Answers

1   To: The CEO, Department of Internal Affairs (DIA)
    From: An Accountant
    Date: 1 September 20X5
    Subject: Performance measurement and management at Deeland Police (DP)

This report recommends and justifies critical success factors (CSFs) and key performance indicators (KPIs) for DP based on the four critical areas of performance. DP is then evaluated on the value for money (VFM) provision of its service. The usefulness of non-financial performance indicators (NFPIs) in the public sector is explained. Finally, the use of a league table of police performance and the setting of targets for DP is assessed, with comment on the employee reaction to such a management approach.

(i) Critical success factors (CSFs) and key performance indicators (KPIs)

The CSFs must follow from the four areas which are addressing the overall mission. The four key areas to consider are:

1. Protecting and supporting those at risk of harm
2. Ensuring criminals are caught and brought before the courts
3. Achieving long-term sustainable solutions to the causes of crime
4. Addressing new forms of crime arising in the virtual world

The first three areas are on-going in the activities of DP and the Minister wants improvement in each. The adviser's suggested CSFs all appear to be reasonable improvements to manage the Minister's concerns about the vagueness of the key areas as follows:

1. Greater protection and more support for those at harm (this is a straight-forward improvement to the existing position in this area).

2. Be better at catching criminals (bringing them before the courts does not appear to be critical as it seems to automatically follow).

3. Reducing the causes of crime by increased involvement with local communities (improvement using the mechanism suggested).

The fourth area is relatively new, so it will be more in the nature of a separate project to:

4. Create a task force to develop skills in detection and prosecution of virtual crime (as desired by the Minister).

The KPIs for the four CSF areas

Area 1

The CSF breaks into two parts – protecting and supporting. There should be a KPI measuring the change in each of these areas:

– Percentage change year on year of the number of victims of violent crimes, once they are identified as at risk (a register of 'at risk' people would need to be created).

– Percentage change of staff hours spent with each victim on average in support activities.

Neither of these KPIs can currently be measured as the data is not collected. The first point could be indirectly addressed by measuring the number of victims of violent crimes, which should see a fall if those at risk are better protected.

Area 2

This CSF is looking at what is often referred to as the clear-up rate, which is the percentage of crimes where the criminal is caught. The data given allows this to be measured through

– the percentage change in the percentage of crimes solved (although care must be taken that 'solved' is not the same as 'criminal caught' as there may be cases where the police know the criminal, but they escape capture).

The second part of bringing the criminal before the courts once caught does not appear to be a critical area needing measurement since this appears to be a low risk possibility. The critical area might be better stated as 'Ensuring crimes are solved and criminals are brought before the courts' since the second part would then be an appropriate area to measure.

Area 3

From the data in Appendix 1, the KPI could be:

– the percentage change in the total number of crimes in Deeland in the year.

The effect of reducing the causes of crime would be to create a long-term trend downwards in this measure. It may be better to use a three-year moving average of the change as a result. However, there may be many factors which cause such changes including the number of police officers and so the underlying causes of crime may not be accurately measured. The suggested KPI does not capture whether the changes are sustainable in the long term, which will be difficult to do.

Area 4

The KPIs for the fourth area require examination of the number and qualifications of those working on the task force on virtual crime. The data in Appendix 1 is not sufficient to measure this.

KPIs could include:

– percentage of roles in the task force filled (this requires that there is a plan for the organisation of a suitable task force, which may be complicated as this is a new area where knowledge of how many staff and what qualifications they should have may not be present).

– percentage of virtual crimes reported which are solved (shows the effectiveness of the task force).

(ii) Value for money (VFM)

The standard criteria for analysis of the value for money of a service are:

– Economy – the optimisation of the resources which the organisation has; ensuring the appropriate quality of input resources are obtained at the lowest cost;

– Efficiency – the optimisation of the process by which inputs are turned into outputs;

– Effectiveness – how the outputs of the organisation meet its goals.

The 3Es above link to the CSFs and KPIs in the area of effectiveness. The KPIs measure the achievement of the goals of DP and all relate to outcomes rather than processes or inputs in this case.

In order to judge VFM, comparison can be made internally to the historic performance of DP, but it should also be benchmarked against external organisations. The need for external data is also reflected in the desire to benchmark in league tables although no data is given for this here and so the VFM can only be judged against previous years' data.

Considering the situation at DP specifically

Economy could be measured by looking at the cost of buying inputs; the principal input is staff (90·1% of total costs) and so the cost per employee ($40,318) is relevant. This represents a 3·8% reduction on the previous year although it should be noted that the mix of staff is changing with more administrative staff replacing police officers who may be more expensive as they are more qualified. It would be useful to obtain the data on the average police officer salary as they make up 75·5% of the total staff and they are critical to the achievement of outcomes.

As noted above, in order to judge whether this is good or bad, the Department should also compare this to external figures such as the national average wage and, also, the average salary of staff in other police forces in similar countries.

Efficiency can be measured in a number of different ways.

	20X5	20X4	20X3
Solved crimes per police officer	7·855	7·918	7·915
Solved crimes per employee (police officers and admin staff)	5·929	5·994	6·022
Police officers per 1,000 population	3·19	3·23	3·30

The trend in the number of police officers is downward which would suggest improvement. However, the more important outcome is not the resources poured in but the crime results and these show that by decreasing the number of police officers, the number of crimes which each is solving is falling (down 0·8% from 20X3). Performance in this area is therefore poor.

Effectiveness must be measured against DP's goals in its four areas:

1. Protection and support of those at risk – the percentage of violent crime remains flat over the three years of data at 20% of the total number of crimes reported. This suggests that protection remains broadly unchanged. As noted above, there is no measure of support provided.

2. Solving crimes – the clear-up rate has fallen from 56·7% to 55·0%. This probably reflects the change in staff mix as police officer numbers have fallen.

3. Causes of crime – the trend is clearly upwards with an increase of 2% each year over the last two years which may again reflect the falling numbers of police officers in DP.

4. Virtual crime – as noted above, it is not possible to measure the achievement of the creation of the task force from the data provided.

(iii) Non-financial performance indicators (NFPIs)

Public sector organisations have a number of differences compared to profit-making entities and these can be partly addressed with the use of non-financial performance indicators.

Overall, DP must consider the use of NFPIs in order to capture the aspects of DP's mission which are fundamentally non-financial and subjective, such as protecting the community.

Lack of profit measure

DP is not expected to make a profit. There is no specific charge for the service to the public and the police are funded through general taxation by the government. The problem with using purely financial measures is that they are, therefore, solely cost measures. If only financial measures are used, then this would mean that positive progress would only be seen in cost reduction. It is likely that this would reduce the quality of the service and so fail to achieve DP's mission.

Multiple objectives

In a profit-making organisation, the goal is clear, however, it is difficult to say with DP which is the single, overriding objective. Therefore, there must be an attempt to balance and so compromise between the different areas which have been set out in order to achieve overall success. DP illustrates this problem in that it has four critical areas, none of which focus on financial goals and can only be measured in non-financial terms.

Difficulty in defining suitable financial measures

Many non-profit-seeking organisations provide services for which it is difficult to define a cost unit. With DP, the cost unit could be cost per crime reported or cost per crime solved or cost per member of the population.

Also, the benefits of the service are mainly non-financial such as a greater feeling of security among the public.

(iv) League tables

The use of league tables effectively benchmarks performance and can have a positive effect on behaviour. The sharing of data on performance can indicate areas of best practice and so offers the possibility of improving performance by copying that best practice. Additionally, the use of league tables gives, by the rank in the table, a clear, immediate answer to questions of relative performance.

However, the use of league tables only measures relative performance. The best force in the table could still be producing an unacceptable performance in absolute terms. The different forces in different countries will face different external environments. Each force will have to react to the economic situation in that country and may allocate resources differently according to the priorities of the government of that country. So, it will be difficult to get a single measure, such as the rank in the league table, to balance these competing factors.

This leads on to another area which will prove difficult, which is how to rank the different forces. Usually, there is a scoring system giving points across different areas for each force's performance. The selection of the areas and the weighting given to them within the rank score will affect the position of the different forces. In an example of 'what gets measured, gets done', it may be that the DP management will change their priorities from those given by the DIA to those measured in the rank score and so undermine the alignment of their behaviour with the given mission of DP. Therefore, to be of value to the Minister, the calculation of the rank must encompass the key variables which will drive DP's desired performance.

Therefore, there is a link between league tables and employee behaviour which comes from the setting of targets based on the league table rank.

The impact on the employees includes whether they feel a sense of accountability for the score. If the police officers do not feel that they can affect the rank, then they may ignore it or actively undermine it in public through their union's public statements. This will present the government with difficulty as the police are considered the experts in this area of public policy and their criticism will carry weight with the electorate.

Specifically, the police officers may be demotivated by the league tables if they feel:

(a)   that the league table rank does not reflect the valuable work which they do (for example, in creating the new virtual crime task force); or

(b)   that the rank is driven by factors outside of their control. (For example, the budget for the force may be cut, as appears to be happening with DP, or there may be a link between the number of crimes reported and the economic conditions in Deeland which they do not have power to affect.)

2   (a)   Skills

With regard to the skills element, it is clear that Clonyard and Elrig train and develop their staff in different ways. Clonyard has placed an emphasis on detailed product knowledge and on ensuring that the individual's needs are met. Such training and development is very much aligned with a company that has a specialist niche. It is also clear that Elrig's focus is less on meeting individual requirements than in pursuing a sale and it is likely that Elrig's staff have been trained and developed more in terms of sales techniques than with regard to product knowledge. This means that the staff from Clonyard have a different skill set and it is clear, from their reaction to the Elrig staff working in Clonyard shops that no attempt has been made to develop the skill set of either group of employees in order to align them with each other.

Staff

It is clear, especially given the point above, that staff are treated in a different way in both organisations. It is also evident from the scenario that Clonyard staff are leaving the organisation. It is likely that staff have been given responsibility for inventory and shop management in Clonyard and that the focus in the company has been on developing the individual to enhance their range of specialist knowledge. Elrig's singular focus on market share would suggest that Elrig's staff are more likely to be trained and developed in the areas of financial performance measures and be aware of costs, margins and the financial implications of the decisions being made. Indeed, the fact that Elrig's staff are seeking to make a sale quickly suggests that they are aware of the cost of the time they spend with each customer and it is likely that there is an ideal time per sale that they will work towards.

Style

Style usually represents the corporate culture of the organisation and it is clear that the cultures are very different within Elrig and Clonyard. The issue of the takeover being hostile in the first instance is perhaps an indicator that the styles of the organisations are very different.

Style is also indicative of how an organisation presents itself to the outside world and again it is clear, through the interactions with customers, which Clonyard would seek to satisfy the customer's specific requirements whereas Elrig would try to sell a product to the customer with the minimum time spent on the transaction. Such a contrast in styles would inevitably be reflected in the customer experience and it may prove to be very damaging for Clonyard if its style is aligned with that of Elrig. Customers may feel that there is no longer any reason to visit Elrig if its main differentiators of individual service, product specialism and time spent with the customer are removed.

Shared values

All of the above elements illustrate that the companies have very different values. The element of shared values should reflect the guiding beliefs of people in the organisation as to why it exists and it is clear in Elrig and Clonyard, even at the level of their mission statements, which they exist for quite different reasons. It is clear that the attitudes and behaviours which reflect these differing strategic approaches are reflected in the differing shared values of the staff in the scenario.

Elrig, for example, expects that it should be able to impose its own business model upon a very different type of business. This is because its underlying objective is that its business only exists to return as much value for shareholders as possible and that the people in the organisation should all be focused on making that happen. There should be no reason, in terms of Elrig's values and beliefs, as to why this structure should not be accepted in Clonyard.

Clonyard's values are very different to this, however, and rely on individuals taking responsibility, and making decisions accordingly; to pursue things which they feel would benefit both the customer experience and Clonyard. Clonyard's lack of pursuit of shareholder value in its mission is reflected in it achieving modest growth, which has most likely ensured that most stakeholders in the organisation have been satisfied.

Each company does appear to have shared values within its own organisation – for example, staff in both Elrig and Clonyard appear to have a set of shared values for the organisation they work for. This makes the alignment of values for the new organisation very difficult. From the scenario, Elrig does not appear to have tried to do anything to help in this regard.

Conclusion

In conclusion, it is clear that there is overlap and interconnectivity between each soft element of the 7S model. Elrig appears to have made no attempt to align these differing elements and as a result there is no sense of shared values, different styles of operation and different skill sets in the respective staff.

The 7S model has been useful in addressing this lack of alignment and provides evidence to Elrig that it must revert to the mission of Clonyard and decide if this now needs to change in the light of the takeover. If not, and as the 7S model has shown, Elrig might be best advised to allow Clonyard to operate as it was doing quite successfully beforehand and consider integration and alignment as a long-term rather than a short-term goal.

(b) Advantages

An ERPS would help alleviate the problems detailed with regard to inventory control in that the current inventory levels would be very clear on the ERPS and any sale would register immediately, thereby showing the effect on the inventory overall. Minimum inventory levels may be set within the ERPS and an order to the supplier automatically triggered when inventory reaches that level. An ERPS will also allow details of the delivery to be tracked and the ERPS will enable staff at the appropriate level to discover how long deliveries are taking and to manage the supplier relationship accordingly.

The discounting of product lines in certain areas is clearly a key part of Elrig's strategy to enhance its market share and the sales manager is correct in that it is impossible to impose this strategy on Clonyard with such old data. An ERPS would ensure that the sales manager has access to immediate sales of each product and could compare this with both planned sales of the product and past sales of the product. The ERPS may also permit the inclusion of some external data which could inform the company of any changes in the market for particular products or distinct product lines. This would certainly enable the sales manager to take real time decisions with regard to which products might be discounted and to what level. The ERPS would be of great benefit to him in this endeavour.

The ERPS, as highlighted above, has the ability to remove the responsibility for the ordering of inventory from the employee and undertake this function based on the minimum inventory levels that have been input. This would certainly solve the problem of Clonyard employees not entering the purchase order into the computer system and would ensure that the relevant people in the organisation are fully aware of the inventory both on order and in store.

Disadvantages

However, the view of the director of Elrig appears to be that he can use the introduction of an ERPS to impose Elrig's strategy on Clonyard and this is something which should be avoided. The strategies of the two companies should be aligned initially and any shared computer system, and the information that it might generate, should be agreed thereafter.

There are other significant potential negative effects of introducing the ERPS based on the director's view. For example, it may further enhance the feeling of alienation that many Clonyard employees appear to be feeling if another system is imposed on them without discussion and agreement. Their motivation would suffer and Clonyard's ability to maintain its position in the market may be affected. This market position is, after all, the main reason for Elrig's purchase of Clonyard in the first place.

There is evidence from the scenario that Clonyard is delaying the information that it offers Elrig as even manual systems could offer more up-to-date data than that detailed by the operations manager and the sales manager. This sub-optimal behaviour has perhaps been a reaction by Clonyard staff to the imposition of Elrig's systems. Much as the removal of any sub-optimal behaviour should be encouraged, the introduction of the ERPS without discussion and agreement may enhance those feelings of Elrig imposing its operations upon Clonyard. This stresses again the dangers of introducing a computer system to integrate one company's operations into another and further highlights the need to come to a common approach with regard to the future strategic direction of Clonyard.

It is also naïve of the Elrig director to assume that Clonyard employees will be enthusiastic about the introduction of a new computer system. Aside from the potential negative aspects associated with control that are highlighted above, there is evidence from the scenario that Clonyard employees are not engaging fully with their own computer system. This may be because they have not been properly trained and the prospect of the introduction of a new and much more complex system may be very threatening for them.

Alongside the difficulties associated with the introduction of the ERPS into the Elrig/Clonyard operation, an ERPS has other well-established and more generic disadvantages such as its cost, its difficulty in adapting to the specifics of some individual business operations and the time taken to implement the system.

Overall, the introduction of an ERPS would certainly help with regard to some operational aspects detailed in the scenario. The overall benefits are likely to be much wider than this with, for example, the access to real-time information being very useful to Elrig/Clonyard in their current environment. However, the introduction of the ERPS should not be used as a way of integrating Clonyard within Elrig's operation. This needs to be done at a much more fundamental level where strategic direction is agreed. Using an ERPS to integrate without this agreement first is likely to lead to more problems with regard to integration than it will solve.

3   (a)   Managing performance

Establishing common objectives

The initial problem with regard to managing performance in any joint venture is establishing its objectives and goals and the aims of each university for the joint venture of RSU are different.

Roan's main purpose for undertaking the joint venture is to find a new revenue stream. The word profit is not explicitly stated in their view of the joint venture but nevertheless it has to be assumed that Roan is seeking to make a financial return from this and that its focus will be on maximising that return rather than maximising revenue to the disregard of cost. In terms of performance management, therefore, the focus of Roan is likely to be on ensuring that these main goals are met and therefore areas of finance and resource utilisation and consumption are likely to form the core of the management system.

Saugh's main purpose for undertaking the joint venture is to enhance its status within its own country, and perhaps globally, as a renowned institution of learning. The focus for Saugh in terms of how performance of RSU is managed is likely to be on the reputation of Saugh, staff development and the destinations of its graduates.

Developing a joint venture in terms of its financial return and in terms of the contribution that it makes to society may be possible within a performance management framework but it is clear that these aims are contradictory. At a simple level, focusing on the financial aspects can lead to a lack of investment which may damage the quality of the joint venture's provision and, ultimately, the contribution that the graduates of RSU can make to society.

Lack of stable leadership

It is clear from the scenario that the rotational nature of the chairman of the management board (MB) will almost ensure that there is a lack of stable leadership. Unless the universities can agree on a common and mutually acceptable aim, the chairman is likely to be acting more in the interests of their own university than in the interests of the joint venture.

The inclusion of at least one government official from Deeland on the MB may also present problems from the perspective of Roan with regard to performance management. As the current balance of the MB membership is 50:50, the inclusion of representatives from Deeland would clearly tip the balance in favour of Saugh. This is likely to lead to a loss of control for Roan which would clearly have an effect on the manner in which the joint venture is managed in terms of its performance.

Measuring performance

Given the challenging funding environment in Teeland, reflected in the overall view of Roan with regards to what the aim of the joint venture should be, Roan will be focused on the financial return of RSU. This means that Roan would seek to measure traditional financial measures such as return on investment and operating surplus. Roan's focus is likely to be specifically on the fees charged, student numbers, costs incurred and on return on investment overall. The measures that Roan would like to see would therefore relate to fee growth, student numbers and cost reduction. It is not clear how quickly Roan is seeking to achieve a return on the investment but from the scenario it can be assumed, given the cuts to governmental funding, that it would prefer a return to be achieved in the short term as well as over the long term. Roan may therefore be keen to spend a significant amount on advertising, to boost student numbers in the short term, rather than wait for the reputation of RSU to grow by word of mouth.

Saugh appears to be free from any financial constraints, at least in the short term. Its funding is secure and this means that Saugh is unlikely to be interested in assessing the performance of RSU with any traditional financial metrics. As a result, this may place Saugh in direct conflict with Roan with regard to many decisions. For example, Saugh may feel that enhancing

classroom technology in RSU is necessary and should be undertaken immediately without understanding that this would represent a significant further investment for Roan.

Saugh will be more focused on the quality of the students that are admitted to RSU, their performance whilst at university and their occupation and perhaps salary level on leaving the university. There is likely to be conflict with Roan with regard to students that are admitted to RSU as Roan will be more focused on recruiting as many students as possible whereas Saugh will be more focused on the grades that these students have achieved either at school or in previous study.

Both universities will be interested in how the students perform at RSU. Roan's reputation would suffer significantly, for example, if it were to accept students who failed its programmes in large numbers. However, Roan will be less focused on the level of excellence achieved by students of RSU than Saugh. Again, this is likely to lead to conflict as Saugh will be motivated to undertake additional investment, be it in terms of staff time in the form of extra classes or through extra resources that are likely to help students achieve higher grades.

Roan is also likely to be interested in how graduates of RSU perform after graduation but it is not as important to them as it is to Saugh. Saugh may therefore be keen to devote significant resource to developing strong links with local industry to ensure that RSU graduates are equipped with the correct skills. Saugh will also want to devote significant resource to monitoring and measuring how the graduates perform after graduation. Saugh may, for example, initiate surveys at various points following graduation at intervals of perhaps one, five and ten years. Given the focus of Roan, it is unlikely to want to devote much by way of resources to such measurement.

As a measure of commitment to the joint venture, Saugh will definitely be motivated to measure how many of Roan's staff will teach at RSU. Saugh may try to impose specific measures here, such as percentage of Roan staff from Teeland teaching on each programme, as it is clear that the involvement of Roan is a critical success factor for Saugh in achieving its aims.

(b) Government of Teeland

The government of Teeland is only likely to be interested in the performance of RSU if there is a significant failing. The most obvious examples relate to a financial default through overspend or, potentially, a scandal involving staff of Roan in Deeland whilst working at RSU. It would be impossible to either plan for or meaningfully measure this latter scenario and hence the most likely aspect to be of interest to the government of Teeland is the liquidity of Roan. A simple measure of this, even something as straightforward as the cash surplus of Roan, would confirm to the government of Teeland that Roan is unlikely to go into liquidation.

This measure should be considered alongside the long-term liquidity of Roan and the government would be interested in knowing if Roan had taken on any long-term debt to fund the joint venture and, if so, its overall proportion in Roan's capital structure.

Teachers' trade union

The teachers' trade union would be interested in the number of programmes or courses that are being offered in RSU. The more programmes that are offered, the more likely it is that Roan staff will be required by their employer to teach in Deeland. Fewer courses would increase the possibility that local provision for teaching could be found. However, the more courses that are offered, the less likely it is that the necessary specialism could be found through local provision in a developing country.

Public pressure group

The public pressure group would be interested in how much time is being spent by staff of Roan, perhaps teaching staff in particular rather than those of a higher level of management, in Deeland. The pressure group would like to see this figure probably presented in absolute terms and measured month by month to allow for comparison and trend analysis. The higher this figure becomes the more active the pressure group is likely to become and the more the membership of the pressure group is likely to grow.

1 **(i)** CSFs and KPIs

4 marks for the four CSFs
Up to 4 marks for discussion of KPIs for each area

Maximum 16 marks

(ii) VFM

1 mark for defining each of the 3Es
1 mark for comment on the link to the CSFs/KPIs
1 mark per point – discussing each heading at DP

Maximum 13 marks

(iii) NFPIs

Up to 4 marks for general discussion
Up to 5 marks for examples relevant to DP

Maximum 7 marks

(iv) League tables

Up to 5 marks for general evaluation of league tables
Up to 7 marks for the link of tables to targets and police officer reaction
    Introduction of tables
    Behaviour under the system and sense of accountability
1 mark each for other relevant points

Maximum 10 marks

Professional marks – 4

Total 50 marks

2 **(a)** Skills – up to 3 marks
Staff – up to 3 marks
Style – up to 3 marks
Shared values – up to 6 marks
Conclusion – up to 2 marks

Maximum 15 marks

(b) Advantages of ERPS – up to 5 marks
Disadvantages of ERPS – up to 5 marks
Conclusion – up to 2 marks

Maximum 10 marks

Total 25 marks

3 **(a)** 1 mark per point
Discussion of issues in relation to performance management – up to 9 marks
Discussion of issues in relation to performance measurement – up to 9 marks

Maximum 16 marks

(b) For each stakeholder group:
Recommended measure – 1 mark
Justification of the measure – up to 2 marks

Maximum 9 marks

Total 25 marks