NHS Foundation Trust, which involved over 70 interviews across 9 sites, spanning the entire organisational hierarchy. This study looked at every aspect of performance management and control, including financial and non-financial measurement and management practices. (2013–15)
- An extended, ongoing study of performance management for open innovation. This study looks at the creation, management and value generating approaches used to exploit complex bioscience ecosystems. The project is being developed in conjunction with experts from the Strategy and Marketing groups at Lancaster University, and aims to deliver important new understandings of how the UK can best build a robust, collaborative, economically and socially beneficial approach to the advancement of medical science. (2011–present)

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