



Part Special Issue Editorial

Performance management

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The genesis of this special issue was a desire to see the publication of papers that focused on the wider field of the *management* of performance, rather than solely on the narrower concern of *measurement* of performance. With regard to the latter, we have witnessed the appearance of new specialist journals and, one might argue therefore, it is a topic well catered for. In the end we could not fill a complete special issue with papers and hence the present ‘part’ issue. Despite that shortfall, we present two case studies and several other papers from which the distinct theme of performance management (PM) emerges. We note that the lead article of this set of readings summarises OR’s contribution to the measurement and management of performance. Furthermore, we commend it for its assessment of the field’s contributions, as well as for its assessment of the remaining gaps in the research literature.

Another reason for choosing the *management* of performance was that it is a topic that goes beyond the development of techniques, vital though these are. PM also involves aspects of social and personal psychology, industrial relations and economics in ‘real’ decision making settings. In the practice realm, PM has come to the fore in recent years in regard to the privatisation of previously nationalised industries in the UK. Such actions in the UK have been followed elsewhere, in Europe under the auspices of the European Commission, and in many other countries throughout the world. Consequently, the notion of simply measuring performance in many contexts has been superseded by the concern for managing such performance. OR models are used in these contexts in the vital task of defining quality of service and setting standards, without which cost reduction becomes meaningless.

It is, therefore, our belief that a careful examination of the papers in this volume will support an important, underlying premise. Concentration on performance measurement to the exclusion of management can result in the failure to achieve the overall objectives of an organisation, as well as the failure to satisfy ‘customers’. Moreover, we feel that the papers in this part special issue—from both ‘hard’ and ‘soft’

perspectives—help to achieve a somewhat more balanced view of the needed progress in this area.

Taking the papers in this part special issue in turn, the Smith and Goddard paper serves as an excellent introduction to the subject, arguing as it does, for the existence of substantial opportunities for OR within PM, building on its previous success in developing instruments of performance measurement. The authors provide an interesting lens through which we can examine performance-based modelling efforts. They distinguish between the *inner loop* of PM, concerned primarily with well-structured measurement issues, and the *outer loop* of ‘messy, unstructured’ problems related to strategy.

Johnston, Brignall and Fitzgerald agree that performance measurement approaches and frameworks have led to an improvement in the overall management of businesses. Using case studies, they develop a notion of ‘good enough’ measurement, the focus of which is on improvement rather than control.

Harrison and New present the results of an international survey of performance management in a particular function of a firm—the supply chain. They continue the theme of improvement in the overall management of a business by showing that the aim of the leaders of five clearly defined groups of companies, is to use supply chain strategy and performance in order to achieve competitive advantage in the market place.

Hamblin’s paper also makes use of international case research. In his paper, the objective is to explore the use of ‘flexibility’ as a measure of managed performance. The research was carried out in the aerospace industry. The priorities accorded to flexibility vary with the role of the organisation and with market structure. However there are common types of flexibility and he proposes a business process to help improve the management of them.

The paper by Francis and Holloway examines definitions of benchmarking and its taxonomies, and argues that there is a need for OR scientists to get more involved in the practice so as to enhance its effectiveness.

We now turn to papers that utilise some form of a relatively recent performance measurement technique, Data Envelopment Analysis (DEA). Thanassoulis presents a case study of the use of DEA in assessing the sewerage operations of the UK water industry. He compares the

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results of using DEA and regression, and highlights a number of other technical issues, such as the handling of comparisons when the number of decision-making units (DMUs) is small.

Meimand, Cavana and Laking provide another case study wherein DEA is used to assess the performance of accident compensation branches in New Zealand's state-owned injury compensation insurance company. The authors imbed the frontier estimation technology, however, in a 'performance pyramid' methodological structure that includes survival analysis, to model the effects of environmental factors found in particular settings. They demonstrate how using this complex of performance assessment techniques in the New Zealand agency can lead to organisational learning and process improvement.

The final paper by Despotis represents another use of DEA in the field of performance measurement. The author develops an approach for characterising 'globally efficient units' that maintain their efficiency status under common weighting schemes. More generally, this article might be seen to be making a significant contribution to the 'frontier-based ranking' literature, a sub-field of DEA that is not without its critics. Dyson,¹ for example, questions the wisdom of using efficiency scores to provide league table

rankings, preferring instead to use such assessments in a 'formative' way by transferring best practices throughout the system. Nonetheless, the Despotis model makes contact with other related techniques, such as multi-criteria DEA and cross efficiency, in order to demonstrate the benefits of taking a 'global' approach to performance assessment.

It can certainly be argued that OR has been successful in facilitating the measurement of performance in a number of contexts. In the language of Smith and Goddard, OR has contributed greatly to understanding the *inner loop* of PM. If the problem of performance improvement is seen simply as one of *convergence* to a target (or frontier), then such contributions are sufficient. But, if the nature of managing improvement is seen to include a strategic component, a behavioural dimension, a complex of interacting forces—then, a more robust vision of performance is needed. It is our hope that this part special issue is seen as an attempt to navigate those inner and outer loops of performance management.

Reference

- 1 Dyson R (2000). Performance measurement and data envelopment analysis. *OR Insight* 13: 3–8.