ASSESSING PROGRESS AND TRADEOFFS AMONG PERFORMANCE INDICATORS

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ABSTRACT

Financial and operational performance measures are standard tools for ensuring the effectiveness and efficiency of business organizations. The importance of both types of measures has been increasingly recognized in recent years. For example, Ambler, Kokkinaki and Puntoni [1] demonstrate how a variety of such metrics influence consumer outcomes by directing employee behavior toward specific company goals.

While financial measures summarize the impact of past managerial decisions on current performance, operational measures are designed to provide forward-looking performance diagnostics. Customer satisfaction, brand loyalty, defect rates, and cycle time are just a few of the operational measures that have been used to assess how a company may be progressing toward its long term objectives [3] [5]. Unfortunately, few firms ever achieve their long term objectives. A study of over one thousand eight hundred large companies revealed that more than ninety percent were unsuccessful in reaching their targeted goals [6]. Most of these firms failed to earn even modest real growth on earnings or sales, so this finding does not appear to be a result of unrealistic expectations.

Two factors, in particular, are important in explaining differences between actual and expected performance. First, the impact that operational performance measures will have on subsequent firm decisions and goals are not communicated effectively to individuals within the organization. As such, employees often do not see the value in these performance measures, and thus do not work effectively to ensure that these measures meet or exceed their benchmarks.

In addition, because operational performance measures are many, complex, and dynamic, employees may become confused about which performance measures are designed to help achieve a particular long term goal. This is especially true if several, related measures give contradictory results, or if certain performance measures do not consistently meet (or exceed) their benchmarks. Research by Kaplan and Norton [4], for example, indicates that ninety-five percent of all employees either do not understand or are unaware of their employer's current strategy.

Since operational metrics are a reflection of an organization's strategy, these metrics must not only be relatively stable, but also communicated effectively to employees and stakeholders in order to

become valuable predictors of future performance. This is true whether employees react automatically or with conscious forethought [2].

While the former arguments apply to firms in general, they are especially true of health care organizations. Because health care practitioners (many of whom eventually move into managerial positions) are trained to focus on medical, and not managerial, aspects of business practice, a disproportionate number of these employees may fail to not only see the value in measuring operational performance, but also tracking it over time and implementing operational changes to ensure that the firm meets its long term objectives.

Compounding this problem is the fact that many health care providers are under increased pressure from consumers, regulators, and third party payers to document process effectiveness. The production of medical care is both time consuming and complex, and there are likely to be a disproportionate number of operational performance indicators that should be collected and linked to specific long term objectives. In short, most health care organizations experience disproportionately higher hurdles to implementing, monitoring, and acting on operational performance measures.

In this paper, we present an empirical methodology to measure process improvement using data from a medical rehabilitation setting. In particular, we employ a technique to assess process improvement when there are multiple measures of output or performance, where the production process is relatively slow, and when there may be an externally imposed benchmark(s). Our methodology is not only consistent with the traditional process improvement literature, but is also easily implemented by therapists with basic statistical expertise and significant time constraints. Our findings suggest that this procedure can be quite valuable in assessing progress toward benchmarks over time.

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