Evaluation as an Effective Management Tool

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Performance measurement is critical to effective management.

- All organizations – donors, BDS facilitators, BDS providers, and SMEs – should measure their performance on critical dimensions.
- Performance measures should be used to help answer critical questions:
  - Are marketing and sales efforts effective in reaching customers in specific target markets?
  - What does it actually cost to provide services?
  - Is the financial situation positive and sustainable?
  - Are clients satisfied with services?
  - What is the value (impact) of services to clients?
  - Is the overall market for specific services growing?
- Results should be used by managers within donor organizations, BDS facilitators and BDS providers to help make decisions concerning strategic directions, day-to-day operations and future investment.
To be useful, performance measurement systems need to focus on the right measures ...

<table>
<thead>
<tr>
<th>Relevant</th>
<th>Some measures may be irrelevant to certain BDS organizations.</th>
<th>E.g., some organizations focus on boosting profitability, productivity, sales, exports or employment, rather than value added.</th>
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</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Some measures may not reflect the underlying concept that is intended to be measured.</td>
<td>E.g., the number of SMEs that are willing to pay prevailing prices is not necessarily a valid indicator of need or total potential demand.</td>
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<tr>
<td>Reliable</td>
<td>Some measures are not defined in sufficient detail to ensure accurate and consistent measurements.</td>
<td>E.g., the precise components of program costs are not defined and somewhat of a moving target.</td>
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<tr>
<td>Practical</td>
<td>The data needed to calculate some measures may be very difficult and/or costly for organizations to obtain.</td>
<td>E.g., the average subsidy content of products in the market is likely to require extensive market research.</td>
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… that are measured in the right way.

- Measurements need to be accurate and credible in order for manager to make *better* decisions.
- Therefore, organizations need to employ sound methodologies to measure performance.
  - Systems need to be in place to record, store and report data in an acceptable and consistent manner.
  - Surveys need to be well designed to avoid potential measurement error and bias.
  - Proper techniques need to be used to determine whether the service actually *caused* improvements in SME performance.
    » Before-after studies
    » Client self-assessments
    » Quasi-experimental studies
    » Theory driven case studies.
  - Issues of displacement and externalities are not purely academic; they relate directly to program design and subsequent outcomes.
Results need to be judged within the context of particular “business” objectives...

- Organizations may elect or may be forced to emphasize certain dimensions of performance over others.
  - Different levels of performance are not inherently better or worse.
    - Number of companies served
    - Market penetration
    - Percentage of repeat customers
    - Program costs per SME served
    - Percentage of program costs covered by client fees
- As a result, it is very difficult to establish performance standards across different organizations.
... Recognizing that results are due to chosen strategies and existing organizational capabilities.

Target Market
- Broad industry focus
- Small companies
- Struggling, disengaged firms

Service Mix
- Broad set of services
- Short-term, small projects
- Group projects
- Below cost pricing

Operations
- Rely on outside consultants

Narrow industry focus
Large companies
Successful, progressive firms
Narrow set of services
Long-term, large projects
One-on-one projects
Prices sufficient to cover costs
Use internal staff
Description is not the same thing as prescription.

- Benchmarking performance can help motivate change provided that people believe that the comparison is valid.
  - Comparison need to be based on the same measures and methodology
  - And include organizations with similar objectives, services, markets, and scales of operation.
- Benchmarking performance against similar organizations can indicate that improvements on certain dimensions are possible.
- However, benchmarking has limits.
  - It does not demonstrate whether organizations should seek to improve performance on a particular dimension.
  - It does not provide guidance on how organizations can improve their performance, i.e., necessary changes in strategies and operations.
A few implications for donors.

- Place greater emphasis on helping managers establish *and* use performance measurement systems in their own organizations based on a clear articulation of their objectives, strategies and operations.
- Establish *voluntary* benchmarking systems for similar programs in order to encourage informed discussions about performance and associated strategies and operations.
- Undertake comprehensive evaluations of selected programs according to a coherent research agenda designed to answer specific questions.