IMPROVING PERFORMANCE BUSINESS SERVICES NOW AND IN THE FUTURE – AN AUSTRALIAN PERSPECTIVE

LIZ FORSYTH
Director, Health Education and Community Services, KPMG Consulting
loforsyth@kpmg.com.au

KERRY MCGOUGH
Senior Manager, Health Education and Community Services, KPMG Consulting
kmcgough@kpmg.com.au

The Business Services Review has recognised that Business Services have an important role to play in the provision of real employment options for people with disabilities through the provision of ongoing employment support while concurrently, operating and maintaining commercially viable businesses.

The Review identified, for the first time, the competing demands confronted by Business Services in meeting their dual objectives. These demands are more complex than those confronted by any small business or for that instance, any other provider of disability support.

The Business Service Review provides clearer insight into the key issues and drivers of performance that must be addressed by Business Services in the short, medium and longer term if positive employment outcomes for people with disabilities are to be realised.

Using data envelopment analysis and regression analysis, the performance of the Business Services industry has been able to be assessed including its relative efficiency. Key drivers of successful performance, at an organisational level, can now be identified.

Drawing on these results, a balanced performance management framework for individual Business Services and the Business Services sector as a whole has been developed.

With the ongoing partnership between Government and the industry, a sound foundation for change has been established. Strategic priorities for performance improvement, at both an organisational and industry level have been agreed. These priorities, along with a comprehensive implementation program to address key structural issues, will assist in reforming practices across the sector.

Duality Consolidate Performance Improvement Partnership

1. PROVISION OF SERVICES FOR PEOPLE WITH DISABILITIES

The enactment of the Disability Services Act 1986 (Commonwealth) (herein referred to as the DSA) was a turning point in the provision of services for people with disabilities in Australia. The legislation emphasises the importance of increased independence and employment opportunities for people with disabilities as well as integration into the community.

The legislation provided a framework identifying the key principles and objectives for working with people with disabilities and the establishment and funding of Commonwealth disability services. It provided the overarching framework from which State Governments have enacted similar State legislation with a level of continuity and consistency that had not been seen previously.

In 1991, the Commonwealth/State Disability Agreement (CSDA) was established to clarify the responsibilities of the State, Territory and Commonwealth Governments in relation to the funding and administration of employment, accommodation and other support services for people with disabilities.

Under the CSDA, State and Territory Governments are responsible for accommodation and related services and the Commonwealth Government is responsible for employment services. Advocacy and research remained joint responsibilities.

1.1 Business Services – A Duality of Focus

Business Services are funded to provide meaningful paid employment for people who, due to their disability, may find it difficult to obtain or maintain employment in the open labour market, or who choose to seek employment with Business Services.

Business Services have a duality of focus that demands that they balance two effectively competing requirements to achieve success. They are required to:

- provide supported employment for people with disabilities which takes into account individual needs and support requirements and meets specified standards; and

- develop, grow and sustain a commercial business that takes into account not only economic and commercial imperatives but ensures that business activities remain suitable for a workforce with particular requirements. Supporting this commercial focus as an employer, Business Services are expected to develop appropriate systems of wages and employment conditions for their employees, both those with and without disabilities.

The interdependency and interrelatedness of these two dimensions cannot be underestimated. Maintaining the balance between these inherently opposite objectives is the key to successful performance. At best this ‘duality of focus’ provides a creative tension within a business service, at worst it can result in a situation of competing demands that are not readily reconcilable.

1.2 Business Services – The Historical Policy Context

The Business Services sector has evolved considerably over the past twenty years with significant changes to policy, attitudes and programs occurring in relation to the employment of people with disabilities. There has been an increasing recognition of the value of work and the capacity of people with disabilities to learn the requisite skills and gain employment.

With the introduction of the DSA and the CSDA, policy development increasingly emphasised the process of service provision and the rights of people with disabilities. Policy became ideologically driven with priority given to services that could achieve mainstream employment for people with disabilities.

Consequently, at a policy level, it was thought that all sheltered workshops would eventually close or undertake a transition to supporting people with disabilities in mainstream employment. Supported employment was increasingly seen as a 'less than acceptable' option for people with disabilities seeking work

1.2.1 Changing Policy Directions

With the entry of the Howard Government came a change in approach with an emphasis on providing consumer choice.

Consequently, the current Government recognises that Business Services do have a role to play in the provision of employment opportunities for people with disabilities.

2. THE BUSINESS SERVICES REVIEW

The Business Services Review was a joint initiative between ACROD, the peak industry body and the Commonwealth Government. The review was managed through a Steering Committee and independently chaired by a prominent community leader. The aim of the review was to identify strategies that would ensure that Business Services are able to continue to provide a valuable and viable employment option for people with disabilities.

2.1. Our Starting Point

To ensure that Business Services have a future role to play in the employment of people with disabilities we needed to better understand:

- What does the industry look like?
- How is it performing?
- What influences performance?
- How can performance be improved to achieve better outcomes for people with disabilities?

To develop an understanding of the commercial profile of Business Services an Industry Survey was developed to collect data on current operational arrangements as well as broad performance information.

The Industry Survey was targeted at both the organisational level and the Business Service Outlet (BSO) level.

The Business Services industry as a whole comprises 263 organisations operating 547 Business Service outlets. A 60% response rate was received to the survey.

We also undertook a series of national consultative forums and developed discussion papers.

Appendix 1 details the findings from the analysis and provides an operational profile of Business Services.

3. BUSINESS SERVICES – HOW DO THEY PERFORM?

To develop an effective performance management framework for Business Services we have to firstly understand the current performance of the industry as a whole. To do this three data analysis techniques have been used.

In the first stage a linear programming technique known as Data Envelopment Analysis (DEA) has been employed to evaluate the relative abilities of Business Services to meet their dual objectives.[1]

In the second stage a pair of techniques has been used. One technique simply compares Business Services appearing at the top of the DEA performance distribution with Business Services appearing at the bottom of the DEA performance distribution. The comparison is based on a number of Business Service characteristics identified in the Industry Profile Survey and elsewhere. The other is a regression technique known as Stochastic Frontier Analysis (SFA), which is used to associate overall performance variation in the sample with various Business Service characteristics identified in the Industry Profile Survey.[2]

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[1] DEA is widely used as a management tool in the evaluation of the performance of branch offices and subsidiaries. It is used in Australia primarily as a benchmarking technique, particularly within the public sector. One example is Steering Committee for the Review of Commonwealth/State Service Provision 1997, *Data Envelopment Analysis: A Technique for Measuring the Efficiency of Government Service Delivery,* AGPS, Canberra.

[2] SFA is widely used both to evaluate performance and to explain variation in performance, although outside Academe it is less popular than DEA.

3.1 Using DEA

DEA is a technique used to establish best practice within an industry.

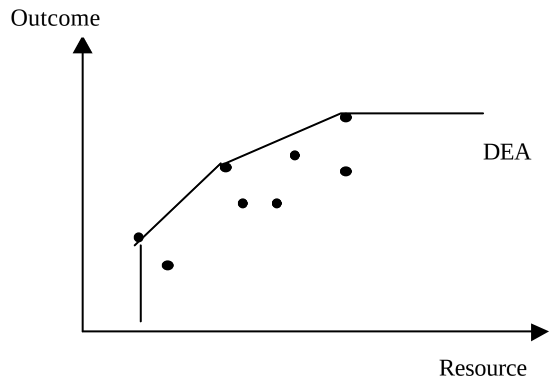

Figure 1. DEA Best Practice

The first thing DEA does is to construct a *best practice frontier* and identify best practice producers. The second thing DEA does is to evaluate the performance of every producer in the sample relative to the best practice frontier. It accomplishes this by computing the ratio of actual outcomes achieved to outcomes that would be possible if each producer operated at best practice standards. On the preceding two-dimensional figure, this involves calculating the vertical distance from the horizontal axis to each producer (which measures the outcomes actually achieved), and comparing it to the vertical distance from the horizontal axis to the frontier (which measures the outcomes that would be possible if each producer operated at best practice standards).

Best practice refers to relative performance. The producers on the frontier are best practice relative to all others observed in the sample. That is, they are relatively more efficient. Nevertheless this does not mean that they are perfect, or that they could not improve their own performances.

As a starting point it is assumed that best practice producers cannot improve their outcomes without increasing their resource use, and they receive an efficiency score of one (100%). Remaining producers are capable of improving their outcomes, and they receive efficiency scores less than one, indicating that they are providing lower outcomes than would be possible if they reached best practice standards. The farther away a producer is from the frontier, the lower is its efficiency score. Thus a producer with an efficiency score of 50% would have to double its outcomes, without increasing its resource use, in order to reach best practice standards.

The third thing DEA does is to identify best practice role models for each producer located beneath the frontier. Constructing a vertical line to the frontier from any inefficient producer may hit the frontier between two best practice producers. These two best practice producers become role models for the dominated producer because they have similar resource uses but they provide larger outcomes. Dominated producers may have something useful to learn from their role models. In effect they compare themselves to an 'average' of the two best practice producers.

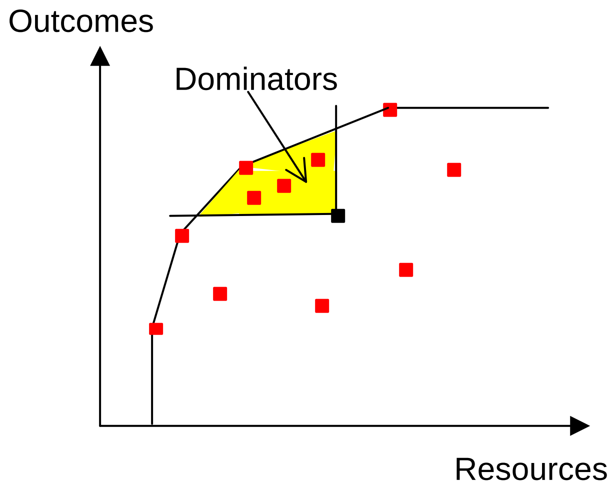

Figure 2. DEA Benchmarking

3.2 A DEA of Business Services

Any evaluation of Business Service performance must commence with a specification of the resources they use and the outcomes they provide.

Given their dual focus, specifying their *outcomes* is relatively straightforward. For the purposes of this analysis we have assumed that Business Services seek to achieve commercial viability and to provide employment opportunities to people with disabilities.

For the purposes of this analysis we define commercial viability in terms of profitability; specifically the ratio of total revenue to total expenses.

Employment opportunities can be defined in four alternative but similar ways:

- number of employees;
- employee hours;
- total employee wages; and
- average employee wage rate.

Thus employment opportunities can be defined in terms of *either* employment (the first two indicators) *or* in terms of employee earnings (the final two indicators).

These two outcomes reflect the dual objectives Business Services are assumed to seek to maximise.

Specifying the *resources* Business Services use in the pursuit of these objectives is not so easy. However it has been assumed that the resources used include Government funding (for support for employment) and total expenses (to produce goods or provide services).

These two resources are the constraints that limit the ability of Business Services to pursue their dual objectives.

3.3 The DEA models

A total of 13 DEA models were run based on alternative combinations of the services and resources. The first group of four models has profitability and four alternative indicators of ‘employment opportunity’ as outcomes, and Government funding and total expenses as inputs.

The second group of four models deletes Government funding, and so has the same two outcomes and just one input (total expenses). A comparison of the first group of four models with the second group of four models provides a way of testing the hypothesis that Government funding influences the success with which Business Services pursue their dual objectives.

The third group of four models has the same two outcomes and two inputs, but equalises Government funding per employee across all Business Services. A comparison of the first group of four models with the third group of four models offers an alternative way of testing the same hypothesis.

The final model is a hybrid model that decomposes one of the models from the first group. The first component of the hybrid model uses profitability as the only outcome, and the second component uses employee wages as the only outcome. Both use Government funding and total expenses as the two inputs. This model allows Business Services to specialise in one outcome or the other. Then the efficiency scores obtained from the two components are averaged. The objective is to determine whether some Business Services specialise in one outcome to the detriment of the other outcome.

A total of 136 Business Services reported sufficient information required to implement these performance evaluation models. Most did so for two years, 1997-1998 and 1998-1999, and so we have a total of 235 observations on which to base our performance evaluation. Our findings can be summarised below.

The average efficiency scores obtained from the 12 models are clustered in a fairly narrow range of (0.63, 0.71) for all but one model. *The implication* is that, on average, Business Services are achieving only about 2/3 of their potential outcomes as determined by the performance of the best practice Business Services. However individual efficiency scores vary widely, and so some Business Services are capable of very little improvement, while others are capable of much greater improvement.

Simple correlations between efficiency scores obtained from all possible pairs of the 12 models are all positive, and generally high. Of 55 possible correlations, eight are above +0.9, 14 are above +0.8, and 22 are above +0.7. Most of the disagreement across models occurs in the middle of the data, where "average" performers frequently change their ranking in the distributions. *The implication* is that an evaluation of the relative performance of Business Services does not hinge critically on the specification of the outcomes and the resources.

Virtually all models agree on a small group of best practice Business Services. About a dozen Business Services show up consistently as best practice performers. Four Business Services are best practice performers in every model. *An implication* is that best practice performers are best practice performers, regardless of how Government funding is treated in the analysis.

A handful of Business Services consistently act as best practice role models for over 100 other Business Services. They are consistently best practice performers, and they consistently serve as role models for many other Business Services. *This is significant* because the majority of best practice Business Services do not serve as role models for very many other Business Services; they are efficient by virtue of being different (large or small, or concentrating on one or the other outcome).

Virtually all models agree on a small group of Business Services that perform relatively poorly. Four Business Services consistently achieve efficiency scores beneath 0.20, meaning that they are capable of at least a fivefold improvement in their outcomes. Eight others consistently achieve efficiency scores beneath 0.50. *An implication* is that poor practice performers are poor practice performers, regardless of how Government funding is treated in the analysis.

3.4 An exploration into the factors associated with variation in Business Service performance

Having evaluated the ability of Business Services to meet their dual objectives, it is natural to attempt to explain the measured variation in their performance. The motivation behind the exercise is simple. If it proves possible to identify various characteristics that correlate with good performance, it may also be possible to encourage the transfer of these characteristics to other Business Services.

Two complementary approaches to explanation have been implemented.

3.4.1 Best practice and poor practice Business Services - a descriptive characterisation

The first approach attempts to distinguish the best and worst performing Business Services in terms of identifiable characteristics.

It is possible to exploit information contained in the Industry Profile Survey and elsewhere to provide a purely descriptive characterisation of the two groups of Business Services identified in the DEA exercise as being among the best performers and among the worst performers. This approach focuses exclusively on the extremes of the performance distribution.

In this approach the performance distribution is defined using all four of the first group of four DEA models, in which employment opportunity is measured in four distinct ways. This approach enables us to develop an overall impression of the identity of the best performers and the worst performers, regardless of how employment opportunity is measured.

The regression analysis has enabled us to narrow the unexplained performance gap. We can now attribute a substantial portion of the variability in the original performance evaluations to variation in certain characteristics of Business Services

Generally speaking, Business Services in the top quintile of the performance distribution receive efficiency scores above 0.8 in all four DEA models, while those in the bottom quintile of the performance distribution receive efficiency scores beneath 0.6 in all four DEA models. We refer to the former group of Business Services as 'stars', and we refer to the latter group as 'strugglers'.

We have tabulated and compared the responses of the stars and strugglers, and we have compared several identifiable characteristics of the two groups. The results indicate that key influences on the successful performance of Business Services at an organisational level are:

- size – Business Services that have over 100 employees and generate sales revenue of more than $1,000,000 tend to be better performers.

- number of outlets – Business Services operating more outlets tend to be better performers. This pattern appears to indicate that size and/or diversification are conducive of good performance.

- Board/Committee of Management composition – Business services with Boards of Directors or Committees of Management membership with considerably more business expertise tend to be better performers.

- management tenure – Business services with longer serving managers tend to be better performers. This suggests that experience may have benefit in terms of performance.

- staff/employee ratio – Business Services with higher staff/employee ratios tend to be better performers. Though large staff/employee ratios are costly to maintain, they appear to have a performance benefit.

- new product/service development – Business Services with a larger percent of key management time, and a higher percent of total expenditure, directed towards new product development tend to be better performers. This provides an encouraging indication that investments in the future are rewarded, and that forward-looking Business services perform relatively well.

- management orientation – Business Services with a focus on operational issues such as competition, new machinery and equipment, business and strategic planning, and a number of industry lines tend to be better performers. Poorer performers are likely to be concerned with financial issues such as funding levels and access to capital, employment related issues such as number of employees, ageing workforce, OH&S and workers compensation.

- quality assurance – Business Services with a quality assurance mechanism in place tend to be better performers.

- industry/business lines – Business Services that tend to be engaged in packaging, assembly and mailing tend to be better performers. Poorer performers are somewhat more likely to be engaged in woodworking, plant nursery and laundry.

- receipt of other government funding – Business Services that receive funding from other Government sources (Commonwealth or State) tend to be better performers.

In relation to the key influences, it is worthy to note, that it is not assumed that all business services will possess all of the key influences, but rather a majority of them.

The location of Business Services does not appear to significantly influence their performance. This may be because the majority of Business services operate in highly accessible or accessible locations.

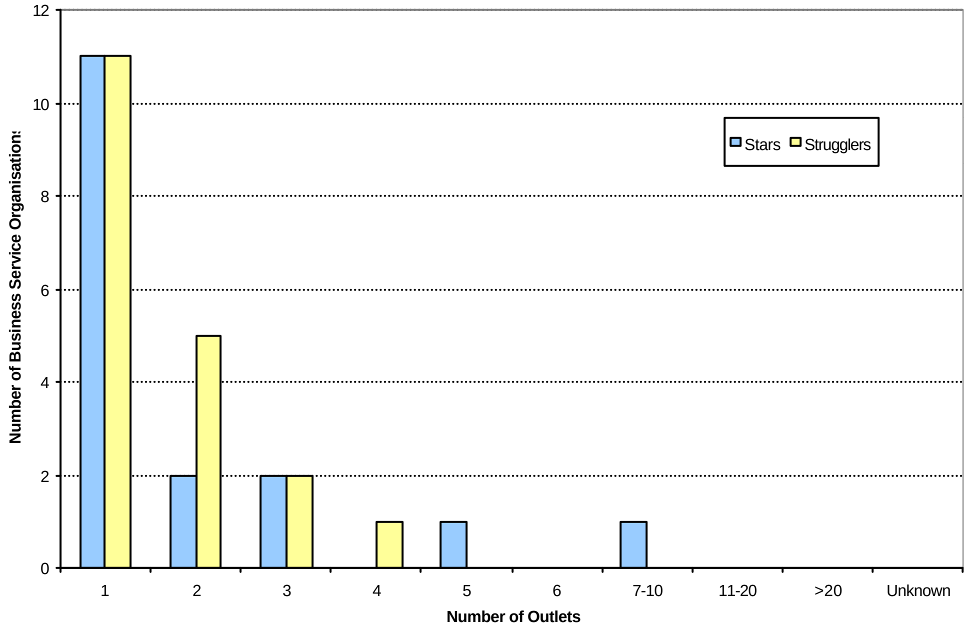

Figure 3. Number of Outlets

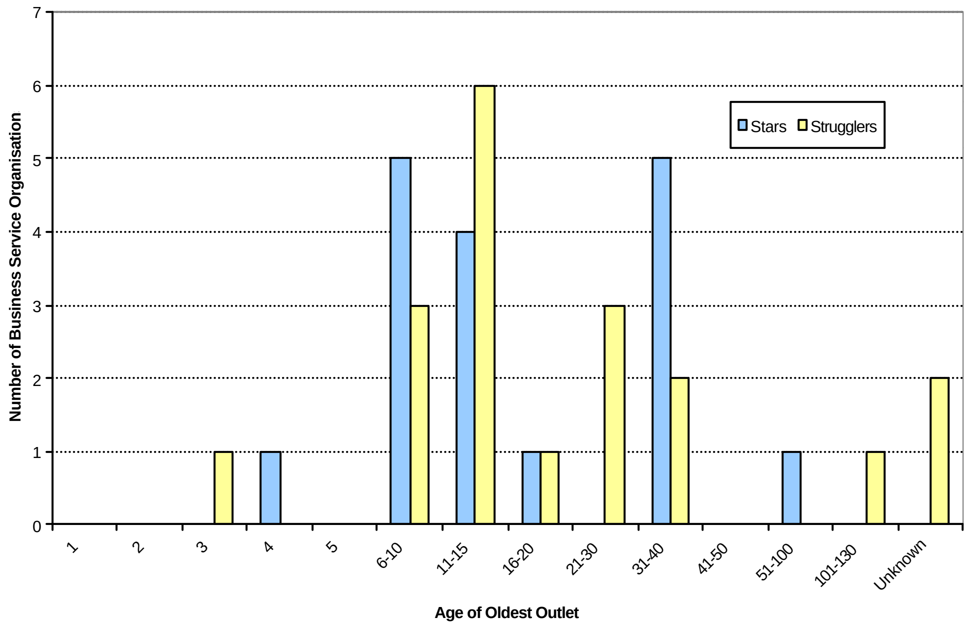

Figure 4. Age of Outlets

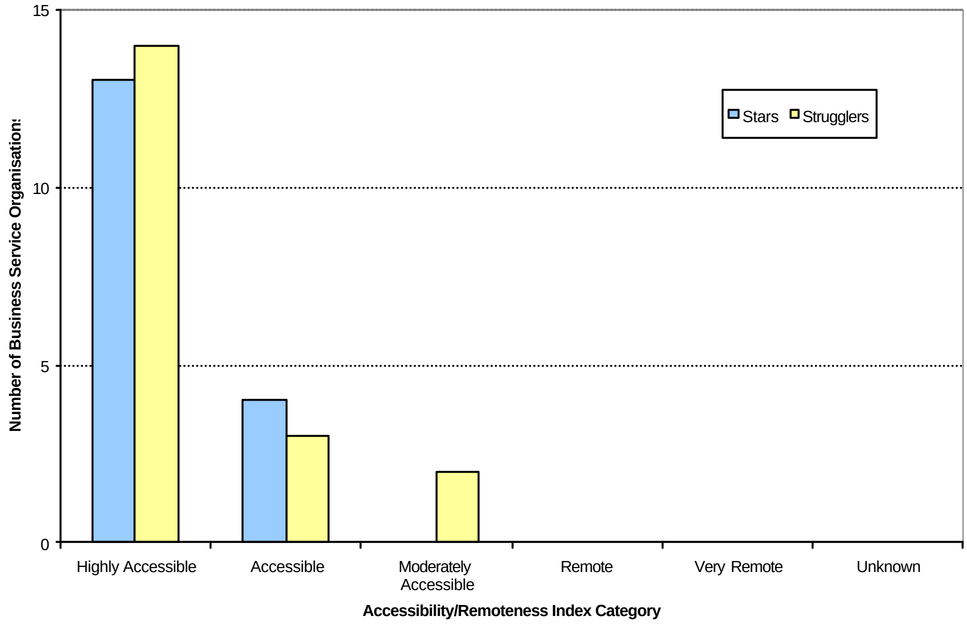

Figure 5. Accessibility/Remoteness Category

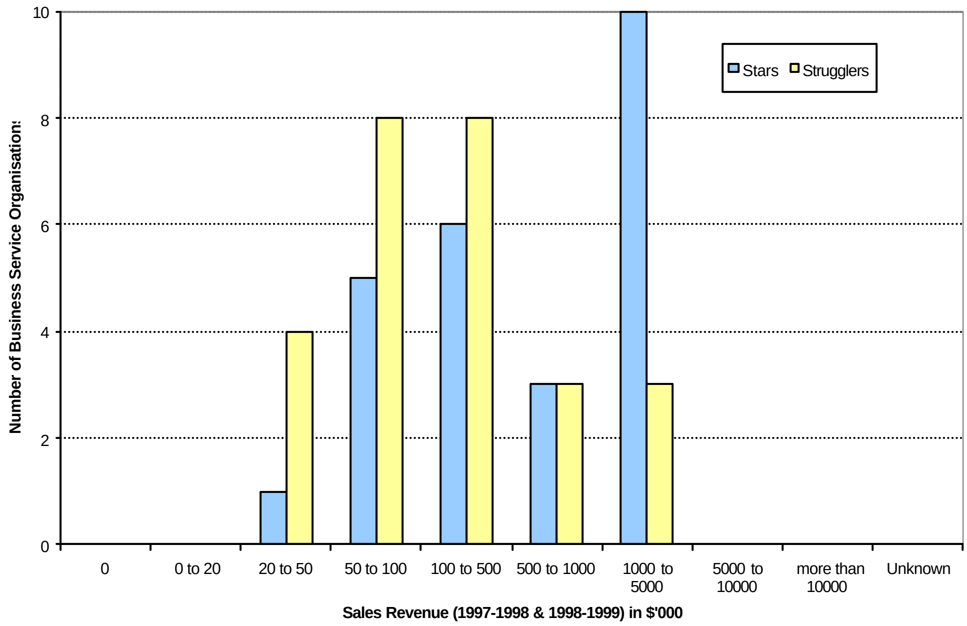

Figure 6. Sales Revenue

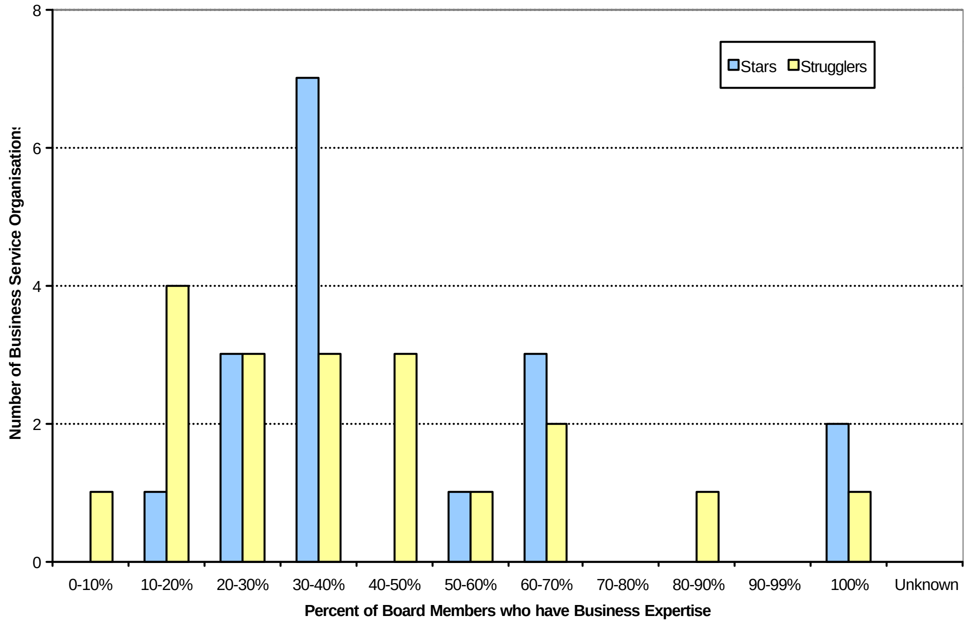

Figure 7. Board Members with Business Expertise

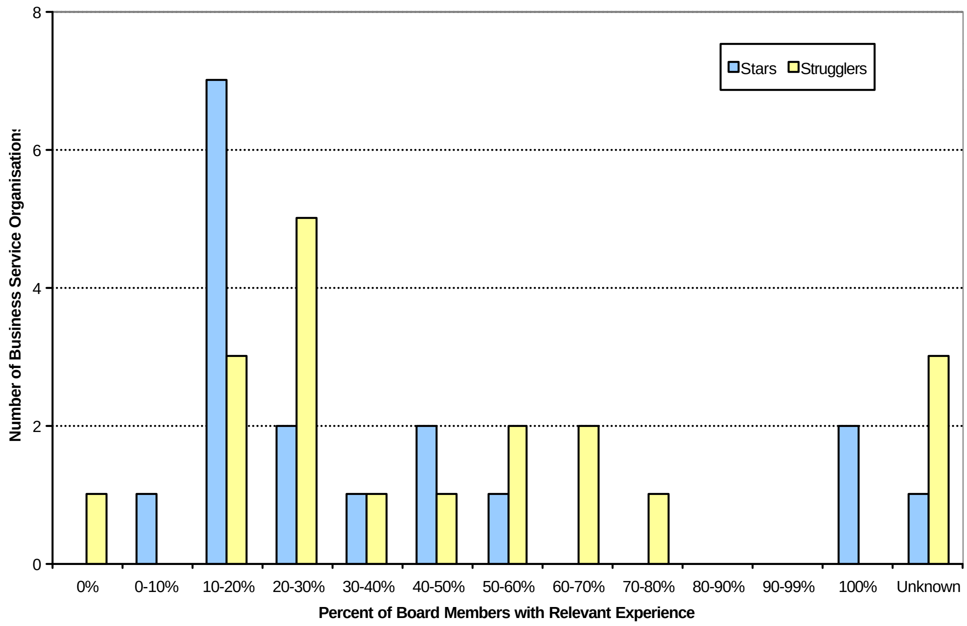

Figure 8. Board Members Relevant Experience

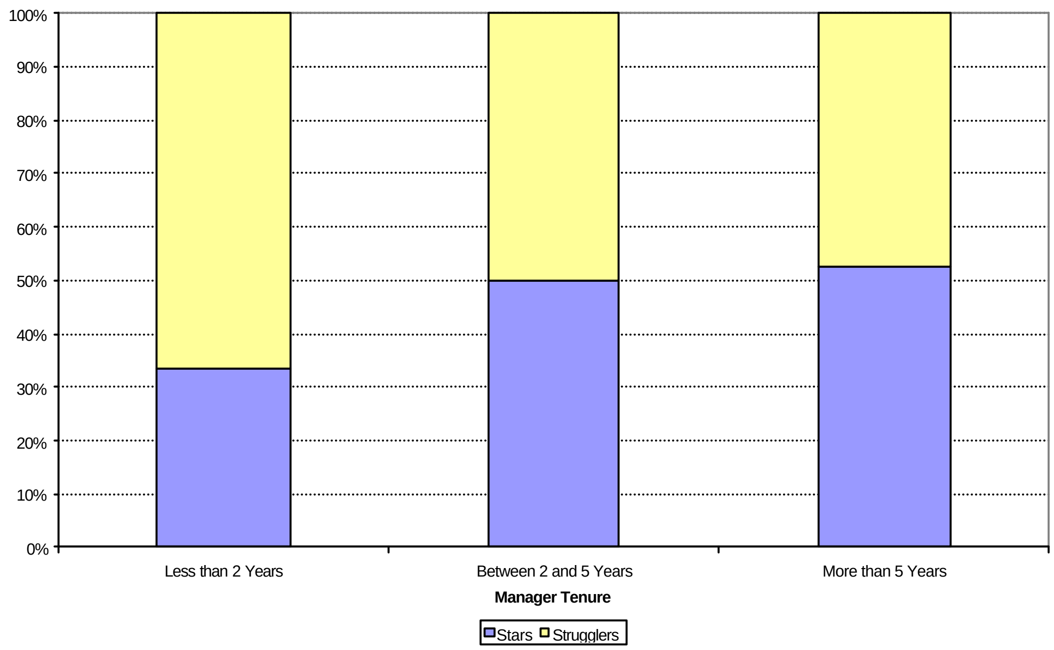

Figure 9. Manager Tenure

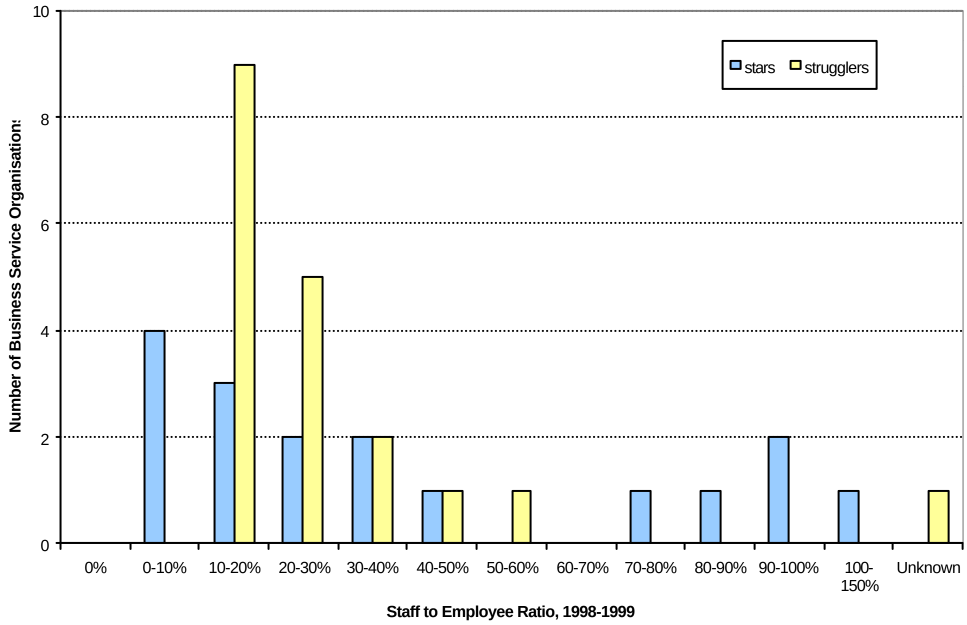

Figure 10. Staff to Employee Ratio

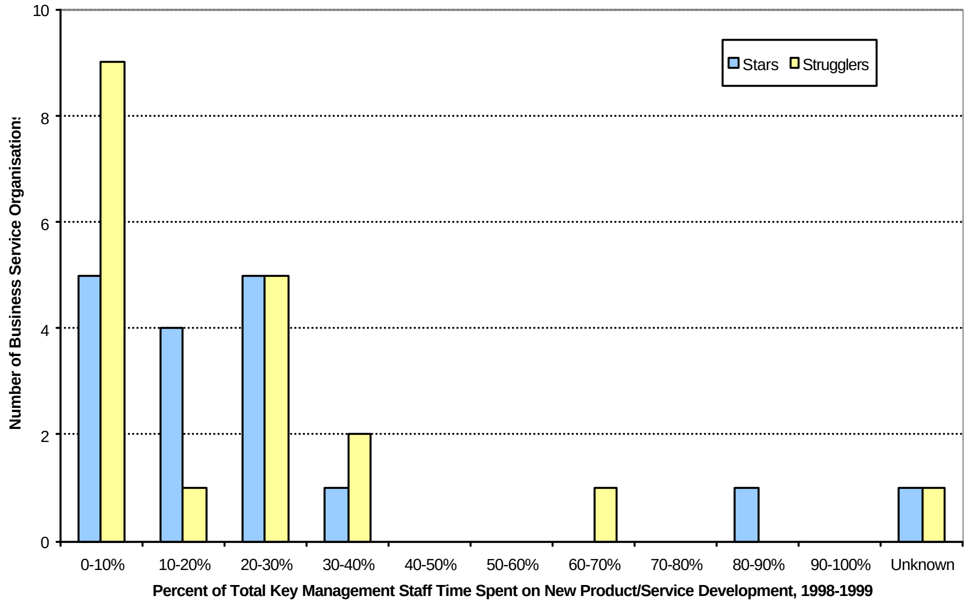

Figure 11. Key Management Time

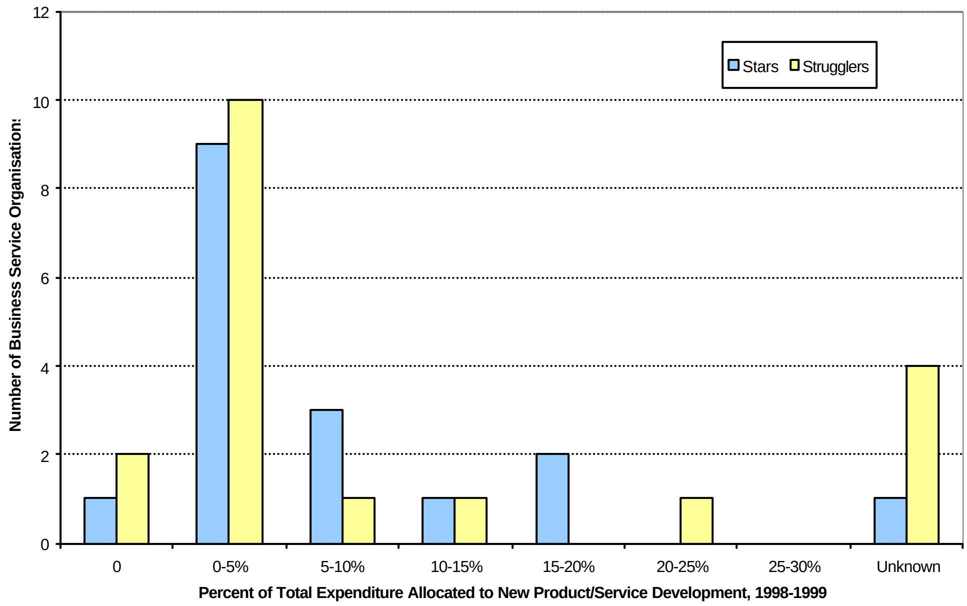

Figure 12. Expenditure Allocated to New Products/Service Development

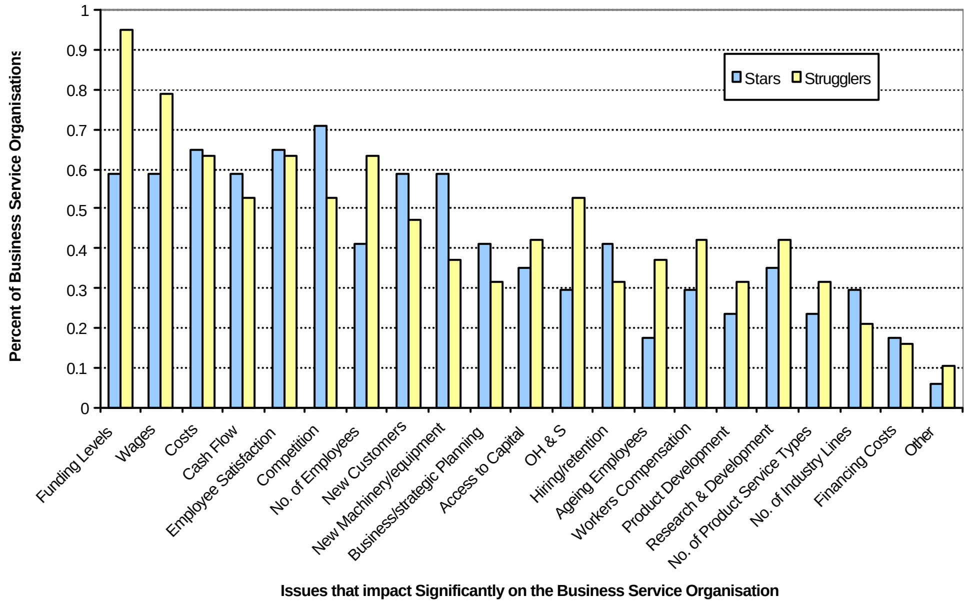

Figure 13. Issues of Impact

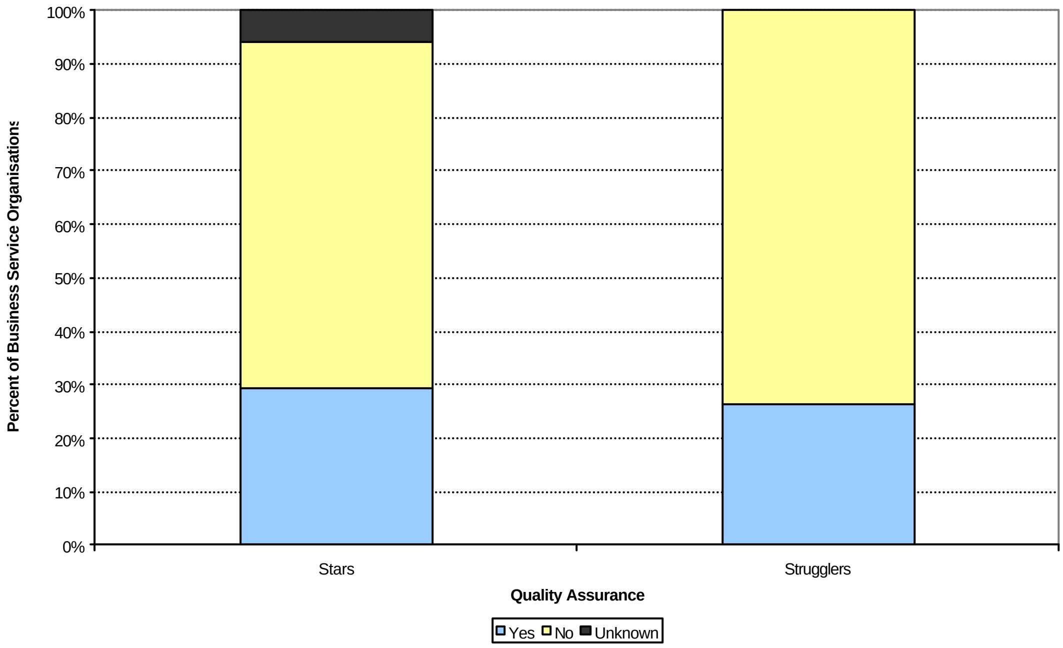

Figure 14. Quality Assurance System

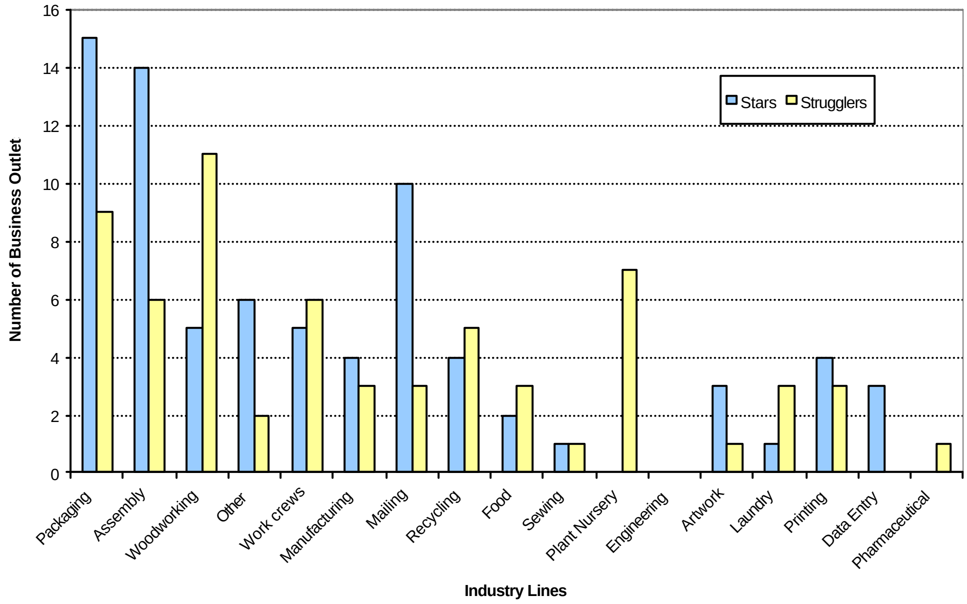

Figure 15. Industry Lines

4. ORGANISATIONAL REPORT CARD

The DEA provides a methodology that enables the analysis of performance of Business Services for the first time. It has provided insights into the key drivers of performance and has enabled capacity to link industry trends to individual organisations.

The information has subsequently been provided to contributing organisations in the form of an organisational Report Card. The Report Card initiative is two fold. It has been developed to provide those Business Services that participated in the Industry Profile and Financial and Performance Benchmarking Projects with individualised performance feedback in the form of a report card. It also seeks to link like organisations together so they can jointly work on potential performance improvement strategies.

The Report Card Project enabled us to provide organisations with:

- basic summary information about their Business Services and their outlets – this included such factors as location, length of operation, number of outlets and staffing details;

- comparative information on the key performance drivers for individual organisations using the benchmarking model developed as part of the Business Services Review using data envelopment analysis. In undertaking this comparison we were able to identify for organisations those Business Services with a similar configuration that have strengths in certain areas that they may wish to make contact to discuss potential improvement strategies; and

- information on those areas where performance improvement may be able to be achieved.

The Report Cards provided to individual organizations were confidential and were not released to any other party.

The Report Card project served as a feedback mechanism for individual organizations and has established a means for guiding future performance review processes for the industry.

APPENDIX A BUSINESS SERVICES – AN OPERATIONAL PROFILE

Using the information gathered from the Industry Profile our analysis commenced at the organisational level considering financial performance.

Financial characteristics

Key financial findings included:

- ratio of revenue to expenses clusters around .20%
- exactly half of the respondents recorded profits
- return on assets (and return on equity) are concentrated around .20%
- return on sales revenue is negatively skewed.

The implication of this is that most Business Services are commercially viable; some are prospering while others are struggling.

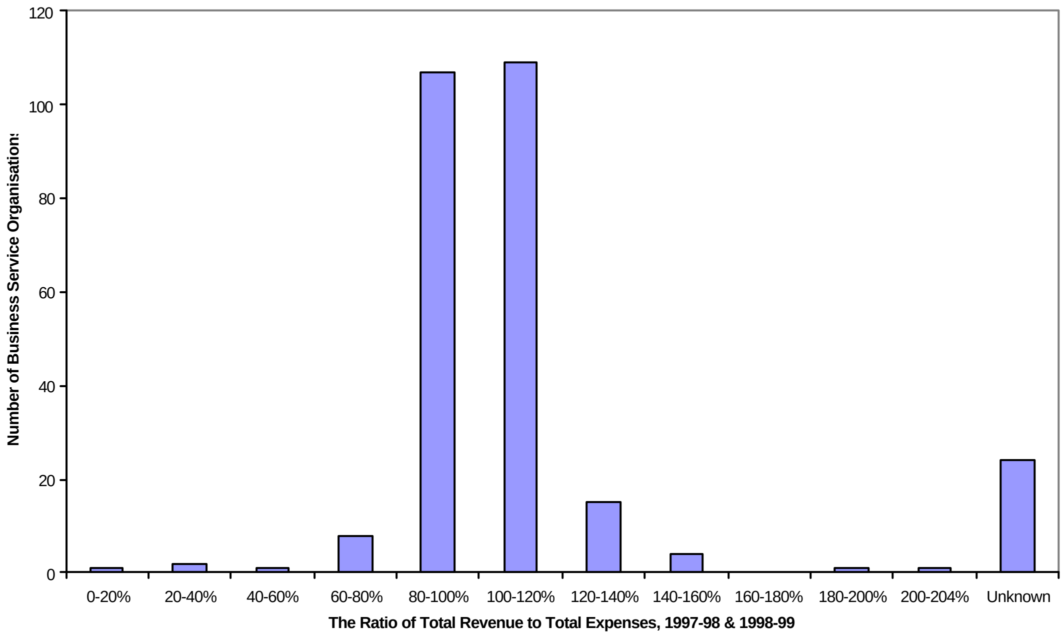

Figure 16. Ratio of Revenue to expenses

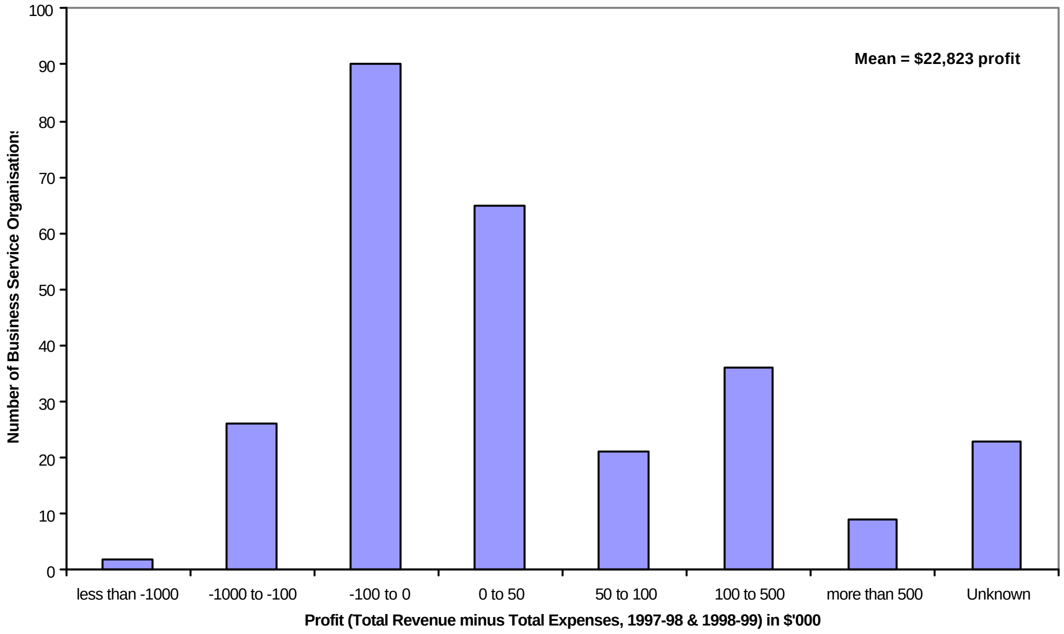

Figure 17. Profit

Other financial characteristics identified included:

- share of total revenue that is internally generated from sales of products or services varies widely, from less than 10% to 90%.
- 1/3 of Business Services report that sales account for less than 30% of their income.
- 1/4 of Business Services report that sales account for more than 70% of their income.
- debt to equity ratios are relatively low, with the majority being less than 40%.
- ratios of current assets to liabilities are relatively high.

The implication of this is that Business Services exhibit a conservative management style with money tied up in cash and investments. This suggests a reluctance or inability to take on debt to finance new technologies, develop new products or undertake marketing.

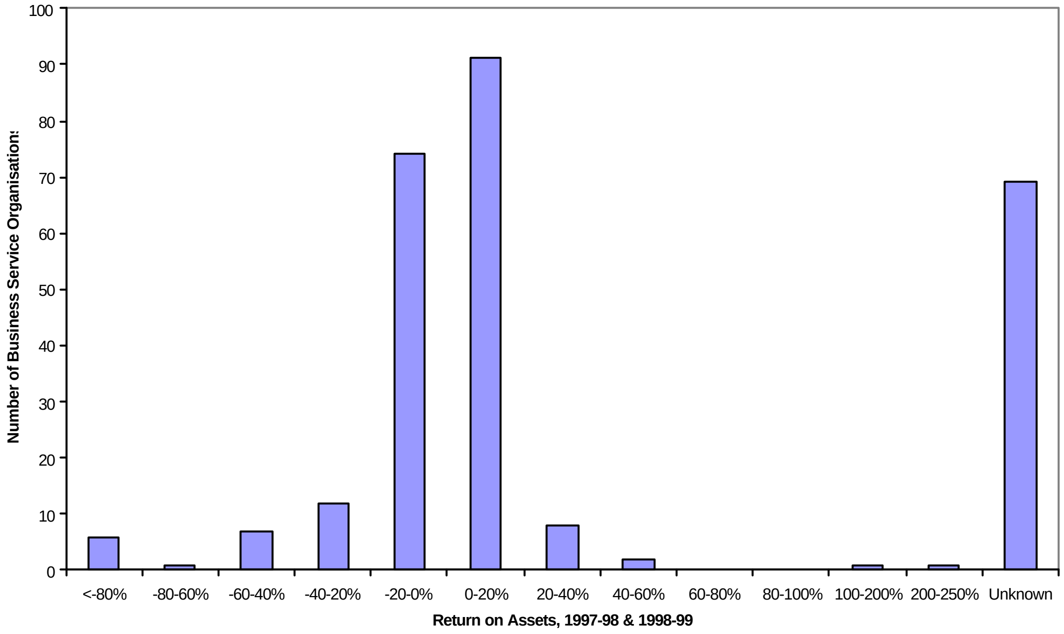

Figure 18. Return on Assets

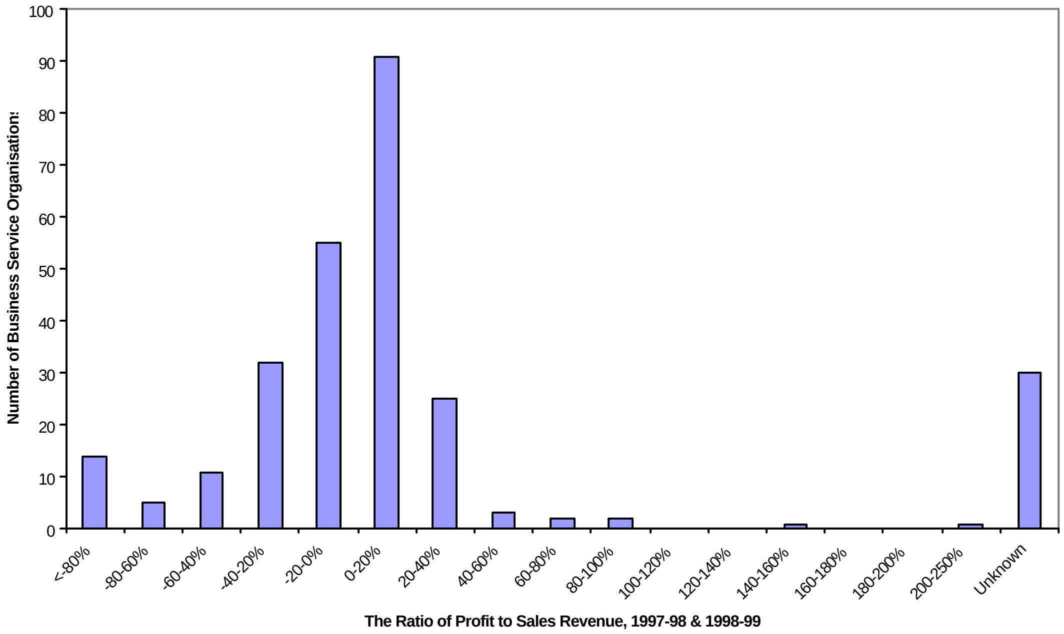

Figure 19. Ratio of Profit to Sales

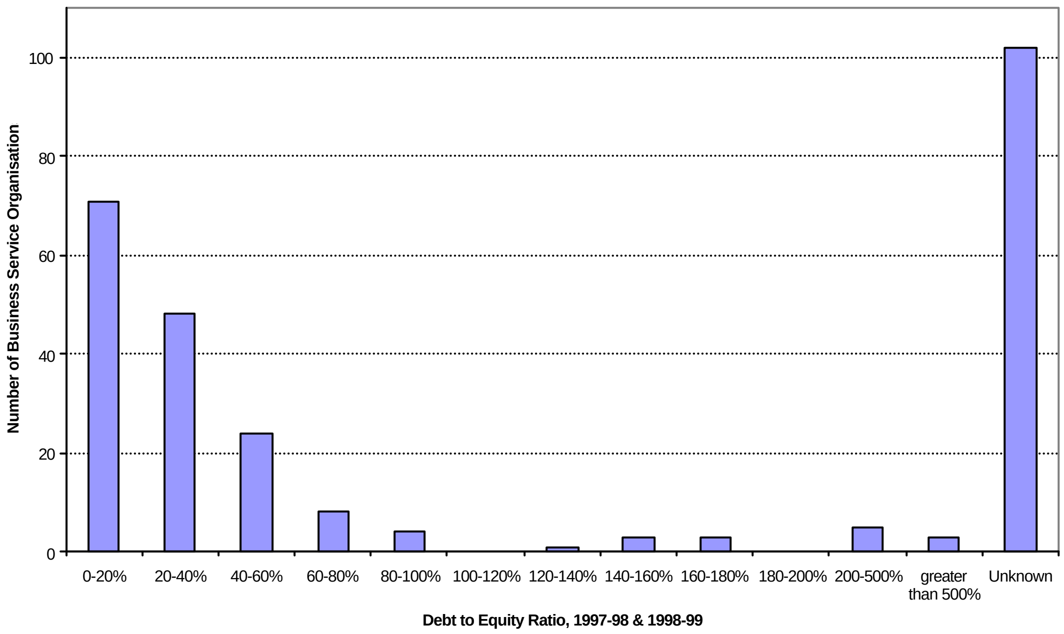

Figure 20. Debt to Equity Ratio

Government Funding

Government funding is unevenly disbursed. Approximately 1/3 of Business Services report that less than 30% of their income derives from Government funding, while 1/4 report that more than 60% of their income derives from Government funding.

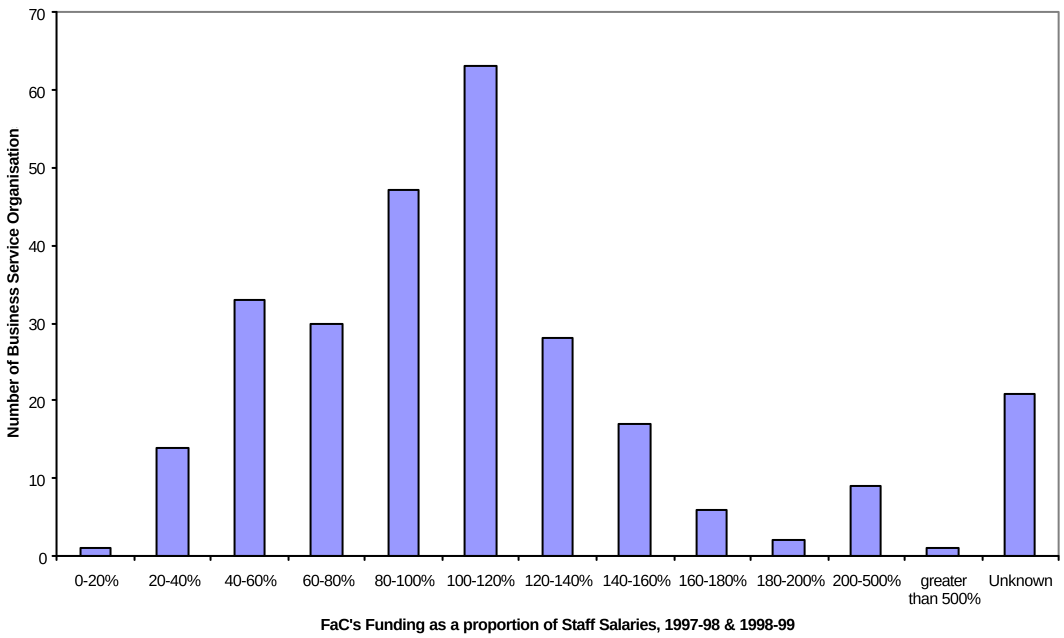

Figure 21. Government Funding as a Proportion of Staff Salaries

The ratio of Government funding to staff salaries exhibits enormous variation. Of responding Business Services, 1/4 report that Government funding covers more than 120%

of their staff salaries, and 1/3 report that Government funding covers less than 80% of their staff salaries.

Given the uneven pattern of Government funding, it is revealing to compare the pattern of Government funding with that of the financial indicators discussed earlier. One might expect that relatively high or low levels of Government funding would be strongly associated with relatively high or low degrees of commercial viability, but this is not the case.

We find that the relationship between Government funding and commercial viability is positive, but extremely weak. Similarly we discovered the relationship between Government funding *per employee* and commercial viability is actually negative.

The implication of these findings is that some Business Services manage to remain commercially viable, and even prosper, despite limited Government funding, while other Business Services struggle despite generous Government funding.

Internal characteristics of Business Services

Our next step was to examine the internal organisational characteristics of Business Services. We considered a number of factors including the age, distribution and size distribution of Business Services, Board of Management composition, use of staff time and management tenure. The analysis identified the following:

- most Business Services have been in operation between six and 40 years, and the sample mean is 22.5 years. Only a few Business Services have opened in the last five years, and a few Business Services have been in operation for over 40 years.

- most Business Services operate a single outlet, and the sample mean is just over two outlets. In the sample, only two Business Services operate more than ten outlets.

- Boards of Management – very few members have specialist expertise in business related areas.

- approximately 40% of Business Services report that Board members have relevant expertise in disability.

- staff – vast majority of time (over 56%) is devoted to support and training.

- very little staff time is devoted to sales or marketing activities.

- the ratio of staff to employees also varies widely, with over half (60%) of responding Business Services reporting staff / employee ratios in the 10% to 30% range.

- management tenure - the majority (80%) of managers have been in their current positions for more than two years, and more than half (55%) have been in their current positions for more than five years.

- two thirds of Business Services report that they do not have a formal quality assurance mechanism in place.

- the majority of Business Services devote less than 10% of key management staff time, and less than 5% of total expenses, to new product and service development.

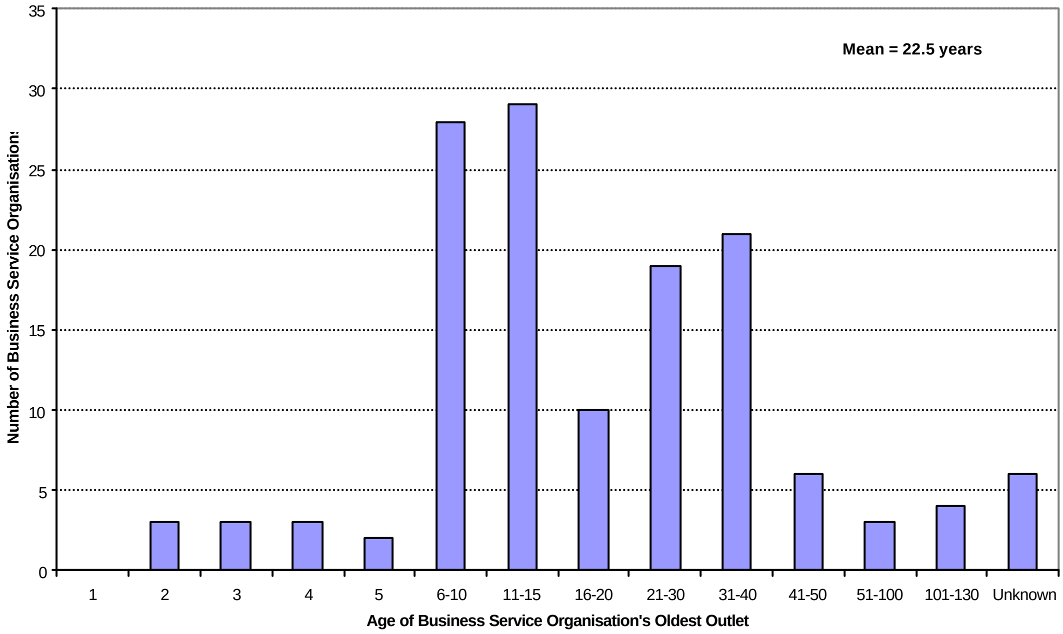

Figure 22. Age of Business Services

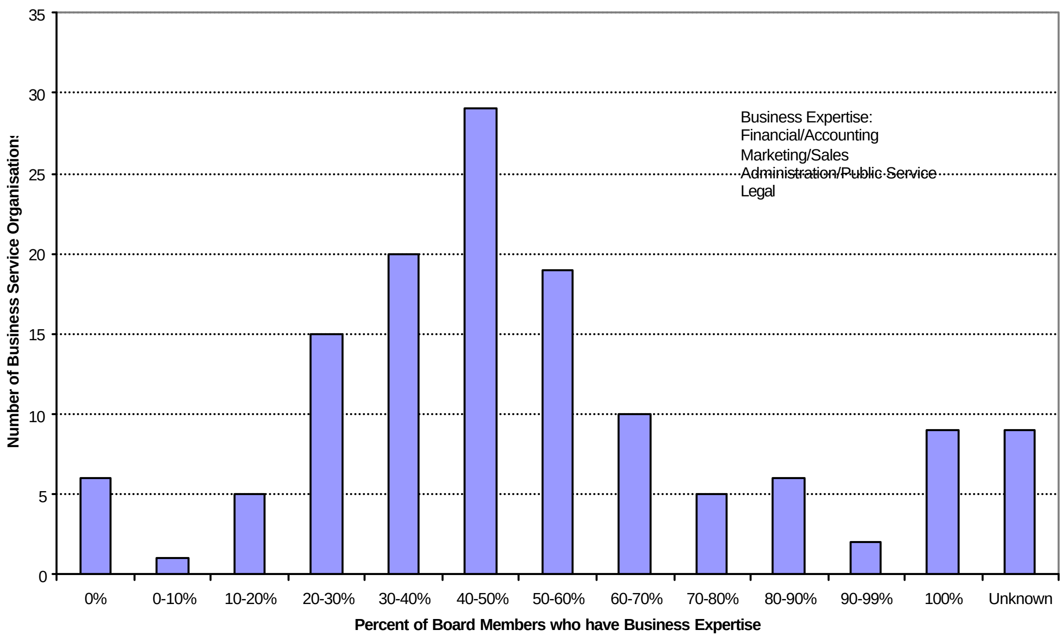

Figure 23. Board Members Business Expertise

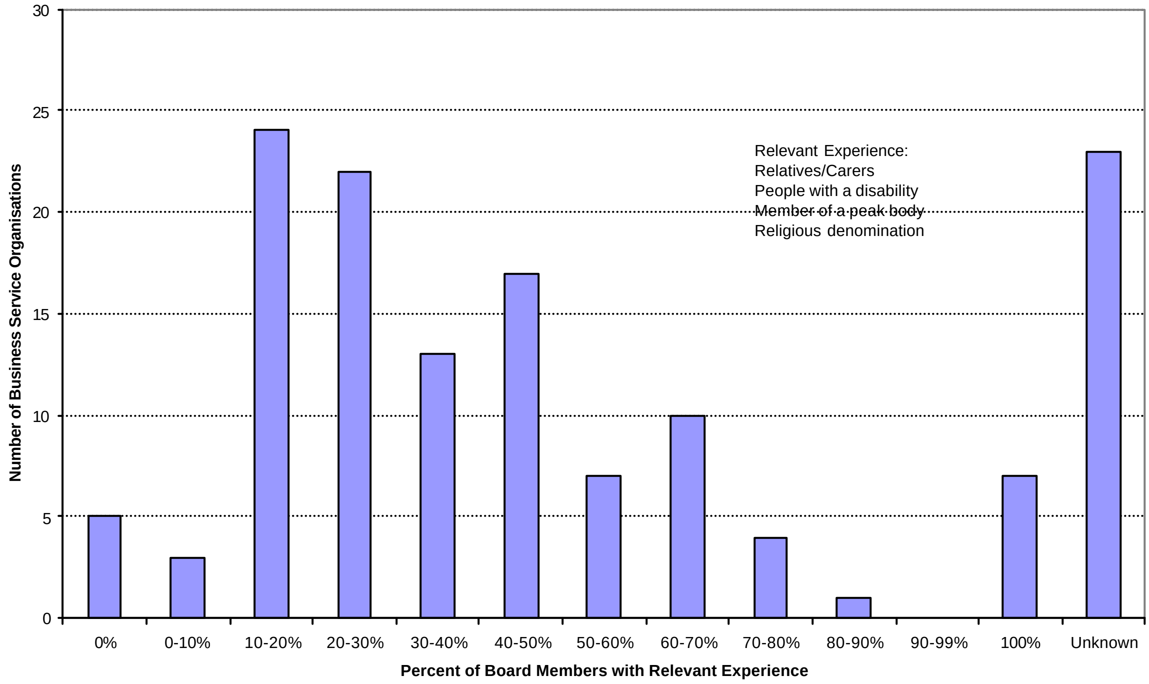

Figure 24. Board Members Relevant Experience

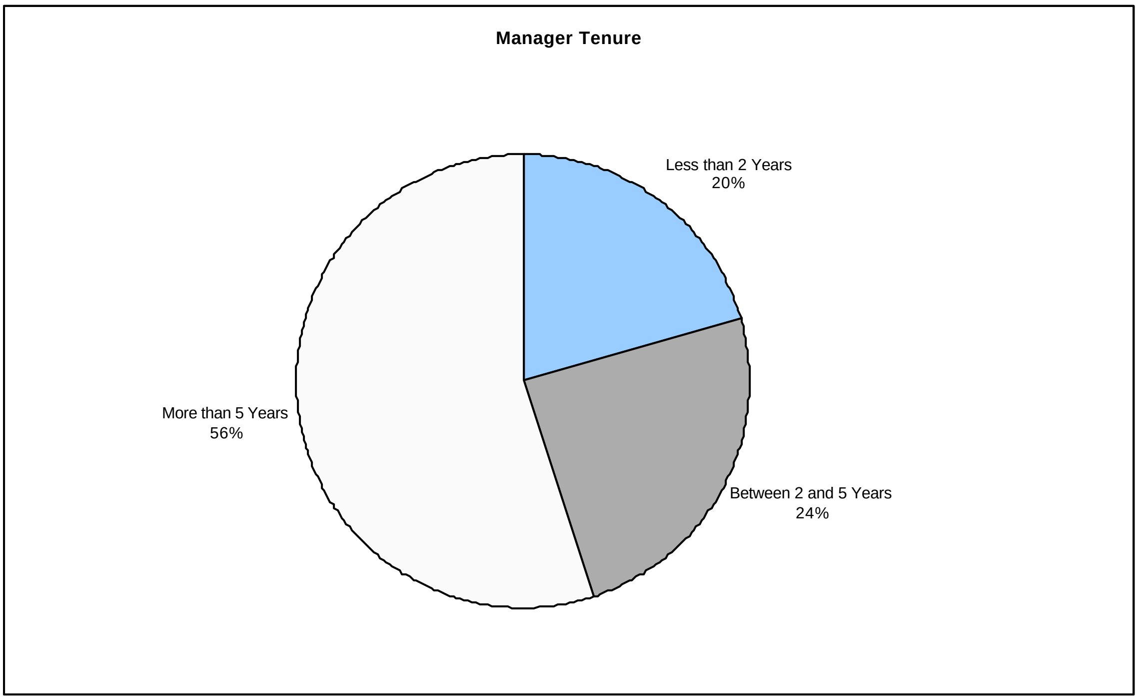

Figure 25. Manager Tenure

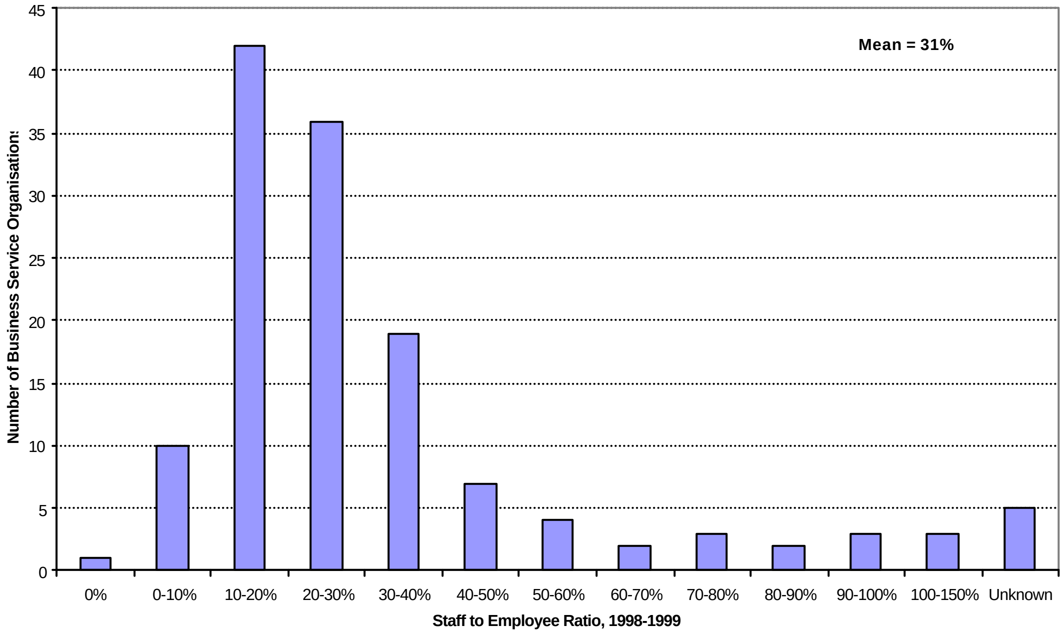

Figure 26. Staff to Employee Ratio

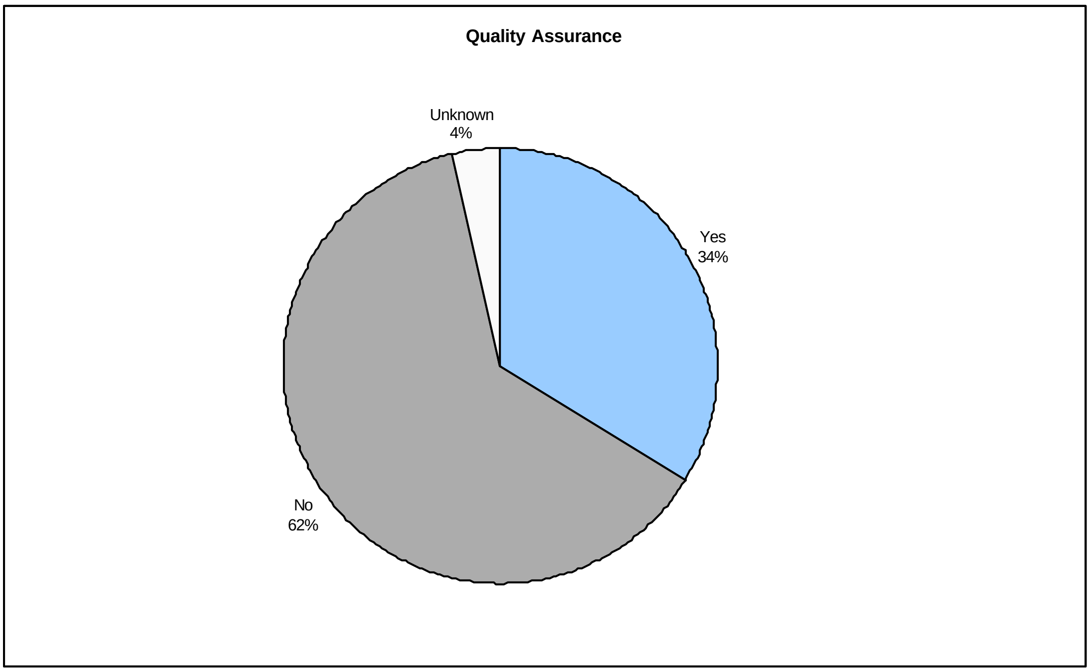

Figure 27. Quality Assurance System

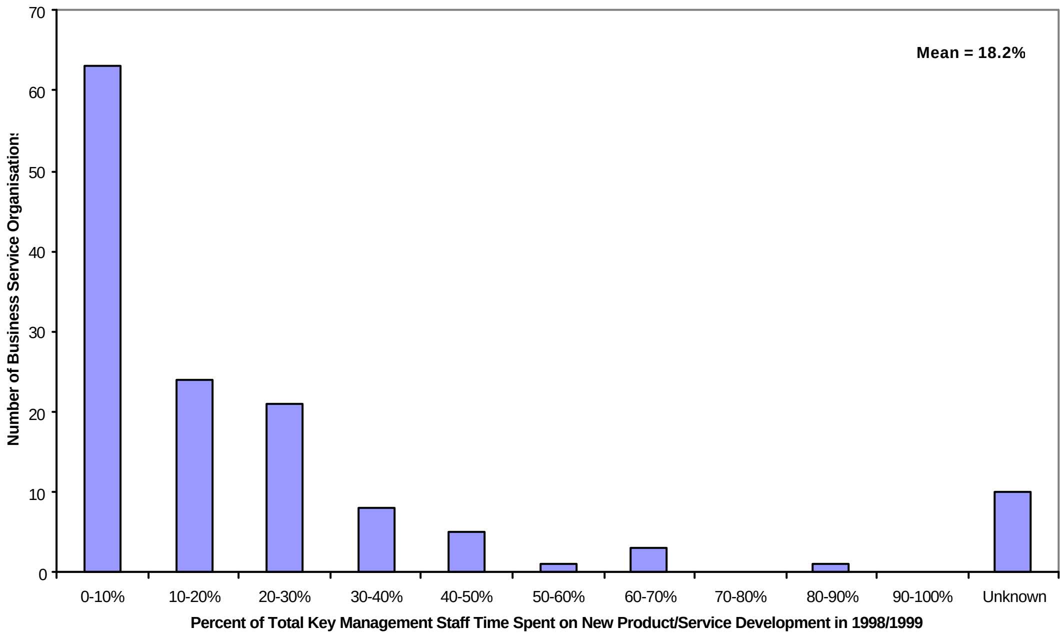

Figure 28. Key Management Time

Business Service Outlets

Our analysis commences with some general background information on BSOs. Then we examine the role of Government funding. We then investigate employees, staff, business strategy issues, and issues relating to customer bases and industry profiles.

Employee profile

The analysis identified the following characteristics of BSO employees:

- most employ less than 20 people with disabilities, although a few employ over 100;
- the vast majority of employees have a tenure of five years or more;
- the vast majority of employees have access to sick leave, annual leave and long service leave;
- almost half report that their employees are entitled to superannuation, while less than half report they are entitled to subsidised meals, travel to and from work; and
- most outlets report that their employees do not have productivity-linked wages.

Customer base

BSOs tend to have a diverse customer base and exhibit the following characteristics:

- majority report having more than 30 customers;
- majority report that their largest customers generate over half their income;

- outlets are adept at retaining customers, with a strong majority only losing fewer than 10% of their customers during the previous 12 months;
- where customers were lost the main reasons were being undercut, closer location of an alternative supplier, cheaper offshore suppliers and superior products and services;
- vast majority of outlets report gaining less than 10 new contracts in the last 12 months;
- outlets tend to operate in a wide variety of business lines with the most popular being packaging, assembly, woodworking, work crews, mailing, manufacturing, recycling and food preparation;
- 1/3 of outlets estimate new products or services will account for 25% or more of their turnover;
- less than 10% of key management time and less than 5% of total expenses are devoted to new product development.