Contemporary Issues in Finance
Performance measurement

Martin Upton

Let's turn now to the subject of performance measurement. And I want to ask Graham and Marcus if they see any particular new measure coming to the fore in the coming years.

Graham Honeybourne

I firmly believe that we must drive companies and very robust systems, very simple systems, on dashboards. It's a bit like driving a car and you need a common understanding of that right across the company and then that's the way you drive the organization. I don't think those base systems are going to change fundamentally. I see a lot people wanting to improve their own position, trying to get better quality out of the information that's being reported to them, in terms of their performance measurement, seeking to add new bits and pieces, giving things new names, drilling down on certain aspects. But, if we come back to the basic measures of EPS, cash flow, profit, return on sales, return on investment, these drivers are not going to change substantially.

Marcus Davidson

There is a movement towards greater transparency, towards the provision of more information. And, I think there's a feeling that, in a sense, if all the information is presented in the accounts, how it's presented becomes a little less important because, it's more like the pick-and-mix sweet counter where each type of sweet is in a very transparent container. I think there's an interesting development here in connection with the introduction of international accounting standards. Now, theoretically, if we have efficient markets it doesn't matter whether you present your numbers according to international standards or national gap, because readers will see through the different accounting standards at the underlying information; they will see, as it were, what transactions the company is doing and they can present those transactions to themselves in whatever way they like as long the raw material is there.

Graham Honeybourne

I've been reading some work coming out of America and some of the discussions on behavioural finance and what is becoming clear is that companies don't stick to performance measurement tools for very, very long periods. There is something to do with the way the organization internally structures itself around its management team and people join the team and then choose a method and use that method for a period and then either data quality fails or the metrics aren't giving people the, the way they feel, that the answers should be coming out, and they're adopting new practices. And that will generate some new techniques, and perhaps that's why we have so many techniques in our toolbox available, to be able to move from one method of understanding information. We lose confidence in that method, so we switch to other methods. But I think you've got to stick to your key drivers through your business and you've got to stick to your performance.

Marcus Davidson

Switching of methods is an interesting point because one area in which the accounting standards are very robust is in their insistence that, if you change standard or change your interpretation or the way you apply a standard, then you must present your previous year's figures consistently, so that you are presenting figures over the whole reporting period, whether it be two or five years, on a 'apples and apples' basis. I would submit that the reason why accounting standards setters are so uniformly insistent upon this - whether it's UK gap, US gap, or international – is because there is a deeply ingrained tendency in management to move around. One case study was that of Manchester United PLC and if you look in successive annual reports, not at the numbers but of the commentary of the chief financial officer, his key drivers – they change from year to year. One year he says – we want to be judged on drivers A, B, C and in the next year you seek in vain for any reference to drivers B and C. You can be forgiven for saying it is a classic case of ‘moving the goal posts’.