

MANAGEMENT ACTION NOTES

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VALUE MAPPING

Increasing and reporting an organisation's value

MANAGEMENT ACTION NOTE 4

Fit for the Future



business learning from business

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Performance measures are a tool for achieving, reviewing and improving strategic and operational objectives. The 1990s saw the introduction of best practice management approaches, such as the EFQM Excellence Model™ which broadened the scope of measures used. But concentrating on areas that have greatest value – the value drivers and their value outcomes – is the key to constructive performance measurement. Value Mapping is just such a value-adding concept, with ValueMapping™ a solution to help organisations understand and improve their value drivers/outcomes and better report organisational value to stakeholders.

Benefits

ValueMapping™ can be used as a standalone process to increase organisational value, or used to strengthen the outcomes of existing tools and techniques such as the EFQM Excellence Model™, The Balanced Scorecard, BS EN ISO9001:2000 and Investors in People. These notes give guidance on the approach to good performance measurement: they explain the Value Mapping concept and its use in increasing and reporting value to stakeholders.

Audience

These notes are relevant to all those who have a stake in strengthening the value of organisations.

The series

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Value Mapping

Increasing and reporting an organisation's value

The role of measurement in business has been important ever since traders started writing the day's figures on tablets of clay or papyrus scrolls. In an environment where organisations succeed through the prediction of change and adaptation to it, performance measurement is a crystal ball that guides and drives success. Uninformed business decisions can lead to costly mistakes and – in the worst cases – business failure. The key is to measure the things that have greatest value to your particular organisation and its stakeholders. However, for a large part of the 20th century, performance measures focused almost entirely on the financial accounting of an organisation at the expense of other so-called 'intangible' areas.

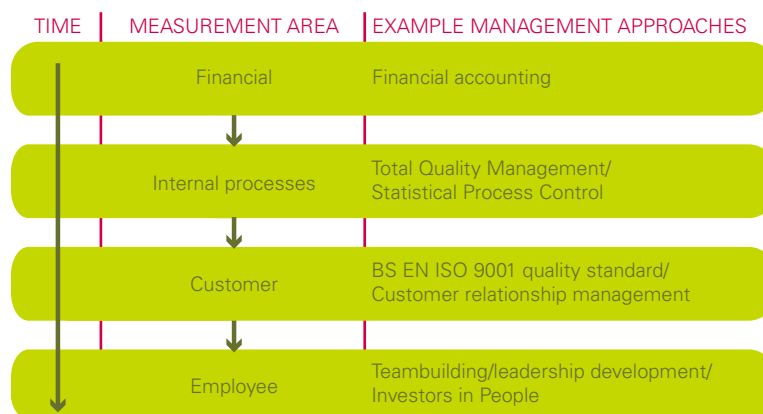
The range of performance measures in use today

The 1980s and 1990s saw a 'performance measurement revolution'. Companies

began to broaden the range of performance indicators they used – measures broadly influenced by the changing focus of business improvement approaches (see figure 1).

Companies will generally have had some measures from each of the above areas, but the trend has been to focus on each area largely in isolation of the others. For example, purchasing authority for customer surveys or research has been separate from areas such as staff surveys. This is beginning to change with the appointment of knowledge management and performance management managers who can bring performance measures and information together. Even in smaller businesses it is important that someone wears the hat of overall performance measurement co-ordinator.

Figure 1: Progression of measurement focus and approaches



Are our performance measures adequate?

Organisations, large or small, may have a range of performance measures across areas including financial and internal processes, customer and employee perspectives.

To what extent are your measures driving and increasing the value of your business or organisation?

Try answering the questions about your performance measures in table 1. These questions seek to discover where the organisation is at present and to provide a platform for the future development of performance measures. If you score five or more to any of the questions, Value Mapping will improve your organisation's performance.

Table 1: Are our performance measures accurate?

	Most definitely	+	←	→	-	Definitely not		
1 Measures are developed by individual departments/functions	8	7	6	5	4	3	2	1
2 Staff cannot see the benefit of the performance measures when asked to comment on them	8	7	6	5	4	3	2	1
3 Employees feel there are too many measures	8	7	6	5	4	3	2	1
4 There is no formal system for assessing the usefulness/fitness for purpose of the measures	8	7	6	5	4	3	2	1
5 Management can delay measures until they feel the time is right (to show better results)	8	7	6	5	4	3	2	1
6 Measures are not formally split into the things that drive the business and the end outcomes	8	7	6	5	4	3	2	1
7 Inter-relationships and the impact that measures have on each other are not fully understood	8	7	6	5	4	3	2	1
8 The frequency of measurement is not really planned but left to managers	8	7	6	5	4	3	2	1
9 Results tend to be reported individually - staff and client surveys, accounts etc	8	7	6	5	4	3	2	1
10 Measures are not benchmarked to highlight where the organisation is (staff/customer results compared as well as financial)	8	7	6	5	4	3	2	1

Value creation through Value Mapping

For greatest benefit, performance measures should relate directly to the activities and assets that drive and add value. There are a number of important stages an organisation must go through in the search for excellence in performance measurement. These stages form the value creation process for the business and are visually represented in figure 2. Each is covered in detail in the following sections.

Value Mapping has its greatest impact when applied as an integrated performance management solution throughout an organisation. It can also be focused independently on business units, departments and work teams, even down to an individual employee.

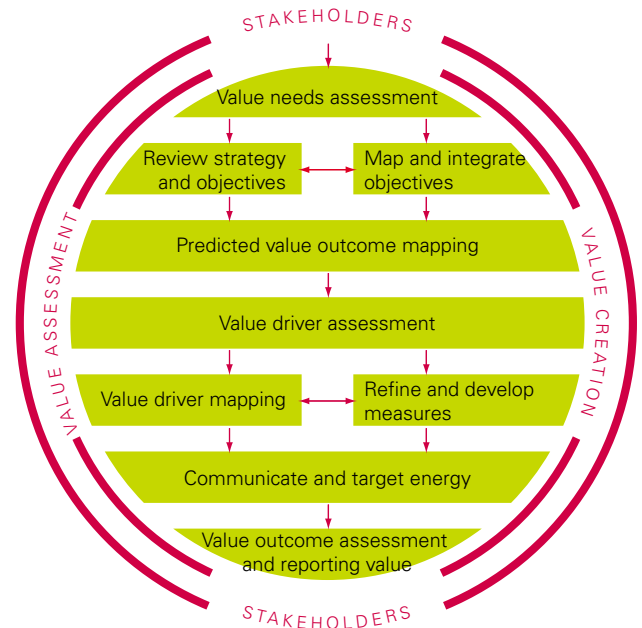


Figure 2 ValueMapping™ solution

Value needs assessment

Whatever its size, every organisation requires an overall set of strategic objectives to shape its direction. However, before it can objectively review or develop

these objectives, the business needs information about the requirements of its stakeholders. The value needs assessment reviews information from stakeholders, compares their needs against available performance measurement information, and then informs and supports the review of strategy.

Some of this information will probably already exist within the organisation: those using other performance management tools may already possess broad self-assessments and performance measures that can inform the value needs assessment (figure 3).

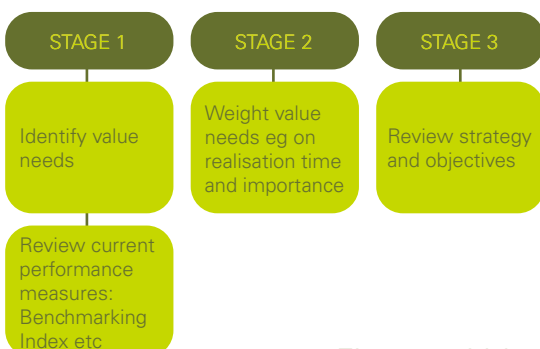


Figure 3: Value needs assessment and strategic review

Different value needs will compete with each other and the organisation will need to weight these when formulating its strategy and objectives (Stage 2). Each value need will have a different time to maturity, known as its value realisation. The team should rate each of the organisation's value needs accordingly, as well as on its importance as a whole. This importance rating is reached through a consensus workshop drawing on information gathered from Stage 1.

Identifying value needs is a crucial part of the assessment process. Figure 4 shows the beneficiary and methods of information gathering for some potential value needs.

Market research has an important role to play in the evaluation of value needs. Historically, there has been little scope for customers or society in general to comment on organisational needs but this is beginning to change. Many companies now actively seek feedback on their annual report and accounts, as well as assessing relationships within the wider community. This is reflected in the EFQM Excellence Model™.

Good processes, business results, sales and other business intelligence statistics are also required to judge the needs of the organisation as an entity in its own right. The DTI Benchmark Index and the CBI's PROBE are two such sources of information.

BENEFICIARY	VALUE NEED	DATA GATHERING METHOD
Employee	1 Recognition of contribution 2 Personal development	Employee focus group/employee survey appraisal systems
Customer	1 Delivery time 2 Price	Market research
Organisation	1 Competitiveness 2 New customers	Benchmarking. Knowledge management of organisation performance information
Shareholder/analyst	1 Shareholder value added 2 Return required	Investor and analyst focus groups and survey
Society	1 Compliance with legislation 2 Support of public services	Market research

Figure 4: Elements of value needs identification

Review and integrate strategy and objectives

The value needs assessment helps to review strategy and objectives to determine their continued fitness for purpose. Strategy should be reviewed throughout the year: a process must be formalised with regular reviews as demanded by the business's changing situation.

Any major review should be preceded by all stages of value needs assessment: interim reviews can be used to focus more on the performance measurement information being collected.

A challenge for all senior managers is to assess the relationships between strategic objectives based upon their value needs. This is dangerous! In many companies, strategic objectives sit in isolation. The relationships between each should be explored and mapped to give a line of sight from lower to top-level objectives, and hence between strategic objectives.

The following are useful questions to ask when formulating and reviewing strategic objectives.

- 1 To what extent is the strategic objective dependent on other strategic objectives? (The more dependent it is, the more top level the objective).
- 2 Does the strategic objective relate more to a department or team than the organisation as a whole?
- 3 Is the strategic objective taking a different direction from the others? Can they be grouped into specific themes?
- 4 Is the strategic objective supported by defined value needs?
- 5 Is the strategic objective measurable? Is it associated with a definite and desired value outcome?
- 6 Is the strategic objective new or a modification of an existing one? What

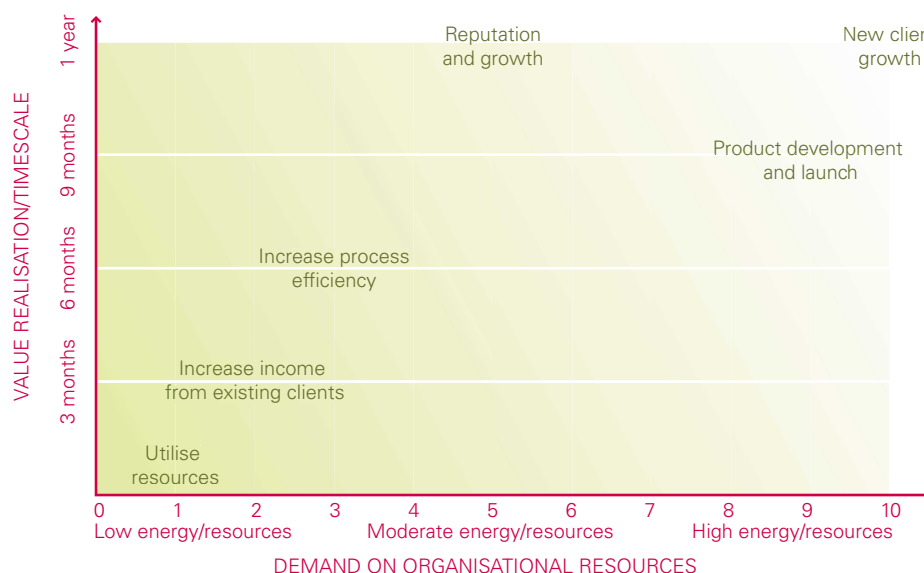
evidence exists within the company or elsewhere to support its continued viability?

Performance measurement information from three important stages of value mapping feeds into the interim strategic reviews. These stages are predicted value outcome mapping, value driver assessment and value outcome assessment: they are discussed in turn below.

Predicting and mapping value outcomes

Having aligned the strategic objectives to the value needs of stakeholders, the organisation needs to determine how it is going to measure the outcomes of its strategy. These outcomes relate closely to the selected value needs and are represented through predicted value outcome mapping.

Figure 5: Predicted value outcome map for an optical retailer: strategy year 1



The word 'predicted' is crucial. The organisation has to assess its progress against predictions and targets. These predictions relate to when the value will be realised and the degree of energy and resource required in order to achieve the value outcome.

If the measures do not already exist at this stage, then they need to be designed. The organisation needs to progress towards the targeted value outcome. Targets for value outcomes should be gauged against existing performance and best practice benchmarks where available. The DTI Benchmark Index and the CBI's PROBE are excellent sources for this type of information, and have been developed to include both customer service and employee modules.

Each value outcome is assessed on the basis of a number of dimensions. These include cost, personnel resourcing, re-skilling, time demands and degree of change. This assessment determines the horizontal position of the value outcome on the value outcome map.

The predicted value outcome map has a number of benefits and uses:

- It acts as a plan to determine when the value outcomes should be assessed
- It groups value outcomes into strategic timescales
- It assists decision-making in allocating resources
- It is phrased in the language of value, avoiding confusion with performance measures of low utility

- It visually communicates the predicted performance target
- It easily communicates the value outcomes of strategy to stakeholders
- It acts as a moderator of strategy if actual value outcomes consistently fail to meet predicted.

Value driver assessment

A value driver is any activity or asset that contributes towards the desired value outcomes for the organisation and its stakeholders. For example, the EFQM Excellence Model™ 'enablers' (leadership, people etc) are value drivers, as are some of the 'results' (people, customers etc) in that model.

A business or organisation is essentially a network of cause and effect relationships. Put energy in at one point and the cause-effect chain results in an impact at other points. Value drivers are best thought of as important areas in this cause-effect network of the business. Value driver assessment helps a business to home in on the areas where targeting resources and energy will add the greatest value.

Many organisations mistakenly target energy and effort at areas that have low or zero impact on the business value, because these areas are often easiest to change. As a result, the relationships between the things that drive value in the business can often be overlooked. Value driver assessment gives thought to these things, rating the utility of the potential value

drivers on three main dimensions, as shown in figure 6.

The percentage utility scores in the right hand column are averages calculated from a number of questions for each assessment area. For instance, some questions relate to the reach of a value driver within the organisation, ie localised or far reaching.

Value driver assessment requires interviews and discussion with employees who will be responsible for implementing the driver and improving that area of the business. The interviews should last no longer than thirty minutes per person and employees internal to the organisation can be trained to undertake the assessment.

The benefits of value driver assessment can be described as follows:

- It helps the organisation target energy and resources on the activities and assets that have greatest effect in achieving objectives
- It assesses the relationships between value drivers
- It ensures the value drivers can be measured effectively and sets targets

'Intangibles are clearly essential in today's economy. Compare the market value with the book value of any business and it is clear how much the City values intangibles'

**Professor Andy Neely
Cranfield School of Management**

- It identifies the greatest opportunities for improvement
- It prioritises the performance measures that need closest monitoring and tracking.

A problem found in many multinational companies is too many performance measures focusing on low value areas and at the wrong frequency. This leads to information overload and a lack of focus. With smaller to medium sized businesses, measures tend to be too financial or operational in character, and usually short term. Value driver assessment helps to address these imbalances by homing in on the select high utility value drivers.

More and more evidence points to the impact that so-called 'intangibles' can have

Figure 6: Value driver assessment of praise and encouragement

UTILITY ASSESSMENT AREA	EXAMPLE QUESTION	EXAMPLE UTILITY SCORE (HIGHER BETTER)
Ease	How much time is involved in improving this area?	65%. This is not a time intensive activity but it will take time to develop new habits
Opportunity	How much room for improvement is there?	80%. Great room for improvement with a very low employee rating of praise
Impact	What size of impact will this driver have?	70%. Employees have consistently rated low praise as a big reason for low morale and motivation

on a business. These relate to employee issues such as motivation/morale and customer issues such as loyalty. Intangibles need not be hard to measure: good questionnaire instruments can be developed to gather quantitative ratings of their value.

Figure 7 shows examples of value drivers for a professional retailer grouped into each main performance measurement area.



Figure 7: Professional retailer value drivers

Value driver mapping

The secret of excellence in performance measurement is to ensure measures are actually used and understood. All too often performance measures are represented in masses of graphs and tables posted on notice boards, and in large reports. This is not the way to make performance measurement a living working system for value creation. Staff surveys too often show very low ratings of their usefulness, which indicates a lack of involvement and understanding.

There is no point measuring value drivers if the employees and management in the organisation do not understand their relevance and where they fit in. If this is the case they will not supply the energy and effort required to improve the performance of that driver.

Value driver maps bring performance measurement to life. They are uncomplicated and visual. The utility of the value driver is shown as a percentage near the central spine of the map, with the highest utility driver closest to the desired value outcome.

Figure 8 shows a value driver map relating to the desired value outcome of simplifying and improving processes. The benefits can be summarised as follows.

- It visually represents the relationships of high utility value drivers to the desired value outcome

SIMPLIFY AND IMPROVE PROCESSES

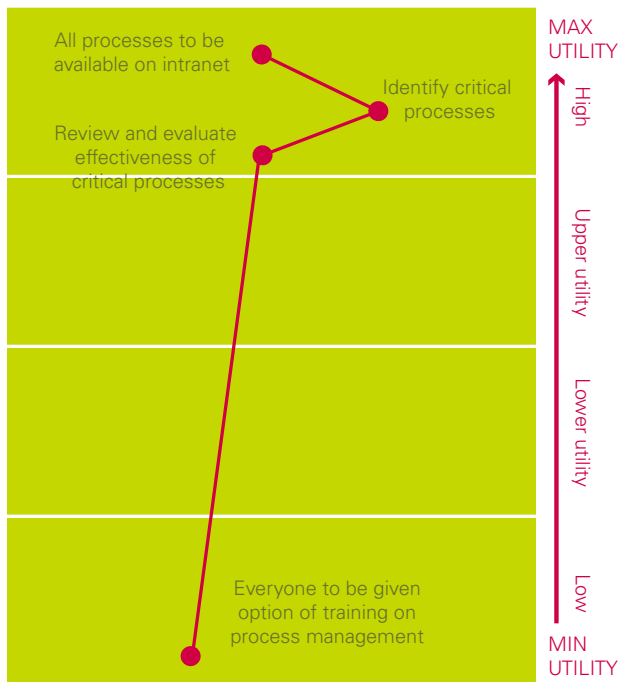


Figure 8: Simplifying and improving processes value map

- It uses language that staff can understand with minimal training
- It embeds the actual performance score and value driver target score on the map
- It is simple - no more than six drivers per map
- A further map can be used as required to home in on detail relating to a particular driver
- It can represent the self assessment scores from the EFQM Excellence Model™
- It can represent scores from the Benchmarking Index (or PROBE) on the maps as drivers.

Refine and develop measures

Organisations are dynamic, ever-changing entities; they grow, develop and evolve over time. It is therefore unrealistic to expect the processes and measures that define an organisation's level of performance to be static. Performance measures must be reviewed and developed as the needs of the business change and it would not be practical to suggest this be done at fixed intervals, as the market the organisation operates in will undoubtedly not be so prescriptive.

When developing new measures, or reviewing existing ones, the information gathered must be acted upon and organisations should avoid continually adding new performance measures. There is little point in collecting performance information and doing nothing with it and performance measures must be relevant to and understood by the people who are being asked to work with them. Having too many measures can hinder this understanding.

In short, measures of performance cannot be ripped up and renewed every time there is a slight organisational change. If this were the case no measure would be in place long enough to be effective. The difficulty in producing effective performance measures is that they have to be given time to work and show results over time, yet be flexible enough to be changed as the needs of the business change.

Communicate and target energy

Poor communication is one of the greatest barriers to business improvement and is regularly raised as an area for improvement in many employee surveys. Communication is a basic part of working relationships, yet is often left to chance. Improve communication and you improve the business.

Value mapping is an excellent way to improve communication as it is based on visual solutions. Psychological research shows that memory for faces and pictures tend to be better than memory for words and names. Both value outcome maps and the value driver maps are visual and uncluttered in their construction. By embedding the performance scores in these visual maps, it is possible to improve the communication and understanding of performance information.

The following points highlight some ways to ensure that improvement opportunities arising from performance measures are acted on by management and staff.

- Belief in the purpose of the performance measure is essential. Ensure management do not pay lip service to the performance measure but expect staff to act on suggestions arising from it. Lead by example
- Ensure employees see how improving performance in one area will support the business in another area
- Show how improvements can impact beneficially upon the employee, eg makes their job less stressful, increases their bonus etc
- Ensure bonuses are linked to improvements in the value drivers, not just the end outcomes. When linked only to financial outcomes, eg expenditure, there is more chance of massaging the figures and not actually getting down to improving the root problem
- Keep staff informed of the progress of improvements
- Train employees to understand the connection between improvements and the overall strategic objectives of the business. Value maps are excellent for this purpose
- Ensure an employee is given overall responsibility for staff liaison and tracking improvements that are being made. Larger organisations should appoint a performance measurement or knowledge management manager.

Value outcome assessment and reporting value

Having targeted energy and resources and made improvements, it is now essential that the intended value outcomes are assessed. It is no use collecting initial baseline measures of performance if there is no repeat of the measure and subsequent follow-up to gauge the degree of improvement.

Construct a plan of when various performance measures are taken and who is responsible. The predicted value outcome maps will help in the construction of this plan.

Figure 9 shows the steps involved in value outcome assessment.

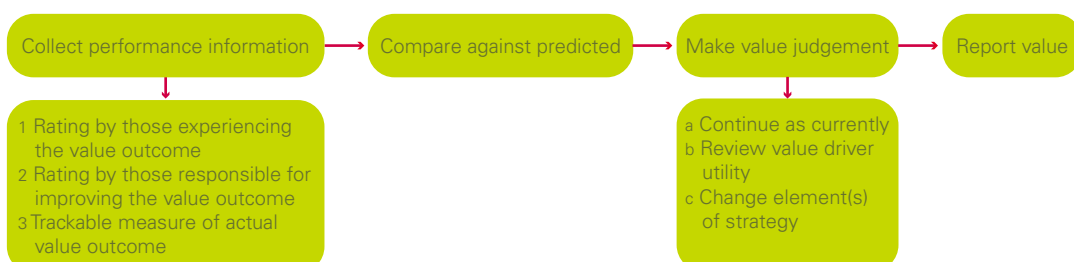
Collecting information upon which to judge the value outcome is the first step. This information should be perception scores from those charged with improving as well as those experiencing the value outcome. In addition the quantifiable and traceable measure of the actual value outcome should be compared to the predicted outcome target.

Making a value judgement is the next, crucial step. Does the business simply continue with no changes and do more of the same? Would a review of the value drivers enable identification of a weak link that has not yet been addressed? There is no point in continuing to support a value driver if it has little actual impact on the desired outcome.

Finally, does the strategy need to be reviewed? There may be a fundamental flaw in one or more strategic objectives and the value outcome is simply not attainable. A change of strategy and direction may be more appropriate. These are not easy questions to answer but must be addressed if sustainable value creation is the goal.

The reporting of value to all stakeholders is an essential part of meeting their value needs. Employees, customers, investors and society in general will all benefit from the reporting of value. Different forms of report are required for each group. Value maps can be used as part of this reporting process.

Figure 9: Value outcome assessment



Conclusions

- Performance measurement is a vital ingredient in the value creation process. The identification, integration and communication of the most relevant performance measures play a crucial role in value creation
- Value Mapping is a powerful concept, and ValueMapping™ a solution, which can be used to focus organisational energy and effort for the creation of value where it is most relevant and needed by customers and stakeholders
- Although Value Mapping is a standalone concept, it also has a powerful role to play in supporting existing management tools and techniques (see opposite page)
- Organisations, large and small, that thrive in a competitive environment are those that identify, and respond to the value needs of stakeholders. They are not only excellent in their internal performance measurement and management, but also in reporting value outcomes to all those with a vested interest.

Value Mapping and other techniques

Value Mapping - together with the DTI Benchmark Index and the CBI PROBE index - can also be used to build on existing initiatives such as The Balanced Scorecard, the EFQM Excellence Model™, the new BS EN ISO9000:2000 standard and Investors in People (IiP). In order to really deliver, all of

these approaches benefit from the identification and integration of value adding performance measures and, importantly, the communication of the relevance of the measures. Some of the opportunities that can be addressed through Value Mapping are detailed below.

MANAGEMENT INITIATIVE

VALUE MAPPING SUPPORT

EFQM Excellence Model

- 1 Embeds the self-assessment scores and identified opportunities for improvement in value maps
- 2 Brings the model to life for staff. Value maps ensure employees see how self-assessment is relevant and related to the company desired value outcomes and objectives
- 3 Value driver assessment and value outcome assessment ensure that the company focuses most on the enablers and results that have greatest utility and relevance for them. They avoid the company becoming too model bound

The Balanced Scorecard

- 1 Value maps flow from the top-level strategic scorecard and visually communicate the performance drivers
- 2 Value maps integrate the scorecard measures rather than isolating them in one of four quadrants

BS EN ISO9000:2000 quality standard

- 1 Value driver assessment, value outcome assessment and value maps support the new measurement, analysis and improvement focus of the standard
- 2 Value maps support the process flow requirement of the standard by integrating key processes (value drivers)

Investors in People (IiP)

- 1 Employee level value maps can be used to support personal development plans and appraisal
- 2 Company level value mapping integrates and brings to life the IiP value driver activities
- 3 Helps establish baseline and tracking performance measures for IiP required as part of predicting value outcomes

