Operational drivers and performance measures

MODULE 3 | 3.4.1 | STUDENT COMPANION

Operational drivers (revenue, costs and growth) sit beneath the organisation's objectives. A good measure helps develop and implement strategy, supports decisions, motivates people and signals to stakeholders. Every result must be judged against a **benchmark**: a number on its own means very little.

What is the organisation for?

Shareholder view

- Organisations exist for their shareholders (Friedman, 1970)
- Shareholders provide the risk capital
- Judge performance mainly by financial results and shareholder returns
- Often called value-based management

Stakeholder view

- Organisations serve many groups with different interests
- Some value can't be measured in dollars
- Hard questions: which measures, how to balance them, what if they conflict?
- Example: a charity reducing youth homelessness

Most companies still focus on shareholder returns, but other stakeholders carry growing weight

Nine tests of a good performance measure

Validity Does it capture what we care about?	**Reliability** Same result whoever measures it?	**Clarity** Easy to understand?
Low cost Benefits exceed the cost?	**Timeliness** Early enough to act on?	**Accessibility** Available to those who need it?
Controllability Can those judged influence it?	**Resists gaming** Hard to manipulate?	**Relevance** Consistent with the strategy?

People focus on what they're measured on, so choose measures carefully

Case note: Sears auto centres, 1992

In June 1992, after an undercover investigation, California's consumer affairs regulator accused Sears' auto centres of selling customers repairs they did not need. Sears had paid its service advisers commissions and set them sales quotas. Chairman Edward Brennan admitted the goal-setting process had 'created an environment where mistakes did occur'; within weeks Sears scrapped the commissions and quotas, and it settled that September. The measures rewarded selling, not fixing.

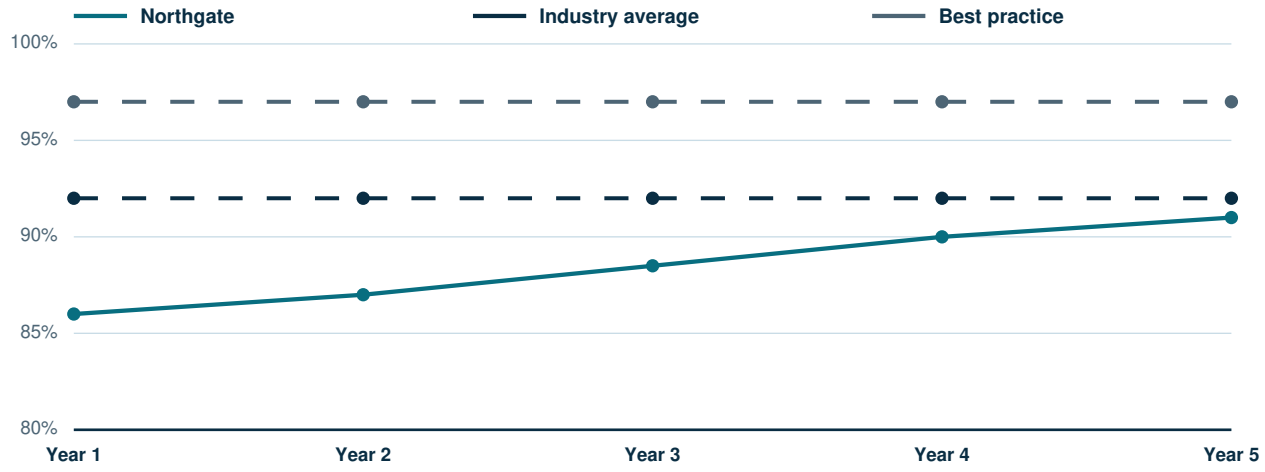
Sources: Time, June and September 1992; UPI, June 1992; Ordóñez et al., 'Goals Gone Wild', 2009.

Types of measures: one process, many measures (recruitment, imagined)

Other types include analytical, organisation-specific, and environmental and social sustainability measures.

Type	What it measures	Recruitment example
Input	Time, money and resources consumed	Recruiters' hours
Activity	How often something happens	Interviews held
Output	What is produced	People hired
Efficiency	Outputs compared with inputs	Cost per hire
Effectiveness	Whether outputs meet standards	Share of hires still employed after a year
Impact	Contribution to the mission	Productivity the new hires add

Judging a trend against benchmarks



Improving about 1.25 points a year, but still below average and well short of best practice

Catch-up arithmetic: at about 1.25 points a year (86% to 91% over four years), Northgate needs (97 - 91) / 1.25 = about 4.8 more years to reach today's best practice, which will keep moving.

Three kinds of benchmarking

Kind	Compares	Example
Internal	Units within the organisation	Branch A's processing time against Branch B's
Competitive	The organisation with its direct rivals	Our delivery times against our main competitor's
Functional	A process with whoever does it best, in any industry	A hospital handover against a racing pit crew

Case note: Great Ormond Street Hospital and Ferrari

Doctors at London's Great Ormond Street Hospital, concerned about errors when children were handed over from the operating theatre to intensive care, visited the Ferrari Formula One team to learn how its pit crew managed fast, high-pressure handovers with clear roles, set sequences and a single leader, and also consulted airline pilots. They redesigned their own handover. A 2007 study of 50 handovers found that average technical errors fell from 5.4 to 3.2 per handover, and missed items of information from 2.1 to 1.1.

Source: K. Catchpole et al., 'Patient handover from surgery to intensive care: using Formula 1 pit-stop and aviation models to improve safety and quality', Paediatric Anaesthesia, 2007.

Practice questions

MODULE 3 | 3.4.1 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Test a proposed measure

Imagine a wealth advisory firm that wants to grow long-term client relationships. It proposes to judge each adviser by the **number of client meetings held per week**.

Test	Does the measure pass? Why?
Validity	
Reliability	
Clarity	
Low cost	
Timeliness	
Accessibility	
Controllability	
Resistance to gaming	
Relevance	

Question 2 - Classify the measures

Measure for an imagined regional hospital	Type of measure
(a) Nursing hours per patient day	
(b) Number of operations performed	
(c) Cost per operation	
(d) Share of patients readmitted within 28 days	
(e) Fall in heart disease deaths in the region	
(f) Number of outpatient appointments held	

Question 3 - Judge the result

Imagine an insurer whose customer satisfaction has risen from 78% to 84% over three years. Its internal target is 85%, the industry average is 86% and the best performer achieves 93%. Judge its performance, using both the trend and the benchmarks, and say what you would recommend.

Worked answers

MODULE 3 | 3.4.1 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Client meetings per week

Test	Assessment
Validity	Weak: meetings don't show relationship quality or client outcomes
Reliability	Fair, if meetings are logged consistently
Clarity, low cost, timeliness, accessibility, controllability	Pass: clear, cheap to collect from calendars, available weekly, easy to share and within advisers' control
Resistance to gaming	Poor: advisers could hold short, pointless meetings
Relevance	Weak link to long-term relationships

Better: combine client retention, client satisfaction, growth in funds under advice and complaint rates, with meetings tracked only as a supporting activity measure.

Question 2 - Hospital measures

Measure	Type
(a) Nursing hours per patient day	Input (or an efficiency ratio of input to activity)
(b) Operations performed	Output
(c) Cost per operation	Efficiency
(d) Readmissions within 28 days	Effectiveness (quality of outcome)
(e) Fewer heart disease deaths	Impact
(f) Outpatient appointments held	Activity (or output)

Question 3 - Insurer's customer satisfaction

Trend: improving, about 2 points a year. **Benchmarks:** just below its own target (85%), below the industry average (86%) and well short of best practice (93%). It is improving but still a relative weakness.

Recommendation: find out what drives the best performer's satisfaction (functional or competitive benchmarking), target the main causes of dissatisfaction, and set a stretch target that closes the gap to the industry average within a year, then moves towards best practice.