

4 PERFORMANCE MEASURES

Objective

Strategic, performance measurement-based management systems allow an organization to align its business activities to its strategy, and to monitor performance toward strategic goals over time.

Definitions

Performance Measures should identify the population to be measured, the method of the measurement, and the data source and time period for the measurement. Each measure should also be:

- objective
- easy to understand
- controllable by minimizing outside influences
- timely
- accurate
- cost-effective
- useful
- motivating
- trackable

Performance Measures are quantitative or qualitative ways to characterize and define performance. They provide a tool for organizations to manage progress towards achieving predetermined goals, defining key indicators of organizational performance and Customer satisfaction.

Performance Measurement is the process of assessing the progress made (actual) towards achieving the predetermined performance goals (baseline). Measurement is managed using output measures and outcome measures.

Output measures are calculations of recorded activity or effort expressed quantitatively or qualitatively.

Outcome measures are an assessment of the results of a program compared to its intended purpose.

How does an enterprise (agency, business) know how well it's doing? As the vagaries of the stock market have shown us, there is more to a company's performance than just its financials. High-performing enterprises actively identify "key performance indicators," and measure their progress against established target values for those indicators, as a way of measuring their effectiveness. This is performance management, and the key indicators are the Performance Measures (or metrics) of the enterprise.

Performance management is used to track an organization's progress against its strategic plan and specific performance goals. While Performance Measures may be applied to individual projects to ensure that deadlines are met and costs are controlled, etc., it is essential for the Project Manager to understand how the project itself supports the organization's strategy, and how the project will impact or influence the organization's key Performance Measures. This chapter identifies key performance measurement terms and concepts to orient the Project Manager to this important aspect of organizational performance.

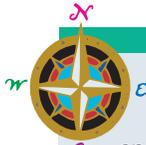
Purpose

The concept of Performance Measures may be new to many Performing Organizations. If Performance Measures do not exist in an organization, a Project Manager may want to develop a system to prove the effectiveness of his own project. In so doing, the Project Manager might also contribute to process improvements within the organization.

Project Managers should consider the following to ensure that projects align with the Performing Organization's mission and strategy:

- ◆ Does the agency have a mission and strategic plan?
- ◆ Is it clearly articulated?
- ◆ Does the organization understand how its activities contribute to mission success?
- ◆ Does understanding of the mission extend vertically throughout the organization?
- ◆ Are the measures of success focused (at least in part) on outcomes?
- ◆ Are the measures related to the mission and goals as reflected in the strategic plan?
- ◆ Are the performance data reliable?
- ◆ Are appropriate measures reported to individuals at different levels of the organization, and to external stakeholders?
- ◆ Are Performance Measures used to influence and/or inform resource allocation decisions?
- ◆ Is there any relationship between organizational performance and individual or group incentives to contribute to organizational performance?

In some organizations, projects are selected because they will enhance operational performance. For example, a project may be intended to reduce cycle time, improve time to market, or increase Customer satisfaction. The Project Manager must understand how and to what extent the performance of his/her project is expected to improve organizational performance, and how the project's effect will be measured.



Remember, performance measurements provide a mechanism for the organization to manage its financial and non-financial performance. Accountability is increased and enhanced, ensuring that projects support the organizational strategy, and that better services and greater satisfaction are provided to the Customer. Performance that is measured and reported will improve.

4.1 THE BALANCED SCORECARD

There are many different measurement frameworks, including the balanced scorecard, activity based costing, competitive benchmarking, and shareholder value added. Each of these provides a unique and different lens through which to view an organization's performance.

Most frameworks tend to be one-dimensional in perspective. For example, benchmarking tends to involve taking a largely external perspective, often comparing performance with that of competitors or other best of breed practitioners or business processes. This kind of activity is frequently pursued as an exercise to generate ideas for or obtain commitment to short-term improvement initiatives rather than to design a formalized performance measurement system. However, the balanced scorecard is a measurement framework which integrates multiple perspectives.

The balanced scorecard integrates four sets of measurements, complementing traditional financial measures with those driving future performance. An organization using this framework is encouraged to develop metrics that facilitate collection and analysis of information from the following perspectives:

- Financial
- Customer
- Learning and Growth
- Internal Business Processes

Implementation of a balanced scorecard presents an opportunity for a Performing Organization to look at its existing programs, services, and processes. Are the right services being provided to the Customers? (Are we doing the right things?) Are the processes implemented now the most efficient and cost

effective that they can be? (Are we doing things right?). Specific measures (metrics) are developed which can then be analyzed to provide answers to these questions.

Once appropriate metrics have been identified, data collection and tracking processes are put in place, the organization can begin to adjust its practices and evaluate its performance over time. A continuous feedback loop is formed, in which the organization can use measurement information to re-align initiatives as needed.

Scorecards are effective in aligning an organization's business areas and activities with its overall strategy, identifying critical financial and non-financial measures, identifying cause-and-effect relationships among measures that may aid in problem diagnosis and encourage accountability across the organization.

4.2 PERFORMANCE MEASURES IN THE PUBLIC SECTOR – A SUCCESS STORY

While executing a large initiative to improve organizational business processes, the New York State Workers' Compensation Board recognized the need to measure performance within its organization. The project was expected to dramatically improve operational effectiveness, but how could that be proved? The volume of work performed was the only measurement being calculated, and this did not reflect other aspects of organizational performance. By identifying and implementing Performance Measures the Board would also be able to measure the effectiveness of its organizational business process improvements.

Because the business process improvements being implemented were going to affect the entire organization, the Board was challenged with identifying and developing Performance Measures that would be widely applicable. Appropriate metrics were needed for Executive Management, Performing Organization Management, Project Management, and individual Project Team members. It became apparent that implementing Performance Measures to the level of detail required would become a project in and of itself! The Board assembled a Project Team that was charged with:

- Defining Performance Measures - Team members quickly realized that while many ideas and methods for performance measurement already exist, it would require some effort to find the ones that would work best for them.

- **Formulating the Project Scope** - The team needed to identify business areas that would be involved in or affected by the project and obtain buy-in from the appropriate members of Executive Management.
- **Identifying the Project Approach** - Two teams were formed. The Measures Team was responsible for developing measurements, analyzing measurement results, recommending processes for improvement, and producing deliverables. The Strategy Team was the liaison between the Measures Team and Executive Management and ensured regular communication and contact among all involved parties.
- **Developing a Plan** - The team assembled a plan that documented a phased approach to implementing Performance Measures within the organization. Earlier phases concentrated on measurements at a conceptual level. Detailed measures, measurement targets, data, and required reports were defined during subsequent phases. The outcome of the project was to be a set of detailed reports containing the information that would drive process improvements that would be consistent with the strategic vision of the organization. To enable the integration of performance measures into management programs within the organization, these reports would need to be readily produced and easily available to managers and staff.
- **Identifying Risks** - Early in the project, the team identified and documented potential risk events that might be barriers to the success of the project, and formulated plans to mitigate the risks should they occur. Some of the risk factors included:
 - Organizational inertia
 - Fear
 - Availability of funding
 - Availability of data
 - Lack of skills necessary to implement process improvements
- **Evaluating Best Practices** - The team contacted state agencies and other public sector entities to gather and evaluate existing best practices for Performance Measures. During the beginning stages of the Worker's Compensation Board project, however, very few successful implementations existed in the public sector.

Without a system of Performance Measures available “out of the box,” the team formulated a methodology that drew heavily upon the concepts of the balanced scorecard. The team discovered that there are a number of factors affecting measuring performance in a public sector enterprise that require a customized approach to implementing the balanced scorecard. Most public sector organizations are in the business of policy, not profit, whereas for-profit organizations would supplement extensive and standard measures of financial performance with the other perspectives of the scorecard. In addition, it was difficult to reconcile the business process improvement notion to “measure the process, not the people” within a system of measuring performance that encourages the linkage between strategy, process and individual performance. Also, the limited number of measures recommended by the methodology may not necessarily allow a public sector organization to meet the public’s demand for information on how the organization was performing.

Once the upfront planning was complete, the team categorized the business and functional areas that would be measured and developed a mission statement for each. Team members then agreed upon the criteria against which all proposed Performance Measures would be assessed. Depending upon the factors determining success of the business or functional areas being measured, potential measurement criteria were narrowed down to a key set. The team refined the key set of measures by defining and expressing them in terms of target goals, based on the long-term vision of Executive Management. These were refined throughout the course of the project.

The list of measures numbered only 50, but when the data was leveled, trended, sliced, and diced, it translated into 300 reports! It was then necessary for the team to define a way to deliver the information contained in the reports in a way that would be meaningful and could translate into process improvements. Data were grouped into reports appropriate to the selected audience: Executive Management, Performing Organization Management, Project Management, and individual Project Team members. Standards were defined to report data in a valid, user-friendly way, displaying information as it related to defined target goals.

With the support of Executive Management, business process improvements based upon the data collected and reflected in

the reports were introduced in the organization. Measurements translated into results! For example:

- As a result of re-engineering, the average time required to index a case at the Board dropped from 31.4 days to 16.5. After implementing Performance Measures for this process, the average days dropped again to 6.7, with the best practices district achieving an average of only 3.4 days.
- The number of cases resolved through informal processes increased from 2100 per month to 3750 per month. Shortly after implementing Performance Measures, with fewer claims examiners, the number increased to 5000.
- Despite a 300% increase in the volume of Administrative Determinations produced by Worker's Compensation Claims Examiners, the approval rate for Administrative Determinations remains above 95%.
- Every area of the Board's operations related to handling claims for benefits saw improvement almost immediately after implementing Performance Measures.
- Although the Board's Electronic Case Folder (the technological cornerstone of the OPTICS project) is nearly 4 years old, through continuous improvement activities and Performance Measures the Board continues to see improvement in its business processes.
- Areas not yet measured continue to provide opportunities for improvement.

The following were noted by the Worker's Compensation Board as important lessons learned as a result of successfully implementing a Performance Measures system:

- Strong executive sponsorship is critical in order to resolve policy and strategy issues that arise when an organization attempts to implement a successful Performance Measures system. In fact, some propose that "Leadership" should be added as a fifth perspective to the balanced scorecard for public sector organizations.
- Measures should come in sets. Measures drive behavior and, therefore, balance must exist not only between the components of the framework but within each component.
- It is easy to develop measures – the challenge is defining the right set of measures that tie directly to the strategic vision for the organization.

- Measures must be few in number, have quantifiable goals, and be derived from what drives operational success in the organization.
- Set targets! If you cannot establish a target for a proposed measure you must ask the question “Why do we measure this?”
- If meeting the performance goals of the strategic vision is not possible at the outset, establish pragmatic targets for today. Review these targets periodically and increase them over time until they meet the vision. If you do this, you will establish a culture of continuous improvement!
- Measures must be produced more frequently than an annual report.
- Reporting standards reduce the learning curve and ease the process of implementing Performance Measures in the field.
- Measures should, wherever possible, involve the individual performer; but supervisors and managers must not confuse a scorecard with a report card. Performance Measures supplement the traditional performance evaluation process.
- When implemented correctly, an organization should see improvements in every area measured.

The success of the efforts of the Worker’s Compensation Board did not go unnoticed. The MIRROR Project (**M**anagement **I**nformation, **R**esearch, **R**eferences and **O**perational **R**eports), which has been described as one-stop shopping for performance data and information about the performance measures project, has won the following prestigious awards:

Winner - Workforce Champions 2001

New York State Governor’s Office of Employee Relations
<http://www.goer.state.ny.us/Train/wfc/2002>

The annual Work Force Champions Award recognizes teams of New York State employees for their exceptional efforts in making their respective agencies better at achieving their objectives. The Work Force Champions Award was established at the direction of Governor Pataki to recognize Executive Branch employees for their noteworthy accomplishments within State

government," said Acting Director Currier. "This award program publicly acknowledges employees for their outstanding contributions, and showcases their achievements so other agencies can learn about the creative initiatives and solutions that exist throughout State government."

Winner - Prize for Public Service Innovation 2002

Citizens Budget Commission
<http://www.cbcny.org>

Through the Prize for Public Service Innovation the Citizens Budget Commission (CBC) seeks to identify and highlight a New York State government agency that demonstrates an innovative approach to providing government services. The CBC awards this prize both to celebrate creative thinking and to share government achievements with the public and other agencies.

The CBC Prize for Public Service Innovation was established in 1997 to recognize and promote successful innovations in the delivery of public services. The Trustees of the CBC instituted a prize schedule that alternates annually between New York City and New York State agencies.

Winner - 2001-2002 Best Practices Award

New York State Forum for Information Resource Management
<http://www.nysfirm.org/index.html>

The Forum recognizes outstanding work done during the past year in the area of Information Resource Management by New York state and local government organizations.

Winner - Computerworld Honors Program Laureate 2003

Computerworld Honor Program – A Search for New Heroes
<http://www.cwheroes.org>

The Computerworld Honors Program brings together the Chairmen or Chief Executive Officers of the foremost information technology companies in the world and the world's leading universities, libraries and research institutions to document a revolution in progress: the global information technology revolution. Established in 1988, the Program is dedicated to identifying the men and women, organizations and institutions, that are leading this revolution and to recording the impact of their achievements on society.

The MIRROR is also under consideration for a Computerworld Honors Program Worldwide Finalist and Computerworld Honors Program 21st Century Achievement Award to be selected in June, 2003.

Semi-Finalist - 2002 Innovations in American Government Competition

Harvard University John F. Kennedy School of Government
<http://www.innovations.harvard.edu>

Launched in 1985, the Innovations in American Government is an awards program of the Institute for Government Innovation in partnership with the Council for Excellence in Government funded by the Ford Foundation. It has become a significant force in identifying and promoting excellence and creativity in the public sector. Through this annual awards competition, the program has recognized 295 innovative programs, which have received \$17.9 million in Ford Foundation grants. By highlighting exemplary models of government's innovative performance, the Program serves as a catalyst for continued progress in addressing the country's most pressing public concerns.

The MIRROR continues to be under consideration for winning this award to be determined in April 2003.

In addition to these awards, the MIRROR's technical achievement, based on an early prototype, was recognized by Sybase, Inc. and presented at the company's annual international technical conference Tech Wave 2000 - Los Angeles, California.