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Management Practices: Are Not For Profits Different?

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Management practices: Are not for profits different?¹

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Abstract

Recent studies have demonstrated the importance of good management for firm performance. Here, we focus on management in not-for-profits (NFPs). We present a model predicting that management quality will be lower in NFPs compared to for-profits (FPs), but that outputs may not be worse if managers are altruistic. Using a tried and tested survey of management practices, we find that NFPs score lower than FPs but also that, while the relationship between management scores and outputs holds for FPs, the same is not true for NFPs. One implication is that management practices that work for FPs may be less effective in driving performance in NFPs.

Key words: not-for-profits, management, impure altruism

JEL-Codes: H8, J24, J45, L33

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1. Introduction

Economists have long been interested in how managers might use incentive pay to increase worker output. Recently, interest has focused more broadly on the role of human resource management and, specifically, on management practices (for an overview see Bloom and Van Reenen, 2010). It is argued that there are good and bad management practices and there is growing evidence that differences in managerial practices explain part of the long-standing heterogeneity between firms in performance (Bloom and Van Reenen, 2007 and 2010, Black and Lynch 2001).

Work to date has focused primarily on the for-profit sector. Less attention has been paid to management practices in the not-for-profit sector or how they compare, both in terms of their quality and their importance in terms of driving performance, with the for-profit sector. This seems important to look at as there are reasons to expect differences between the two sectors. First, there may be differences in the quality of the people the two sectors can attract for managerial positions which may impact directly on management quality. Second, there may be differences in the motivation of managers and workers (and in particular the degree of altruism) that may affect the importance of management practices for outcomes in the two sectors. For example, Besley and Ghatak (2005) show that impure altruism in workers leads to sorting across mission- and non-mission oriented firms and that the use of high-powered incentives are less appropriate in mission-oriented firms. Similarly, the presence of impure altruism may mean that management practices do not have the same bite in the not-for-profit sector as in the for-profit sector.

This is the focus of the present paper. We make two contributions. First, we develop a simple model that is able to explain why differences in management quality can persist between for-profit and not-for-profit organizations even when they are competing within the same industry. Second, we use unique survey data to make a direct comparison of management practices in the not-for-profit (NFP) and for-profit (FP) sectors and the link between these and objective measures of outcomes in the two sectors.
Our model revolves around agents’ choice of setting up a FP or NFP organization in a market for some (quasi-) public good or social service. Following Glaeser and Shleifer (2001), the only difference between the two types of organizations is the limited ability of NFP entrepreneurs to distribute profits to themselves. In NFP organizations, a part of profits is retained by the organization and contributes to the organization's social objectives (e.g., making charitable donations, giving discounts to poor clients, and so on). Agents in our model differ in two ways, managerial ability and altruism, which are both private knowledge. Following Bénabou and Tirole (2006), we assume that agents are concerned about their social status for being altruistic; setting up a NFP can function as a signal of altruism. We show that agents who decide to set up a NFP organization will be drawn from the top of the altruism distribution and the bottom of the managerial ability distribution. The reason is simple: switching to NFP status imposes a constraint on the distribution of profits to the agent, which is more costly for high-ability agents who achieve higher profits.

Despite the negative sorting of managerial talent, NFP organizations may not necessarily achieve lower output (broadly defined) because of the use of retained profits to further the organization's objectives. This works to increase output and can counterbalance the output effect of lower managerial ability. The implication is that NFP managers will never be as management savvy, but that this may matter less in terms of outcomes.2

Our empirical findings support this model. To measure management quality we use the management practice instrument developed by Bloom and Van Reenen (2007) and apply it to two industries in the UK in which NFPs operate widely and compete with FPs. We compare the management practice scores (which capture management quality) in NFPs and FPs in a sample of around 160 firms in the nursing home and fostering/adoption agency industries and we examine the relationship between management practice scores and outcomes for the two sectors.

2 Relatedly, Delfgaauw and Dur (2010) develop a model of self-selection of managers into public and private sector organizations where managers differ in ability and public service motivation (see also Bond and Glode 2011). Bandiera et al. (2010) study sorting of managers into family firms and firms with distributed ownership, assuming that the owners of family firms derive utility from exercising power. In contrast to these papers, differences in nonpecuniary utility between organizational forms arise endogenously in our model.
Our results confirm previous findings for FP firms – better management practices (i.e. higher management practice scores) are associated with better outcomes. But we find interesting differences between FPs and NFPs. Consistent with our model, we find that NFPs score lower than FPs on the overall management practices score (although this difference is small and not statistically significant). We do find, however, a significant difference on a key dimension of management practices – NFPs score lower in terms of use of incentives. When we examine the relationship between managerial practices and the quality of output, as measured directly by scores allocated by independent public regulators of these industries, we find that these poorer managerial practices do not map directly onto lower quality of output in the NFP sector, in contrast with the findings for the FP sector.

The paper is organized as follows. The next section presents our basic model. In section 3 we analyze the model and describe the key theoretical results. Section 4 describes the organizations in our sample and the management practice survey. Section 5 presents the main empirical findings. Section 6 presents our conclusions.

2. The model

We consider the choice of agents to set up a FP or a NFP organization in a market for some (quasi-) public good or social service. Following Glaeser and Shleifer (2001), the only difference between the two types of organizations is the limited ability of NFP entrepreneurs to distribute profits to themselves. Specifically, while agents running a for-profit organization are full residual claimants, we shall suppose that, if an agent sets up a NFP organization, he earns a share \( 0 < \beta < 1 \) of profits. The remaining share of profits \((1-\beta)\) is retained by the organization and used to further contribute to the organization’s social objectives (e.g., making charitable donations, giving discounts to poor clients, and so on).

Agents in our economy differ in two respects: managerial ability \((\alpha_i)\) and impure altruism \((\gamma_i)\). Both are agents’ private knowledge. The density of the joint distribution of \( \alpha \) and \( \gamma \) is common knowledge and described by \( f(\alpha, \gamma) > 0 \) over its support \([0, \bar{\alpha}] \times [0, \bar{\gamma}]\) and zero elsewhere. For
convenience, we shall assume that \( f(\alpha, \gamma) \) is a constant, that is, \( \alpha \) and \( \gamma \) are uniformly distributed.

Managerial ability determines the productivity and, hence, profits of an organization. We simply assume that output of an organization is given by \( q(\alpha_i) \), where the function \( q(\alpha_i) \) is increasing. Profits are described by the function \( \pi(\alpha_i) \), which is also increasing.

Altruistic agents care about the contribution they make to the delivery of (quasi-) public goods or social services. Altruism is impure in that agents care about how much they personally contribute, not about the total level of public goods or social services provided in the economy.\(^3\) An agent's contribution consists of his organization's output \( q(\alpha_i) \) and any additional contributions, either by spending part of profits to reach some social goals or by making private charitable donations out of distributed profits. We shall impose an upper limit on how much an agent may care about making contributions: \( \gamma < 1 \). As we shall see, this rules out that some agents strictly prefer to donate all of their income to charity.

Following Bénabou and Tirole (2006), we assume that agents are concerned about their status for being altruistic. More concretely, we shall assume that people make inferences about an agent's altruistic preferences by observing the agent's behavior. We assume that these outside observers can only see the status of the organization an agent has set up: FP or NFP. People do not observe the organization's output or profits. They update beliefs according to Bayes’ rule.

For convenience, we assume that agent's utility \( U_i \) is linear in private consumption, contributions, and social status:

\[
U_i = y_i + \gamma_i c_i + s \gamma_i
\]

where \( y_i \) represents agent \( i \)'s private consumption, \( \gamma_i \) measures agent \( i \)'s altruistic preferences, \( c_i \) represents his contributions to the delivery of (quasi-) public goods or social services, \( s \)

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\(^3\) This assumption is in line with Glazer (2004), Besley and Ghatak (2005), and Delfgaauw and Dur (2008), but contrasts Francois (2000), Prendergast (2007), and Brekke and Nyborg (2010) who study pure altruism.
measures the weight put by agents on social status, and $\gamma_i$ is the people's belief about agent $i$'s altruistic preferences. Note that, since people can only observe the (FP or NFP) status of an agent's organization, $\gamma_i$ can take at most two values, which we label $\gamma^\text{fp}_i$ and $\gamma^\text{nfp}_i$ for FP entrepreneurs and for NFP entrepreneurs, respectively. Obviously, the values of $\gamma^\text{fp}_i$ and $\gamma^\text{nfp}_i$ arise endogenously in equilibrium and must be consistent with Bayesian updating.

Lastly note that the linearity of the utility function implies that any agent with $\gamma_i < 1$ strictly prefers private spending to making charitable donations out of distributed profits. Hence, in the analysis below, we can safely ignore decisions taken on private charitable contributions as distributed profits will be optimally spend entirely on private consumption. Moreover, it implies that the NFP status is a binding constraint on distributing profits for all agents except those with maximum altruistic preferences $\gamma^* = 1$.

3. Analysis

Each agent decides whether to set up a FP or NFP organization. When setting up a FP organization, an agent's payoff is:

$$U_i = \pi(\alpha_i) + \gamma_i q(\alpha_i) + s\gamma^\text{fp}_i.$$  \hfill (1)

When setting up a NFP organization, an agent's payoff is:

$$U_i = \beta\pi(\alpha_i) + \gamma_i[q(\alpha_i) + (1 - \beta)\pi(\alpha_i)] + s\gamma^\text{nfp}_i.$$  \hfill (2)

For given beliefs $\gamma^\text{fp}_i$ and $\gamma^\text{nfp}_i$ an agent is indifferent between setting up a FP and a NFP organization when the expressions in (1) and (2) are equal. After some rearrangements, we obtain:

$$-(1 - \beta)\pi(\alpha_i) + \gamma_i(1 - \beta)\pi(\alpha_i) + s(\gamma^\text{nfp}_i - \gamma^\text{fp}_i) = 0,$$  \hfill (3)
where the first term describes the agent's income loss when choosing NFP, the second term describes the utility gain from contributing more to the public good through retained profits when choosing NFP, and the third term describes the status gain or loss from choosing NFP.

Notice that the first two terms are negative in sum for all agents with \( \gamma_i < 1 \). That is, although agents enjoy making contributions, their altruism is not sufficiently strong to make up for the decrease in private consumption. Hence, without any status gains \( s(\hat{\gamma}_{nfp}^\gamma - \hat{\gamma}_{fp}^\gamma) \leq 0 \), none of the agents would strictly prefer setting up a NFP organization to setting up a FP organization.

It is also clear from (3) that, for given beliefs \( \hat{\gamma}_{fp}^\gamma \) and \( \hat{\gamma}_{nfp}^\gamma \) the sum of gains and losses from setting up a NFP organization strictly increases with \( \gamma_i \). The reason is clear. NFP status imposes that part of the profits is used to make further contributions to the public good rather than is distributed to the agent, which is less costly for agents who attach a greater value to making such contributions.

The reverse holds for agent’s managerial ability. For given beliefs \( \hat{\gamma}_{fp}^\gamma \) and \( \hat{\gamma}_{nfp}^\gamma \) the sum of gains and losses from setting up a NFP organization strictly decreases with \( \alpha_i \). Intuitively, setting up a NFP organization implies giving up a share \((1-\beta)\) of profits, which is more costly for highly able agents as they achieve higher profits.

The above observations suggest that, if some agents decide to set up a NFP organization, these agents will be drawn from the top of the altruism distribution and the bottom of the managerial ability distribution. Proposition 1 shows that this is indeed the case.

**Proposition 1** In a partially-separating Perfect Bayesian Equilibrium, some agents set up a NFP organization, while others set up a FP organization. For any given level of altruism, agents who set up a NFP organization are drawn from the bottom of the managerial ability distribution. For any given level of manager ability, agents who set up a NFP organization are drawn from the top of the altruism distribution.
Proof. First note that a pooling equilibrium may arise where all agents choose FP status. This happens when people's beliefs about not-for-profit entrepreneurs' altruism are identical to or more pessimistic than people's beliefs about FP entrepreneurs' altruism (that is \( \hat{\gamma}^{nfp} \leq \hat{\gamma}^{fp} \)). Given that people hold such beliefs, none of the agents strictly prefers to set up a NFP organization, so that \( \hat{\gamma}^{fp} \) equals the people's prior belief about agents' altruism and \( \hat{\gamma}^{nfp} \) is an out-of-equilibrium belief.

Suppose next that people have more optimistic beliefs, \( \hat{\gamma}^{nfp} > \hat{\gamma}^{fp} \). It is clear from (3) that, if \( \hat{\gamma}^{nfp} > \gamma^{fp} \), then all agents with \( \gamma = \gamma = 1 \) now strictly prefer to set up a NFP organization. Further, some agents with \( \gamma < \gamma \) also strictly prefer NFP, depending on their level of managerial ability. Define \( \gamma^* (\alpha) \) as the level of altruism at which agents with ability level \( \alpha \) are indifferent between FP and NFP. Rewriting (3) yields:

\[
\gamma^* (\alpha) = 1 - \frac{s(\hat{\gamma}^{nfp} - \hat{\gamma}^{fp})}{(1 - \beta)\pi(\alpha)},
\]

which is strictly increasing in \( \alpha \) and approaches one when \( \alpha \) goes to infinity. All agents with \( \gamma > \gamma^* \) strictly prefer NFP status, while the remainder (at least weakly) prefers FP status. In equilibrium, beliefs follow from Bayes' Rule. Hence:

\[
\hat{\gamma}^{nfp} = \frac{\int_0^{\gamma^*} \int_{\gamma^*}^{\gamma} f(\alpha, \gamma) d\gamma d\alpha}{\int_0^{\gamma^*} \int_{\gamma^*}^{\gamma} f(\alpha, \gamma) d\gamma d\alpha},
\]

(5)

\[
\hat{\gamma}^{nfp} = \frac{\int_0^{\gamma^*} \int_{\gamma^*}^{\gamma} f(\alpha, \gamma) d\gamma d\alpha}{\int_0^{\gamma^*} \int_{\gamma^*}^{\gamma} f(\alpha, \gamma) d\gamma d\alpha}.
\]

(6)

The Perfect Bayesian Equilibrium is given by the solution to (4), (5), and (6). It is straightforward to show that if \( \gamma \) and \( \alpha \) are uniformly distributed, a solution exists and is unique. ■
Proposition 1 has a clear testable implication. In a market where both FP and NFP organizations are active, we would expect average managerial ability to be higher in FP organizations. The reason is simple: switching to NFP status imposes a constraint on the distribution of profits to the agent, which is more costly for agents who achieve higher profits. The theory has less clear predictions for the relation between an organization's status and total output, broadly defined. While NFPs may achieve lower output as a result of the negative sorting of managerial ability, the use of retained profits to further the organization's objectives may imply that NFP organizations reach higher output. In the rest of the paper we explore how these dimensions of management (both quality and the importance for outputs) compare across the two sectors in practice.

4. Management practices survey

4.1 The organizations

We collected detailed information on management practices from more than 200 fostering/adoption agencies and nursing care homes. These represent the two largest industries within residential social care in the UK. Both agencies and homes operate in competitive, market-driven environments, composed of a mix of FP and NFP organizations that directly compete against each other either for business from local government children’s services in the case of fostering agencies or from consumers in the case of care homes.

The prevalence of the different sectors (including the public sector) in the two industries is shown in Table 1 below. The three sectors – public, FP and NFP – are fairly equally represented among fostering/ adoption agencies, and this is broadly reflected in our sample, but we focus on FPs and NFPs because public sector agencies play a different role in that they have primary responsibility for placing all children in care. Thus while public agencies directly compete with FP and NFP agencies to recruit carers, they do not compete directly for business in terms of placing children. All three sectors are also present in the care homes industry and all directly compete for customers but there are very few public sector care homes in the population and in our sample (we deliberately over-sampled NFP homes in order to achieve a reasonable sub-sample size).
Figure 1 maps the geographical location of the population of fostering agencies and care homes to show that both FP and NFP providers are evenly distributed across the country. While there are obvious concentrations of providers coinciding with the areas of high population density, it is not the case that either provider type is concentrated in a particular location.

4.2 The management practices survey

To measure the quality of management practices we use an existing methodology that has been used in manufacturing (Bloom and Van Reenen, 2007) and health (Bloom et al., 2010). Using an existing methodology has a number of advantages. First, the survey has been extensively tried and tested, successfully being used to survey several thousands of organizations in more than 20 different countries. Second, following the same methodology and using a common set of indicators allows us to set our results in a wider context.

At the core of the Bloom and Van Reenen survey is a set of 18 indicators of management practices, grouped into four subcategories:

- process management – two indicators assessing whether processes are standardized and are being continuously improved;
- use of monitoring – four indicators on the extent to which performance is tracked and monitored within the organizations and reviewed and followed with staff members;
- use of targets – six indicators covering target balance, inter-connection, horizon, stretch, clarity, comparability, and accountability;
- use of incentives – six indicators assessing the extent to which the organization rewards and promotes high performers and deals with poor performers and how the organisations manages, retains, and attracts talented individuals.

The first two indicators (and related questions) are fairly specific to each industry and required adaptation from the original survey to fostering/adoption agencies and care homes. The remaining 16 indicators (and associated questions) used to capture monitoring, targets, and incentives are more general and could be applied identically to fostering/adoption and care
homes as in the earlier studies of manufacturing firms and hospitals. We therefore focus our analysis on these 16 indicators which are directly comparable with the earlier studies. Finally, the survey also collects some limited background information on each organization.

The full set of indicators and related questions is provided in Appendix B, together with information on the scoring methodology. From this it should be clear that the survey is not designed as a simple question-answer survey. Instead, each indicator has a set of related questions designed to allow the interviewer to make a reasonable assessment of the quality of management practices in the organization. This is based on open questions (i.e. “can you tell me how you promote your employees”) – together with examples – rather than closed questions (i.e. “do you promote your employees on tenure [yes/no]?”). The prompting questions (and examples) are designed to allow the interviewer to understand the actual management practices in the organization. For each indicator, the interviewer reports a score between 1 and 5, a higher score indicating a better performance. The interviews were conducted with the managers of homes/agencies (the most common titles were general manager, care home manager, and team manager).

The majority of the 200 interviews were carried out in summer 2009 by six MSc management students from the University of Bristol. Training for the interviewers was provided by the manager from the original London School of Economics management survey team, ensuring that our responses should be broadly comparable with those for other sectors using the same methodology. All interviews were independently double-scored by two interviewers – one conducting the interview, the other listening in. Any differences in scores were then discussed and reconciled at the end of the interview. This double-scoring was to ensure that the interviews and scoring are comparable across interviewers, although our regression analysis additionally controls for interviewer fixed effects, as well as the time of day the interviews were done. Each interview took between 45 – 60 minutes.

The response rates towards the end of the survey period were negatively affected by swine flu, which peaked in the last week of July 2010. A top-up sample of 35 interviews was therefore collected by two LSE students in Spring 2010.
To ensure unbiased responses we used a *double-blind* survey methodology. Interviews were conducted by telephone without the respondents being aware in advance that they were being scored, making it more likely that the interviews genuinely captured actual management practices. The interviewers were also not told anything about the organization’s performance (or sector) in advance of the interview and this was derived from independent sources post interview. Thus interviewers were not scoring in line with their perception of the quality of organization.

5. Results

5.1 Comparison with management practices across industries

The use of a similar survey tool to previous studies with a common set of core indicators allows us to make some high-level comparisons between management practice scores across industries. Using previous work in Bloom and Van Reenen (2007) and Bloom et al. (2010) we can compare fostering/adoption agencies and care homes with UK manufacturing firms and UK hospitals. We focus on the 16 individual indicators that are the most directly comparable across all the studies (covering monitoring, targets and incentives).

Table 2 provides basic summary statistics, while Figure 2 shows the full distribution of scores for each industry. Average management practice scores for agencies and homes are slightly higher than those for the sample of manufacturing firms, and substantially higher than for hospitals. The distribution of scores for agencies and homes is also much more compressed than that for both manufacturing firms and hospitals. Looking at Figure 2, there are no agencies and homes with very low management practice scores; compared to manufacturing firms, there are also no stellar performers. Three-quarters of all homes and agencies receive an average management score between 2.5 and 3.5, compared to 58 per cent of manufacturing firms and half of all hospitals.

What could explain these differences in management practice scores across industries? We are confident that the difference is genuine and is not arising because of differences in
methodology. The questions are almost identical to those used in the earlier studies and the interviewers for our survey were trained in interviewing and scoring by the manager of the LSE team and additionally did observations on interviews being conducted at the LSE to validate their scoring methodology.

It is clear from Table 2 that the organizations in our survey are much smaller than those in previous studies (as shown by the average number of employees), although Table 2 also shows that, at least among manufacturing firms, smaller firms typically score lower.

Another difference is that both the agencies and homes are subject to numerous regulations defining minimum standards for both processes and outcomes. The standards are enforced through regular inspections and backed by financial penalties and in the worst cases, removal of registration (for example in the financial year 2008, 30 homes had their registrations cancelled, while a further 10 received fines). This regulatory regime may help to drive up – or out – the bottom tail of the distribution. Of course, hospitals are also regulated; a key difference here may be the differing level of process complexity.

Possibly harder to explain is why there are fewer high scorers among our sample of homes and agencies; it may suggest that, beyond a certain level, there is little or no return to investing in management practices in these industries.

5.2 Not for profit and for profit management compared

Before turning to regression analysis, where we can control for measurable differences in organization and manager characteristics, we show the distribution of the overall management

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5 For care homes and agencies these minimum standards cover training of staff and managers, information and records, and facilities and premises.
6 Table A1 provides descriptive statistics for organization and manager characteristics and potential outcomes separated by industry and sector. Not-for-profit organizations are typically smaller and, in the case of the care homes, the difference in means is statistically significant at the 5 per cent level. A significantly higher proportion of managers are female in both not-for-profit agencies and homes but the manager’s tenure in the post is similar in both sectors. The outcome indicators will be discussed in Section 5.3.
scores for the NFP and FP sectors in Figure 3.\textsuperscript{7} We use, as above, the 16 indicators which are consistent with the previous studies.\textsuperscript{8} The figure shows that the bulk of the FP distribution lies above that of the NFP profits – more NFPs score in the range 2.5 – 3.0 than FPs firms. However, FPs are also the worst performers.

To test for significant differences in mean management practice scores across sectors, conditional on other characteristics, we run simple regressions of the following form:

\[ M_i = \alpha_{NFP} + \beta_1 X_{i1} + \beta_2 X_{i2} + u_i \]

where \( M_i \) is the management practices score (overall and for the sub-groups of indicators), included as a z-score, so the differences are measured in standard deviations. For each score, we include a set of noise controls (\( X_{i1} \)), including interviewer fixed effects and time of interview, and controls for organization and manager characteristics (\( X_{i2} \)) as the firms in the two sectors differ in terms of staffing and size. These control variables include an indicator for whether or not the manager is female and tenure in post (in years), the number of staff in the organization, and an indicator for whether the manager reports that the organization is part of a network, which is also likely to reflect the size of the organization beyond the immediate home/agency. Summary statistics on these control variables are given in Table A1 in the Appendix.

We also include a measure of competition since competition has been shown to drive up management practice scores in the case of hospitals (Bloom et al., 2010). Of course, the level of competition may be endogenous – a well-managed organization may drive out poor performers in the local market. Unlike Bloom et al. we do not have a suitable instrument. We therefore are only identifying possible associations but, in particular, we are interested in whether the relationship between management scores and competition varies by sector. To measure competition we use an industry-specific z-score measure of the number of organizations within a 20 kilometre radius.

\textsuperscript{7} In our analysis of differences between the sectors, we pool observations from care homes and agencies. The advantage of this is that it increases the sample size. We have separately tested for – and rejected – significant differences between the sectors.

\textsuperscript{8} Results with the full 18 indicators are similar.
The final sample is not large (104 FPs and 61 NFPs) and, as already shown, there is also not a large degree of variation in the management scores across organizations (compared to the earlier manufacturing and hospital studies). Nevertheless, we do find some interesting – and statistically significant – results, summarized in Table 3.

The first column of the table shows that NFPs score slightly lower than FPs on the overall management practices score. The difference is small (less than 0.05 of a standard deviation) and is not significant. NFPs score higher (but not significantly different) on the sub-group of indicators that capture monitoring (i.e. how performance is tracked and monitored within the organizations and reviewed and followed with staff members) and targets. But they score significantly lower on the sub-group of indicators that captures the use of incentives (the extent to which the organization rewards and promotes high performers and deals with poor performers and how the organization manages, retains, and attracts talented individuals). NFPs have scores on this indicator which are approximately one third of a standard deviation lower than FPs.

Within the group of indicators for incentives NFPs score significantly lower on three. These are “rewarding talent”, i.e. whether good performance is financially rewarded within the organization (Coeff = -.597, SE = .211), “retaining talent”, i.e. whether the organization goes out of its way to retain talent (Coeff = -.447, SE = .199) and “removing talent”, i.e. whether and how the organization deals with under-performers (Coeff = -.404, SE = .205).

The results also indicate that larger organizations have higher management practice scores, consistent with earlier results, although the coefficient on number of staff is significant only for the overall score. But being in a network – which is also likely to reflect larger organizations – is associated with a significantly higher score on overall management practices and for the three sub-groups of indicators. Again, this is not evidence of a causal relationship. Better-managed organizations may grow and/or larger organizations may need stronger management practices in order to operate effectively.
We also find, again consistent with previous studies, that competition is associated with higher management practice scores among FPs (Bloom et al 2010). This is statistically significant at the 5 percent level for the overall management score and also for monitoring and incentives. The coefficient on the interaction term between competition and not-for-profit dummy status is almost always negative (although not significant), which may suggest that the positive relationship between the degree of competition and the management practices score is muted in the not-for-profit sector. However, the finding of no statistically significant difference is also consistent with the literature on the hospital industry in the USA showing that NFPs and FPs respond similarly to competition (e.g. Sloan 2000).

5.3 The relationship between management scores and outcomes

A common finding from previous studies of management practices in manufacturing and health is that the management scores are correlated with external indicators of performance – measures of productivity in the case of manufacturing (Bloom and Van Reenen, 2007) and mortality rates and regulatory ratings in the case of hospitals (Bloom et al., 2010). While this is not necessarily a causal relationship (e.g. good organizations could invest in management practices), it indicates that the management practice scores “matter” in a meaningful way for performance – whether as a cause or a consequence.

In this section we examine whether this relationship also holds for not-for-profits. To explore the relationship between management practices and outcomes within and across sectors we use an externally validated measure of the quality of the organization. Both sets of organizations are regularly inspected and given a rating by an independent regulator. One potential issue for our analysis is that there is little variation in the regulatory ratings. Both regulators use a four-point rating (excellent, good, adequate, inadequate) but nearly 60 per cent of the population are rated as good. In our sample there are no organizations that are rated as inadequate. In our analysis, we focus on two binary measures – being a low performer, defined as being rated as adequate, and being a high performer, defined as being rated as

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9 The Office for Standards in Education (OfSTED) in the case of fostering/adoption agencies and the Care Quality Commission (CQC) in the case of nursing homes.
excellent. We also use staff turnover, collected as part of the interview, as another outcome indicator that may be impacted by management practices. This indicator is potentially ambiguous since turnover could be due to staff dissatisfaction (reflecting poor management) or the removal of poor performers (one of the indicators of good management in the survey). In practice, we find a strong negative correlation between whether members of staff have left and the regulatory rating (96 per cent of adequate performers had staff leave compared to 77 per cent of good and 76 per cent of excellent) suggesting that higher staff turnover is a negative outcome. Staff satisfaction has also been used by the regulator of health care in the UK as one indicator of good performance. Summary statistics on the outcome variables are given in Table A1 in the Appendix.

To explore the relationship between management practices and observable outcomes across sectors, we run simple regressions of the following form:

\[ y_i = \alpha_1 M_i \times FP_i + \alpha_2 M_i \times NFP_i + \beta NFP_i + u_i \]

where \( y_i \) is the measure of outcomes – binary indicators for being rated adequate (“low performer”), being rated excellent (“high performer”), and experiencing staff turnover in the last 12 months (“staff turnover”). \( M \) is the overall management practices score (included as a z-score as before), which we interact with FP and NFP indicators to capture possible differences in the way in which management practices relate to observable outcomes across the two sectors. We also include a NFP indicator to capture any underlying difference in outcomes across the sectors. We estimate linear probability models for ease of interpreting the coefficients; the estimated marginal effects from estimating probit models are very similar to those reported in Table 4.

Table 4 shows that the results for FP organisations are consistent with earlier studies which find a positive association between good management and good performance. Among FPs a one

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10 As an example of the correlation, one very high profile case of a poor performing hospital (Mid Staffordshire) judged to have extremely poor patient care, also had very poor staff satisfaction. http://www.midstaffsinquiry.com/pressrelease.html
standard deviation increase in the management practices score is correlated with a 13 percentage point reduction in the probability that the organization will be a low performer (statistically significant at the 10 per cent level). Looking across the sub-groups of indicators, the relationship is consistently negative with the strongest and most significant relationship for the monitoring indicators. There is less of a strong relationship for FPs between the management score and the probability of being a high performer but in all cases the coefficient is positive, though not statistically significant. There is also a consistently negative relationship between the management score and staff turnover (i.e. higher management scores are correlated with lower staff turnover), and this is statistically significant for both monitoring and targets.

However, the results also give some indication that the relationship between the management practices score and outcomes is different for NFPs. By contrast with FPs, there is a positive relationship between the overall score and the probability of being a poor performer and a negative relationship with the probability of being a high performer (although we cannot reject that the coefficients are the same for the two sectors). For the sub-groups of indicators, there is a significant negative association between the targets score and being a high performer. We also find a positive and significant relationship between the overall management practices score and the probability of staff having left in the previous 12 months among NFPs, which is significantly different from the FP sector. The coefficient on management sub-group scores in the staff turnover regression is positive and significant for monitoring, targets, and incentives. Taken together, these results suggest that management practices that work for FPs may be less effective (or even counterproductive) in NFPs.

6. Conclusions

There is growing interest in the contribution to firm performance of management practices. This is the first study to focus on management in not-for-profits compared to for profit firms. Our model shows that not-for-profit firms will attract lower ability managers, but output may not necessarily be lower because of higher levels of altruism. Our results provide some support
for the idea that not-for-profits have lower managerial quality. We also find less of a strong relationship between management practices and outcomes in this sector. In fact, for some indicators, we find a negative relationship between performance and ‘better’ management practices.¹¹

We do not believe that our empirical results can be explained by anything distinctive about the industries we look at – indeed, the results for for-profit firms are in line with the previous empirical literature. Instead, our findings provide the first evidence that there are potentially real – and important – differences between management in the sectors. Specifically, they suggest that management may play less of an important role in driving performance in the not-for-profit sector than in the for-profit sector. While our sample sizes are small and limited to two service industries, this idea has wider support in a related literature on incentives and not-for-profits which also suggests that the use of incentives, widely shown in the for-profit sector to raise effort (e.g. Bandiera et al. 2010) may be less cost-effective where workers are motivated by altruism (Besley and Ghatak 2005).

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¹¹ Our findings that the quality of workers does not translate into poorer output differs from Bandiera et al. (2010) who integrate selection of workers and incentive structures within a single model and empirically examine the differences between family firms and firms with distributed ownership. They find that family firms optimally offer less incentive pay, lower overall pay, and attract lower quality workers but also make lower profit. They do not, however, examine differences by for-profit status and the workers in their model do not have altruism to offset lower ability. Stephan et al. (2011) look at social enterprises, some of which may be not-for-profit and some not. Also in contrast to our paper, they find that better management practices do lead to better performance in these organizations. However, they use a different measure of management practices and use balance sheet information to assess performance. In the case of not for profits which have a non-distribution constraint, balance sheet performance may not be a good way of assessing overall performance and direct measures of quality may be more useful.
References

Bandiera, Oriana, Luigi Guiso, Andrea Prat, and Rafealla Sadun (2010), Matching Firms, Managers and Incentives. Mimeo, London School of Economics.


Bloom, Nicholas, and John Van Reenen (2010), Human resource management and productivity, forthcoming in Ashenfelter, Orley and David Card (Eds.) *Handbook of Labor Economics Volume IV*.


Figure 1: Location of not-for-profit and for-profit homes and agencies (population)

Nursing care homes

Fostering/ adoption agencies

Not-for-profit

For-profit
Figure 2: Distribution of management practice scores, by industry (16 core indicators)
Figure 3: Distribution of management practice scores by sector, fostering/adoption agencies and care homes (16 core indicators)
Table 1: Population and sample distributions by sector

<table>
<thead>
<tr>
<th></th>
<th>English fostering and adoption agencies, members of BAAF</th>
<th>English nursing homes providing care for the elderly, with 40+ beds, from CQC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Population</td>
<td>Sample</td>
</tr>
<tr>
<td>For-profit</td>
<td>0.395</td>
<td>0.447</td>
</tr>
<tr>
<td>Public</td>
<td>0.339</td>
<td>0.310</td>
</tr>
<tr>
<td>Not for Profit</td>
<td>0.266</td>
<td>0.243</td>
</tr>
<tr>
<td>N</td>
<td>413</td>
<td>103</td>
</tr>
</tbody>
</table>

Notes: While BAAF is a trade body, it claims to represent more than 90 per cent of all agencies in the industry. We have confirmed that there is no systematic sampling bias in terms of performance outcomes and other population characteristics, such as number of care home beds.

Table 2: Management practice scores by industry (core set of 16 indicators)

<table>
<thead>
<tr>
<th></th>
<th>Mean score (out of 5)</th>
<th>Standard deviation</th>
<th>Mean size (employees)</th>
<th>Number of obs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fostering/ adoption agencies</td>
<td>3.07</td>
<td>0.392</td>
<td>19</td>
<td>105</td>
</tr>
<tr>
<td>Care homes</td>
<td>3.17</td>
<td>0.457</td>
<td>26</td>
<td>103</td>
</tr>
<tr>
<td>Manufacturing firms</td>
<td>3.03</td>
<td>0.642</td>
<td>897</td>
<td>678</td>
</tr>
<tr>
<td>Manufacturing firms (&lt; 100 employees)</td>
<td>2.78</td>
<td>0.569</td>
<td>79</td>
<td>40</td>
</tr>
<tr>
<td>Hospitals</td>
<td>2.42</td>
<td>0.608</td>
<td>3,699</td>
<td>116</td>
</tr>
</tbody>
</table>

Sources: Data from authors and from Bloom et al. (2010).
Table 3: Management scores by sector, OLS regression results

<table>
<thead>
<tr>
<th></th>
<th>Overall (16 indicators)</th>
<th>Monitoring (4 indicators)</th>
<th>Targets (6 indicators)</th>
<th>Incentives (6 indicators)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not for profit</td>
<td>-0.044</td>
<td>0.191</td>
<td>0.068</td>
<td>-0.300**</td>
</tr>
<tr>
<td></td>
<td>(0.117)</td>
<td>(0.151)</td>
<td>(0.145)</td>
<td>(0.130)</td>
</tr>
<tr>
<td>Number of staff</td>
<td>0.155*</td>
<td>0.163</td>
<td>0.177</td>
<td>0.126</td>
</tr>
<tr>
<td></td>
<td>(0.087)</td>
<td>(0.112)</td>
<td>(0.108)</td>
<td>(0.096)</td>
</tr>
<tr>
<td>(Number of staff)^2</td>
<td>-0.026</td>
<td>-0.024</td>
<td>-0.028</td>
<td>-0.025</td>
</tr>
<tr>
<td></td>
<td>(0.019)</td>
<td>(0.025)</td>
<td>(0.024)</td>
<td>(0.021)</td>
</tr>
<tr>
<td>Network (0/1)</td>
<td>0.324**</td>
<td>0.347**</td>
<td>0.231*</td>
<td>0.401**</td>
</tr>
<tr>
<td></td>
<td>(0.096)</td>
<td>(0.124)</td>
<td>(0.119)</td>
<td>(0.106)</td>
</tr>
<tr>
<td>Female manager</td>
<td>-0.084</td>
<td>-0.094</td>
<td>-0.041</td>
<td>-0.114</td>
</tr>
<tr>
<td></td>
<td>(0.105)</td>
<td>(0.135)</td>
<td>(0.130)</td>
<td>(0.116)</td>
</tr>
<tr>
<td>Tenure (years)</td>
<td>0.000</td>
<td>-0.004</td>
<td>0.002</td>
<td>0.001</td>
</tr>
<tr>
<td></td>
<td>(0.009)</td>
<td>(0.012)</td>
<td>(0.011)</td>
<td>(0.010)</td>
</tr>
<tr>
<td>Number of orgs &lt; 20k</td>
<td>0.130**</td>
<td>0.177**</td>
<td>0.069</td>
<td>0.153**</td>
</tr>
<tr>
<td></td>
<td>(0.063)</td>
<td>(0.082)</td>
<td>(0.079)</td>
<td>(0.070)</td>
</tr>
<tr>
<td>(Number of orgs &lt; 20k)xNFP</td>
<td>-0.041</td>
<td>-0.137</td>
<td>0.031</td>
<td>-0.047</td>
</tr>
<tr>
<td></td>
<td>(0.083)</td>
<td>(0.106)</td>
<td>(0.103)</td>
<td>(0.091)</td>
</tr>
</tbody>
</table>

| N                      | 164                     | 164                       | 164                    | 164                       |
| R^2                    | 0.207                   | 0.229                     | 0.169                  | 0.220                     |

Notes: Standard errors in parentheses, * p < 0.10, ** p < 0.05. All regressions include interviewer fixed effects, time of day dummies, and an indicator for nursing care homes.
### Table 4: Management scores and outcomes

<table>
<thead>
<tr>
<th></th>
<th>Low Performer (0/1)</th>
<th>High Performer (0/1)</th>
<th>Staff Turnover (0/1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall score_fbp</td>
<td>-0.133**</td>
<td>0.010</td>
<td>-0.108</td>
</tr>
<tr>
<td></td>
<td>(0.075)</td>
<td>(0.078)</td>
<td>(0.074)</td>
</tr>
<tr>
<td>Overall score_nfp</td>
<td>0.031</td>
<td>-0.055</td>
<td>0.302**</td>
</tr>
<tr>
<td></td>
<td>(0.106)</td>
<td>(0.109)</td>
<td>(0.100)</td>
</tr>
<tr>
<td>Monitoring_fbp</td>
<td>-0.148**</td>
<td>0.056</td>
<td>-0.106</td>
</tr>
<tr>
<td></td>
<td>(0.058)</td>
<td>(0.060)</td>
<td>(0.058)</td>
</tr>
<tr>
<td>Monitoring_nfp</td>
<td>-0.028</td>
<td>0.068</td>
<td>0.157*</td>
</tr>
<tr>
<td></td>
<td>(0.083)</td>
<td>(0.086)</td>
<td>(0.081)</td>
</tr>
<tr>
<td>Targets_fbp</td>
<td>-0.072</td>
<td>0.016</td>
<td>-0.115</td>
</tr>
<tr>
<td></td>
<td>(0.067)</td>
<td>(0.067)</td>
<td>(0.067)</td>
</tr>
<tr>
<td>Targets_nfp</td>
<td>0.027</td>
<td>-0.199**</td>
<td>0.179**</td>
</tr>
<tr>
<td></td>
<td>(0.084)</td>
<td>(0.084)</td>
<td>(0.075)</td>
</tr>
<tr>
<td>Incentives_fbp</td>
<td>-0.087</td>
<td>0.046</td>
<td>-0.026</td>
</tr>
<tr>
<td></td>
<td>(0.072)</td>
<td>(0.073)</td>
<td>(0.070)</td>
</tr>
<tr>
<td>Incentives_nfp</td>
<td>0.045</td>
<td>0.060</td>
<td>0.226**</td>
</tr>
<tr>
<td></td>
<td>(0.087)</td>
<td>(0.089)</td>
<td>(0.085)</td>
</tr>
</tbody>
</table>

Notes: Standard errors in parentheses **p < 0.10, *p < 0.05. Estimates from a linear probability model.
### Appendix A

#### Table A1: Sample characteristics

<table>
<thead>
<tr>
<th></th>
<th>Fostering/ adoption agencies</th>
<th>Care homes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For-profit</td>
<td>Notforprofit</td>
</tr>
<tr>
<td>Overall management score</td>
<td>3.16</td>
<td>3.06</td>
</tr>
<tr>
<td><strong>Organization and manager characteristics</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of staff (mean)</td>
<td>20.4 FTE</td>
<td>14.8 FTE</td>
</tr>
<tr>
<td>Number of staff (median)</td>
<td>10 FTE</td>
<td>6 FTE</td>
</tr>
<tr>
<td>Network member</td>
<td>0.673</td>
<td>0.833</td>
</tr>
<tr>
<td>Manager’s tenure in post</td>
<td>5.0 years</td>
<td>4.7 years</td>
</tr>
<tr>
<td>Female manager</td>
<td>0.522</td>
<td>0.840</td>
</tr>
<tr>
<td>No. of competitors (20k)</td>
<td>22.0</td>
<td>22.6</td>
</tr>
<tr>
<td><strong>Outcome indicators</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low performer</td>
<td>0.147</td>
<td>0.118</td>
</tr>
<tr>
<td>High performer</td>
<td>0.235</td>
<td>0.235</td>
</tr>
<tr>
<td>Staff left within last 12 months</td>
<td>0.587</td>
<td>0.480</td>
</tr>
<tr>
<td>N</td>
<td>32</td>
<td>25</td>
</tr>
</tbody>
</table>

Notes: All information is from survey responses, apart from the number of competitors, which is derived from information on the population of agencies/homes and the ratings (low/ high performer) which are obtained from the industry regulators.
## Appendix B

### MANAGEMENT PRACTICE INTERVIEW GUIDE: FOSTER/ADOPTION AGENCIES

#### LEAN MANAGEMENT

(1) Standardisation of processes
Tests how well processes are structured and standardized – focusing on matching of children with foster carers/ adoptive parents

<table>
<thead>
<tr>
<th></th>
<th>Score 1</th>
<th>Score 3</th>
<th>Score 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Can you briefly describe the process for finding a suitable foster carer / potential adoptive parent (<em>need to tailor to agency</em>) for a particular child? How formally is this defined and/or standardised?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>How do you identify and then deal with the diverse needs of individual children? How much flexibility does a case worker/manager have to move outside the protocol?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>How do you ensure that the process is followed in each case? That is, how is it evaluated/ reviewed?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| d. | How do you define whether the match between the carer/ potential adoptive parent (*need to tailor to agency*) and the child has been successful?

**Scoring grid:**
- Unable to articulate a clearly defined process; no protocols for ensuring that the process is followed or that the outcome is successful
- Processes are in place, but there is little monitoring and/or attempt to validate outcomes.
- The agency has adopted a clearly defined process that is able to deal with diverse needs; processes are followed with comprehensive monitoring/ oversight and follow-up to ensure that outcomes are successful

(2) Continuous improvement
Tests process for and attitudes to continuous improvement and whether there is a process for learning and for innovating

<table>
<thead>
<tr>
<th></th>
<th>Score 1</th>
<th>Score 3</th>
<th>Score 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>When a problem occurs, (for example one arising with a child placed with foster carers/ adoptive parents), how do such problems typically become exposed and then fixed?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| b. | Can you talk me through the process to deal with a recent problem that you faced? Were there any changes to procedures as a result (NOTE: may not apply to all problems mentioned...)
| c. | How do different staff groups or agency workers get involved in dealing with problems? |
| d. | To what extent do staff (specify that this includes foster carers if relevant) suggest improvements to processes (eg recruiting foster carers/ provision of services for children)? Can you think of any examples of a staff idea was taken forward? |

**Scoring grid:**
- Process improvements are made when problems occur. Limited involvement of staff; suggestions from staff/ carers are not sought/ developed.
- Process review and improvements occurs at irregular meetings involving all staff groups; some attempt to develop ideas from the bottom up, but not systematic.
- Exposing problems in a structured way is integral to individuals’ responsibilities. Resolution involves all involved staff/carers as a part of regular business. For innovation, agency seeks ideas from staff/ carers and has process for implementation.
(3) Performance tracking
Tests whether the overall performance of the agency is tracked using meaningful metrics and with appropriate regularity

   a. What kind of performance/ quality indicators do you use to keep track of how your agency is performing? (have examples ready)
   b. How do these indicators apply to individual members of staff?
   c. What indicators do you use to track the performance of foster carers? (note fostering only)
   d. How frequently is performance of the agency measured? Who gets to see the performance information?

<table>
<thead>
<tr>
<th>Score 1</th>
<th>Score 3</th>
<th>Score 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>No clear idea of how overall performance is measured (other than government targets). Performance measurement is ad-hoc.</td>
<td>Most important performance indicators are tracked formally; tracking is overseen by senior staff.</td>
<td>Performance is continuously tracked and communicated against most critical measures, both formally and informally, to all staff using a range of visual management tools</td>
</tr>
</tbody>
</table>

(4) Performance review
Tests whether performance of individual members of staff is reviewed in a comprehensive way.

   a) How do you review your main performance indicators? (NOT STAFF)
   b) Can you describe a recent performance review meeting? How often do these meetings take place?
   c) Who is involved in these meetings? Who within the agency then gets to see the results of this review?
   d) What sort of follow-up plan would there be after such a meeting?

<table>
<thead>
<tr>
<th>Score 1</th>
<th>Score 3</th>
<th>Score 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance is reviewed infrequently or in an un-meaningful way e.g. only success or failure is noted</td>
<td>Performance is reviewed periodically with both successes and failures identified. No clear follow up plan is adopted.</td>
<td>Performance is continually reviewed, based on the indicators tracked. All aspects are followed up to ensure continuous improvement.</td>
</tr>
</tbody>
</table>

(5) Performance dialogue
Tests the quality of review conversations

   a) How are these performance review meetings structured OR How is the agenda for review meetings structured determined?
   b) When you get together, do you generally find that you do have enough information on performance data? How is this data used?
   c) When a problem is discussed during these meetings, how do you identify the root cause?

<table>
<thead>
<tr>
<th>Score 1</th>
<th>Score 3</th>
<th>Score 5</th>
</tr>
</thead>
</table>

**Scoring grid:**
The right information for a constructive discussion is often not present or the quality is too low; conversations focus overly on data that is not meaningful. Clear agenda is not known and purpose is not explicitly. Next steps are not clearly defined.

Review conversations are held with the appropriate data present. Objectives of meetings are clear to all participating and a clear agenda is present. Conversations do not, drive to the root causes of the problems, next steps are not well defined.

Regular review/performance conversations focus on problem solving and addressing root causes. Purpose, agenda and follow-up steps are clear to all. Meetings are an opportunity for constructive feedback and coaching.

---

**Consequence management**
Tests whether differing levels of (personal) performance lead to different consequences (good or bad)

a) Let’s say you’ve agreed to a follow up plan at one of your meetings, what would happen if the plan was not enacted?
b) How long is it between when a problem is identified to when it is solved? (For example – what if there was a problem with one of the children you placed) Can you give me a recent example?
c) How do you deal with repeated failures for a particular WHAT?

**Score 1**
**Score 3**
**Score 5**

**Scoring grid:**
Failure to achieve agreed objectives does not carry any consequences

Failure to achieve agreed results is tolerated for a period before action is taken

A failure to achieve agreed targets drives retraining in identified areas of weakness or moving individuals to where their skills are appropriate.

---

**Target management**

**Target balance**
Tests whether there are meaningful targets for the organisation

a) What types of specific targets are set for your organisation? Can you give some examples?
b) To what extent are these targets determined by outside bodies – such as central government, the local authority or the regulator (Ofsted)?
c) Can you tell me about any targets that are not set by outside bodies? How do the targets link together?

**Score 1**
**Score 3**
**Score 5**

**Scoring grid:**
Goals focussed only on government targets and achieving the budget

Some internal goals/ targets. But not that comprehensive/ well-integrated.

Comprehensive range of internal targets covering a number of dimensions. Targets are well-integrated.

---

**Target inter-connection**
Tests whether targets are linked to overall objectives and how well they cascade down the organisation
a. What is the motivation behind these goals – how would you say they are determined?
b. How are these targets cascaded down through the organisation to staff teams or to individual members of staff?
c. Do departments/ individual members of staff have their own targets? If so, how are they determined? How are they linked to the organisation’s overall objective?

**Score 1** | **Score 3** | **Score 5**
---|---|---
Goals do not cascade down the organisation | Goals do cascade, but only to some staff groups | Goals increase in specificity as they cascade, ultimately defining individual expectations, for all staff groups

**Scoring grid:**

**9) Time horizon of targets**

Tests whether organisation has a rational approach to planning and setting targets

a) What kind of time scale do your targets cover? To what extent are they short-term/long-term?
b) Which goals receive the most emphasis – short-term or long-term?
c) Are the long term and short term goals set independently? How are the long-term and short-term goals linked together?
d) Could you meet all your short-run goals but miss your long-run goals?

**Scoring grid:**

**10) Target stretch**

Tests whether targets are appropriately difficult to achieve

a) How tough are your targets? Do you feel pushed by them?
b) On average, how often would you say that you meet your targets?
c) Do you feel that all teams of staff are equally pushed in meeting their targets? Or do some groups get easier targets?

**Scoring grid:**

**11) Clarity and comparability of targets**
Tests how easily understandable performance measures are and whether performance is openly communicated

(a) If I asked your staff directly whether they had been given individual performance targets, what would they tell me?
(b) Do people think about how their performance compares to the performance of other people? How would they be able to make any assessment of their relative performance?
(c) Do you compare or rank staff performance in any way?

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<td>Performance measures are complex and not clearly understood, or only relate to government targets. Individual performance is not made public.</td>
<td>Performance measures are well defined and communicated; performance is public at all levels but comparisons are discouraged.</td>
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TALENT MANAGEMENT

(12) Rewarding high performers
Tests whether good performance is rewarded proportionately

(a) How does your appraisal system for staff work?
(b) Do you also operate an appraisal system for foster carers? If so, how does that system work?
(c) How do you reward your best performers, financially and non-financially? How about foster carers (if relevant)?
(d) Overall, how does your reward system compare to that at other comparable organisations?

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<td>Not much systematic appraisal and people are rewarded equally irrespective of performance level.</td>
<td>There is an evaluation system for the awarding of performance related rewards at the individual level; these are mainly non-financial and rewards are always or never achieved.</td>
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(13) Removing poor performers
Tests whether organisation is able to deal with underperformers

(a) If you had a social worker who was struggling or could not do his or her job, what would you do? Can you give me a recent example?
(b) What about foster carers?
(c) How long would underperformance be tolerated?
(d) Are there some members of staff members who seem to lead a charmed life? Do some individuals always just manage to avoid being fixed/fired?

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(14) Promoting high performers
Tests whether promotion is performance based

a) Can you tell me about career progression and the promotion system within your organisation?

b) How would you identify and develop your star performers?

c) What types of professional development opportunities are provided and how are these personalised to meet individual needs?

d) Are better performers likely to be promoted faster or are promotions given on the basis of tenure/seniority?

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<tr>
<td>People are promoted primarily on the basis of tenure</td>
<td>People are promoted upon the basis of performance</td>
<td>We actively identify, develop and promote our top performers</td>
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</table>

(15) Managing talent
Tests what emphasis is put on talent management

a) How do you ensure that you have enough of the right type of staff and foster carers in your organisation?

b) How do you seek out and source staff? What about foster carers?

c) What do you use as hiring criteria for staff and foster carers? What strategies do you use to recruit the right people?

d) Do senior members of staff get any reward for bringing in and keeping talented people – either working directly for the organisation or as foster carers?

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<td>Senior staff do not communicate that attracting, retaining and developing talent throughout the organisation is a top priority</td>
<td>Senior management believe and communicate that having top talent throughout the organisation is key to good performance</td>
<td>Senior staff are evaluated and held accountable on the strength of the talent pool they actively build</td>
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(16) Retaining talent
Tests whether organisation will go out of its way to keep its top talent

a) If your best social worker wanted to leave, what would you do to persuade him or her to stay?

b) Can you give me any examples where star performers have been persuaded to stay?

c) Can you give me any examples where star performers have left without anyone trying to keep them?

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<td>We do whatever it takes to retain our top talent across all three staff groups</td>
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</table>
## (17) Attracting talent
Tests how strong the employee value proposition is

### a) What makes it distinctive to work at your agency, as opposed to another, similar agency?

### b) Suppose I was a well-qualified social worker with an excellent track record that you wanted to hire, how would you persuade me to come and work for your organisation? What about foster carers?

### Scoring grid:

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<td>Scoring grid:</td>
<td>Our competitors offer stronger reasons for talented people to join their hospitals</td>
<td>Our value proposition to those joining our department is comparable to those offered by others hospitals</td>
</tr>
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</table>
(18) Effective Care Management Processes and personalisation
Tests how the motivation and impetus behind changes to operations and what change story was communicated and how well the care management process is configured

a) Can you briefly describe the client profile? That is, the main type of client, their major needs etc. How clear and/or concise is your organisation’s client profile defined?
b) How much emphasis is placed on defining your organisation’s client profile? How are these needs then accommodated for in the care management process?
c) How do you as a manager ensure that this level of care? How is personalisation monitored or evaluated?

**Score 1**  Changes are not substantially based on the details of resident needs or profile. No structured or effective feedback process to communicate the changes taking place among the resident needs.

**Score 3**  Changes are noticed, implemented regularly but there are few documented and formal systems to control this process.

**Score 5**  Changes were made to improve overall performance, based on client needs and profile, and financial, with buy-in from all affected staff groups. The changes were communicated in a coherent ‘change story’ with a structured, pro-active mechanism for transmitting, recording and acting on this data.

(19) Rationale for introducing operational improvements
Tests motivation and impetus behind changes to operations and how the change story was communicated

a) Has the main care management process changed in the recent years? How frequently do these changes occur?
b) What is the main rationale for making operational improvements to the care management process or pathway? Can you give me a recent example?
c) Who typically drives these changes?

**Score 1**  Changes were imposed in a top down manner or because others were making (similar) changes, rationale was not communicated or understood

**Score 3**  Changes were made because of financial pressure and the need to save money or as a (short-term) measure to achieve government and/or external targets

**Score 5**  Changes were made to improve overall performance, both clinical and financial, with buy-in from all affected staff groups. The changes were communicated in a coherent ‘change story’
### (20) Standardisation and alignment of Case Management Processes
Tests how well processes are structured and standardized and how CMP is applied and monitored systematically

- a) How standardised are the main processes for case management?
- b) How clear are (clinical) staff members about how the treatment of specific procedures should be carried out?
- c) What tools and resources do the clinical staff employ to insure care plans are followed correctly (i.e. that the patients get the correct tests done, medications, or therapy session on time)?
- d) How are managers able to monitor whether or not clinical staff are following established protocols?

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<tr>
<td>Little standardisation and few protocols exists, e.g., different staff members have different approaches to the same treatments</td>
<td>Protocols have been created, but are not commonly used, e.g., because they are too complicated or not monitored adequately (may be on website or in manual only)</td>
<td>Processes and protocols are known and used by all staff and regularly followed up on through some form of monitoring or oversight; clients are informed of expectations for their care</td>
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### (21) Continuous improvement
Tests process for and attitudes to continuous improvement and whether there is a process for learning and for innovating

- a) With regard to the operations of management process, when problems occur – how do they typically get exposed and fixed?
- b) Can you talk me through the process organisation went through when you faced a recent problem? (see prompt list)
- c) When specific process does change, what is the main driver of this change?
- d) Who within the organisation typically gets involved in changing or improving? How do/can different staff groups get involved in this process? Can you think of any examples of how/when ideas were taken forward?

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<td>Process improvements are made when problems occur. Limited involvement of staff; suggestions from staff are not sought/developed.</td>
<td>Process review and improvements occurs at irregular meetings involving all staff groups; some attempt to develop ideas from the bottom up, but not systematic.</td>
<td>Exposing problems in a structured way is integral to individuals’ responsibilities and resolution involves all staff groups, along the entire care management process as a part of regular business processes rather than by extraordinary effort/teams</td>
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</table>
(22) Performance tracking
Tests whether performance is tracked using meaningful metrics and with appropriate regularity

a) What kind of performance/ quality indicators do you use to keep track of how the organisation is performing? (examples - clinical, as in response times to button calls; corporate – bed occupancy rates; or stakeholder – patient satisfaction, or parent organization’s mission objectives)

b) How frequently is performance measured? Who gets to see the performance information?

c) If I were to walk through your nursing/ residential care home, how could I tell how it was doing against these main indicators?

Score 1: No clear idea of how overall performance is measured (other than government targets).
Score 3: Most important performance indicators are tracked formally; tracking is overseen by senior staff.
Score 5: Performance is continuously tracked and communicated against most critical measures, both formally and informally, to all staff using a range of visual management tools.

(23) Performance review
Tests whether performance is reviewed with appropriate frequency and communicated with staff

a) How do you review the performance of your members of staff, both formally and informally?
b) Can you describe a recent performance review meeting?
c) Who is involved in these meetings? Who gets to see the results of this review?
d) What sort of follow-up plan would there be after such a meeting?

Score 1: Performance is reviewed infrequently or in an un-meaningful way e.g. only success or failure is noted.
Score 3: Performance is reviewed periodically with both successes and failures identified. No clear follow up plan is adopted.
Score 5: Performance is continually reviewed, based on the indicators tracked. All aspects are followed up to ensure continuous improvement.

(24) Performance dialogue
Tests the quality of review conversations
a) How are performance/quality review meetings structured?  
b) How do you make use of performance data or metrics during any of these meetings? When you do get together, do you generally find that you do have enough information?  
c) What type of feedback occurs in these meetings?  
d) When a problem is discussed during these meetings, how do you identify the root cause?  

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<tr>
<td>The right information for a constructive discussion is often not present or the quality is too low; conversations focus overly on data that is not meaningful. Clear agenda is not known and purpose is not explicitly. Next steps are not clearly defined</td>
<td>Review conversations are held with the appropriate data present. Objectives of meetings are clear to all participating and a clear agenda is present. Conversations do not drive to the root causes of the problems, next steps are not well defined</td>
<td>Regular review/performance conversations focus on problem solving and addressing root causes. Purpose, agenda and follow-up steps are clear to all. Meetings are an opportunity for constructive feedback and coaching</td>
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**(25) Consequence management**  
Tests whether differing levels of (personal) performance lead to different consequences (good or bad)  

a) Let's say you've agreed to a follow up plan at one of your meetings, what would happen if the plan was not enacted?  
b) How long is it between when a problem is identified to when it is solved? Can you give me a recent example?  
c) How do you deal with repeated failures in specific areas of the home or with certain processes?  

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<td>Failure to achieve agreed objectives does not carry any consequences</td>
<td>Failure to achieve agreed results is tolerated for a period before action is taken</td>
<td>A failure to achieve agreed targets drives retraining in identified areas of weakness or moving individuals to where their skills are appropriate</td>
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**TARGET MANAGEMENT**  

**(26) Target balance**  
Test whether there are meaningful targets for the organisation
a) What types of specific targets are set for your organisation?
b) To what extent are these targets determined by outside bodies – such as government departments, the local authority or the regulator? Can you tell me about any targets that are not set by outside bodies?

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<td>Scoring grid:</td>
<td>Goals focussed only on government targets and achieving the budget</td>
<td>Some internal goals/ targets. But not that comprehensive/ well-integrated.</td>
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(27) Target inter-connection
Tests whether targets are linked to overall objectives and how well they cascade down the organisation

a) “How are these goals determined?” OR “What is the motivation behind these goals?”
b) How would you say these targets are linked to your organization’s long term goals or objectives?
c) How are these targets cascaded down through the organisation – both to staff teams or to individual members of staff?
d) Do departments/ individual members of staff have their own targets? If yes, how are they determined? How are these linked to the organisation’s overall objective?

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<td>Scoring grid:</td>
<td>Goals do not cascade down the organisation</td>
<td>Goals do cascade, but only to some staff groups</td>
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(28) Time horizon of targets
Tests whether organisation has a rational approach to planning and setting targets

a) What kind of time scale do your goals/ targets cover?
b) Are the long term and short term goals set independently? How are these long-term and short-term goals linked together?
c) Which goals receive the most emphasis – short-term or long-term?
d) Do you think you could meet all your short-run goals but miss your long-run goals?

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**Scoring grid:** Top staff’s main focus is on short term targets. There are short and long term goals for all levels of the organisation. As they are set independently, they are not necessarily linked to each other. Long term goals are translated into specific short term targets so that short term targets become a ‘staircase’ to reach long term goals.

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### (29) Target stretch
Tests whether targets are appropriately difficult to achieve

- **a)** How tough are your targets? Do you feel pushed by them?
- **b)** On average, how often would you say that you meet your targets?
- **c)** Do you feel that all teams of staff are equally pushed in meeting their targets? Or do some groups get easier targets?

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<td>Goals are either too easy or impossible to achieve, at least in part because they are set with little involvement of key staff, e.g., simply off historical performance.</td>
<td>In most areas, senior staff push for aggressive goals based, e.g., on external benchmarks, but with little buy-in from clinical staff. There are a few sacred cows that are not held to the same standard.</td>
<td>Goals are genuinely demanding for all parts of the organisation and developed in consultation with senior staff, e.g., to adjust external benchmarks appropriately.</td>
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### (30) Clearly defined accountability of leadership for care home managers.
Tests whether there are formal leadership roles and accountability for care home managers to deliver targets

- **a)** Can you tell me about the role that senior staff members have in improving performance and achieving targets?
- **b)** How are individual senior staff members responsible for delivery of targets? Does this apply to cost targets as well as quality targets?
- **c)** How do senior staff members take on roles to deliver cost improvements? Are they selected for this role or do they volunteer? Can you think of examples?

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<td>Little organized allocation of responsibility for meeting targets with no organized consequences for failing to meet goals. Areas of responsibility are either clinical or business oriented and do not require managers to consider the needs of the home holistically.</td>
<td>There is some accountability for combined clinical and business dimensions, but this might be diffused within a team or not carry sufficient consequences to effectively lead behaviour. Line-job performance still considered to be the main part of the job.</td>
<td>Formal accountability across multiple responsibility dimensions with effective performance management and consequences for good/poor performances.</td>
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### (31) Clarity and comparability of targets
Tests how easily understandable performance measures are and whether performance is openly communicated

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<tr>
<td>a)</td>
<td>If I asked someone on your staff directly about his or her individual targets, what would he or she tell me?</td>
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<td>b)</td>
<td>Does anyone complain that the targets are too complex?</td>
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<td>c)</td>
<td>How do people know how their own performance compares to other people’s performance?</td>
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**Scoring grid:**
- Performance measures are complex and not clearly understood, or only relate to government targets. Individual performance is not made public.
- Performance measures are well defined and communicated; performance is public at all levels but comparisons are discouraged.
- Performance measures are well defined, strongly communicated and reinforced at all reviews; performance and rankings are made public to induce competition.

### (32) Rewarding high performers
Tests whether good performance is rewarded proportionately

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<td>a)</td>
<td>How does your appraisal system work? How does the staff pay relate to the result of this appraisal/review?</td>
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<td>b)</td>
<td>How do you reward the best performers, financially and non-financially?</td>
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<td>c)</td>
<td>How does the bonus system work? For both managers and non-managers.</td>
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<td>d)</td>
<td>Overall, how does your reward system compare to that at other comparable organisations?</td>
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**Scoring grid:**
- Not much systematic appraisal and people are rewarded equally irrespective of performance level.
- There is an evaluation system for the awarding of performance related rewards at the individual level; these are mainly non-financial and rewards are always or never achieved.
- There is an evaluation system for the awarding of performance related rewards, including personal financial rewards.

### (33) Removing poor performers
Tests whether organisation is able to deal with underperformers
a) If you had a staff member who was struggling or could not do his or her job, what would you do? Can you give me a recent example?
b) How long would underperformance be tolerated?
c) Are there some members of staff members who seem to lead a charmed life? Do some individuals always just manage to avoid being fixed/fired?

Score 1 | Score 3 | Score 5
---|---|---
Scoring grid: Poor performers are rarely removed from their positions | Suspected poor performers stay in a position for more than a year before remedial action is taken | We move poor performers out of the agency or to less critical roles as soon as a weakness is identified

(34) Promoting high performers
Tests whether promotion is performance based

a) Can you tell me about career progression and promotion system within your organisation?
b) How would you identify and develop your star performers?
c) What types of professional development opportunities are provided to staff? How are these personalised to meet individual needs?
d) How would you balance between tenure/seniority and performance when it comes to making these decisions? Are better performers likely to be promoted faster or are promotions given on the basis of tenure/seniority?

Score 1 | Score 3 | Score 5
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Scoring grid: People are promoted primarily on the basis of tenure | People are promoted upon the basis of performance | We actively identify, develop and promote our top performers

(35) Managing talent
Tests what emphasis is put on talent management

a) How do managers show that attracting talented individuals and developing their skills is a top priority?
b) How do you ensure you have enough staff of the right type in your organisation?
c) Where do you seek out and source staff? What strategies do you use to recruit the right people?
d) Do senior members of staff get any rewards for bringing in and keeping talented people?

Score 1 | Score 3 | Score 5
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Scoring grid:

Senior staff do not communicate that attracting, retaining and developing talent throughout the organisation is a top priority  
Senior management believe and communicate that having top talent throughout the organisation is key to good performance  
Senior staff are evaluated and held accountable on the strength of the talent pool they actively build

(36) Retaining talent
Tests whether organisation will go out of its way to keep its top talent

a) If your best staff member wanted to leave, what would you do to persuade him or her to stay?

b) Can you give me any examples of where star performers have been persuaded to stay?

c) Can you give me any examples of where star performers have left without anyone trying to keep them?

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Scoring grid:
We do little to try and keep our top talent  
We usually work hard to keep our top talent  
We do whatever it takes to retain our top talent across all three staff groups

(37) Attracting talent
Tests how strong the employee value proposition is

a) What makes it distinctive to work at your care home, as opposed to another, similar care home?

b) Suppose I was a well-qualified potential staff member that you wanted to hire, how would you persuade me to come and work for your organisation?

Score 1  Score 3  Score 5

Scoring grid:
Our competitors offer stronger reasons for talented people to join their care homes  
Our value proposition to those joining our department is comparable to those offered by other care homes  
We provide a unique value proposition to encourage talented people join our department above our competitors