Using Measurement to Manage Connecting the Scorecard to Reality

Don Oxley

TeraQuest Metrics, Inc.

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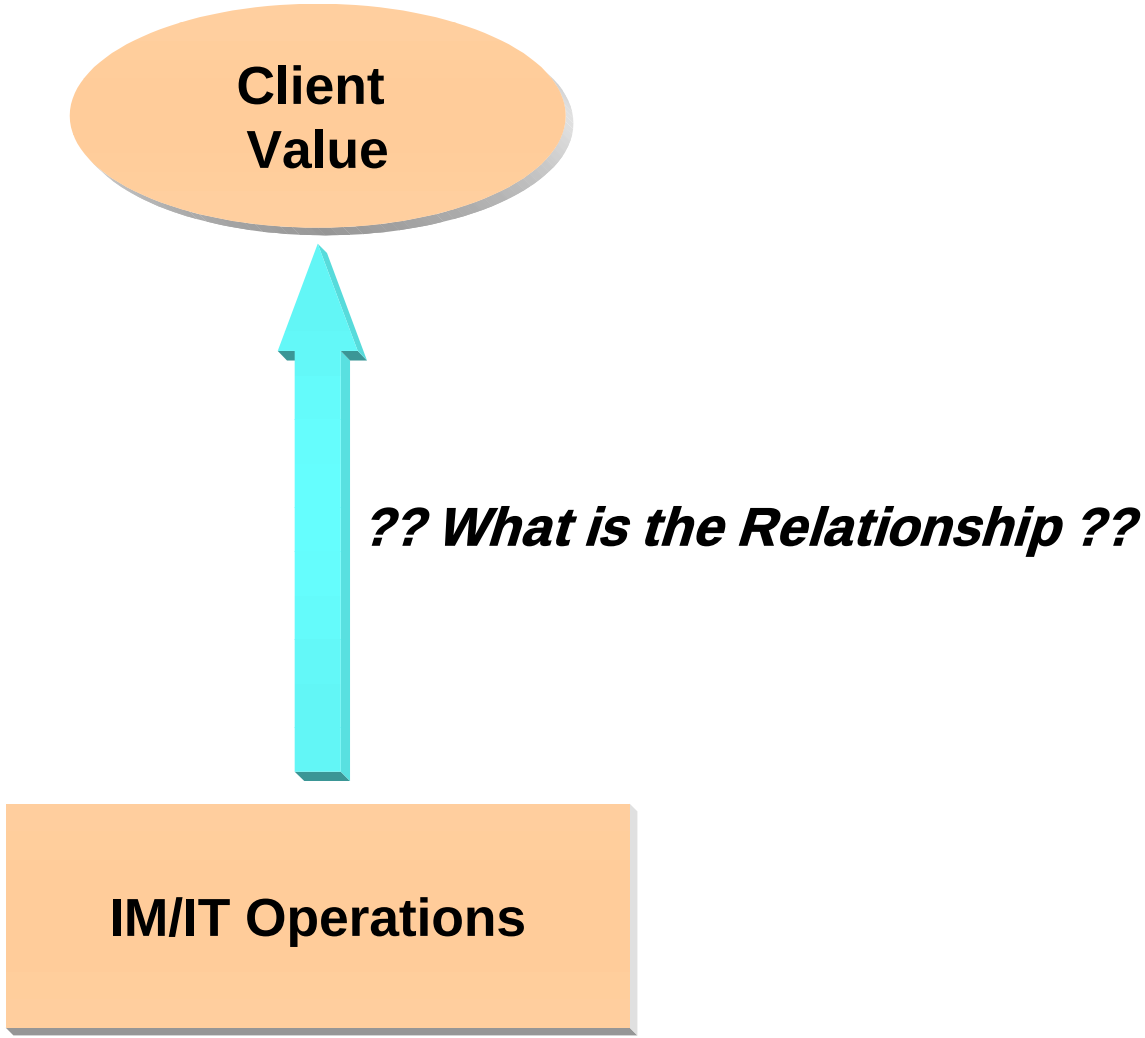
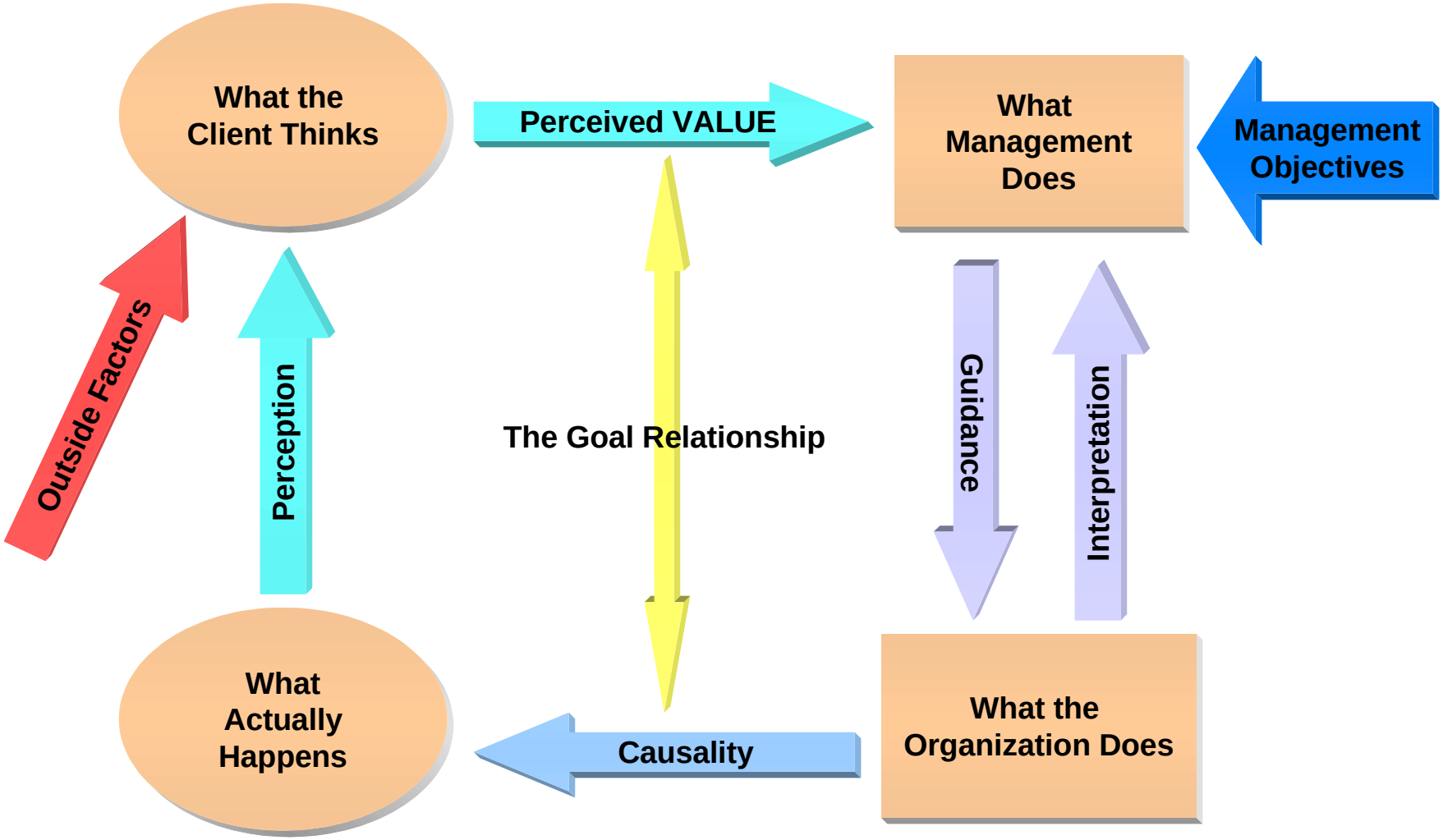
What Are We Trying to Do?



The Value System



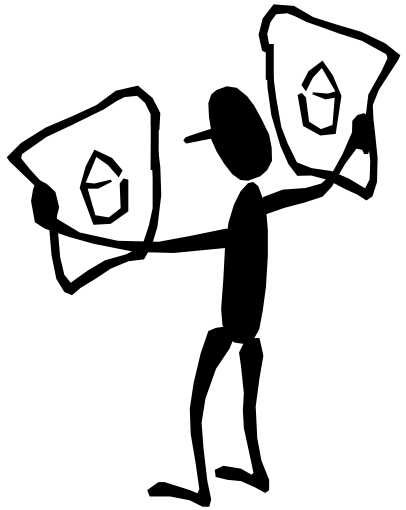
Key Relationships

What is the relationship between organizational actions (causality) and client perceived value

- **Not easily observable**
- **Subject to many outside influences**

What is the relationship between management direction and organizational behavior

- **Difficult, but can be done**
- **May not influence client perception**



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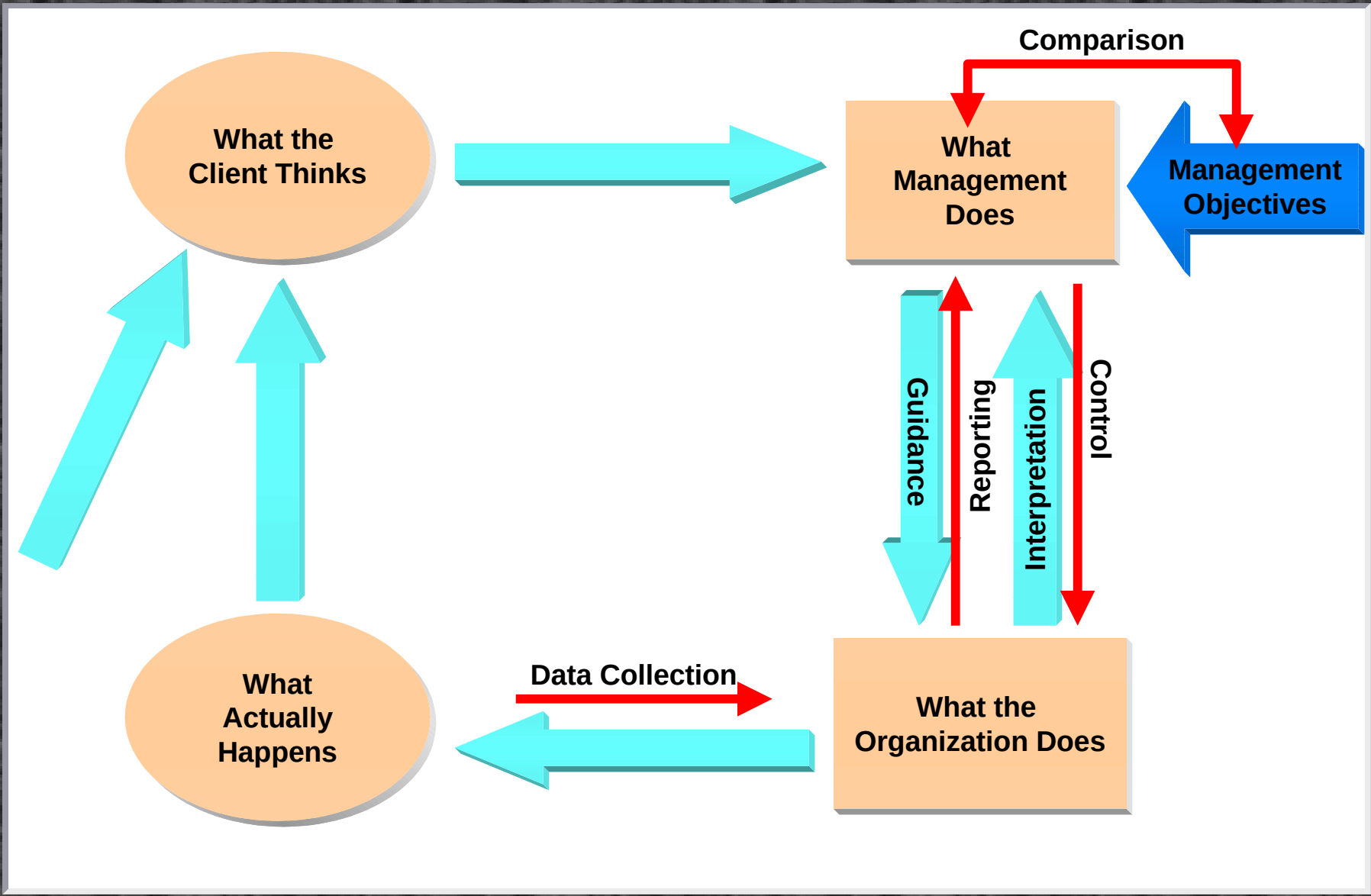
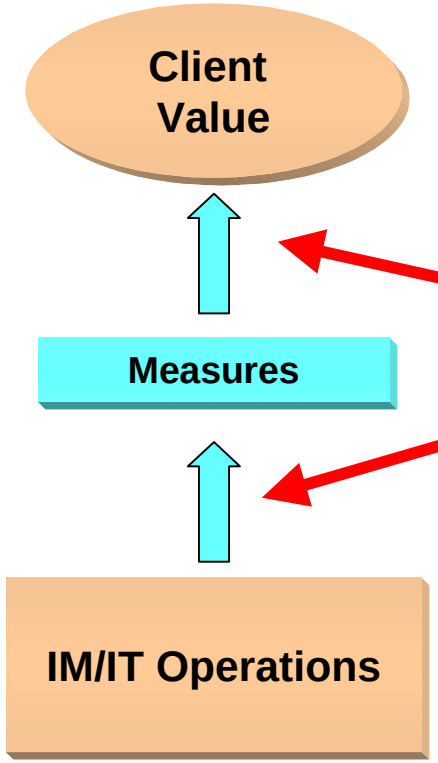
Measurement Systems



Measurement vs. Value

The measurement system can tell you what happened

The measurement system can NOT tell you whether it is worthwhile



We must have both an "Interpretation System" and a "Measurement System"

Determining "Value"

The basis for value

- Requires a well-formed "vision"
- Is viewed as a solution to an acknowledged problem
- The vision is not generally directly deduced from the problem, thus the solution requires "marketing"

Creating the measure

- Establish quantitative indicators that will be <u>defined</u> to represent value
- Build consensus on the definition (a <u>leadership</u> problem)
- Be prepared to make changes, within reason

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IM/IT

Addresses a subset of the organization's problem

- **Often an enabler**
- **Often blamed for failure**
- **Seldom credited for success**

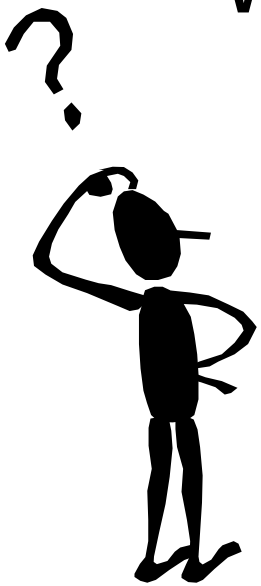
With well defined organizational objectives, the IM/IT objects may be meaningless

Except measures that are independent of specific objectives

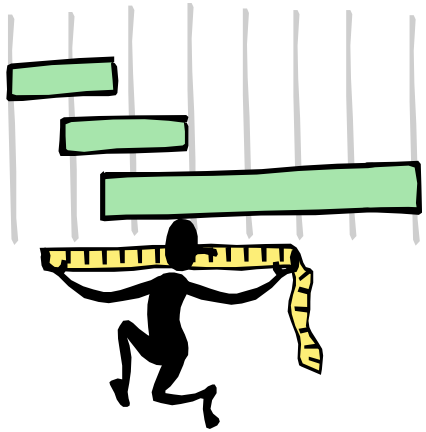
- **Reducing costs with same results**
- **Increasing efficiency with same results**
- **Reducing errors/improving "quality"**

Generic measures are a good place to start

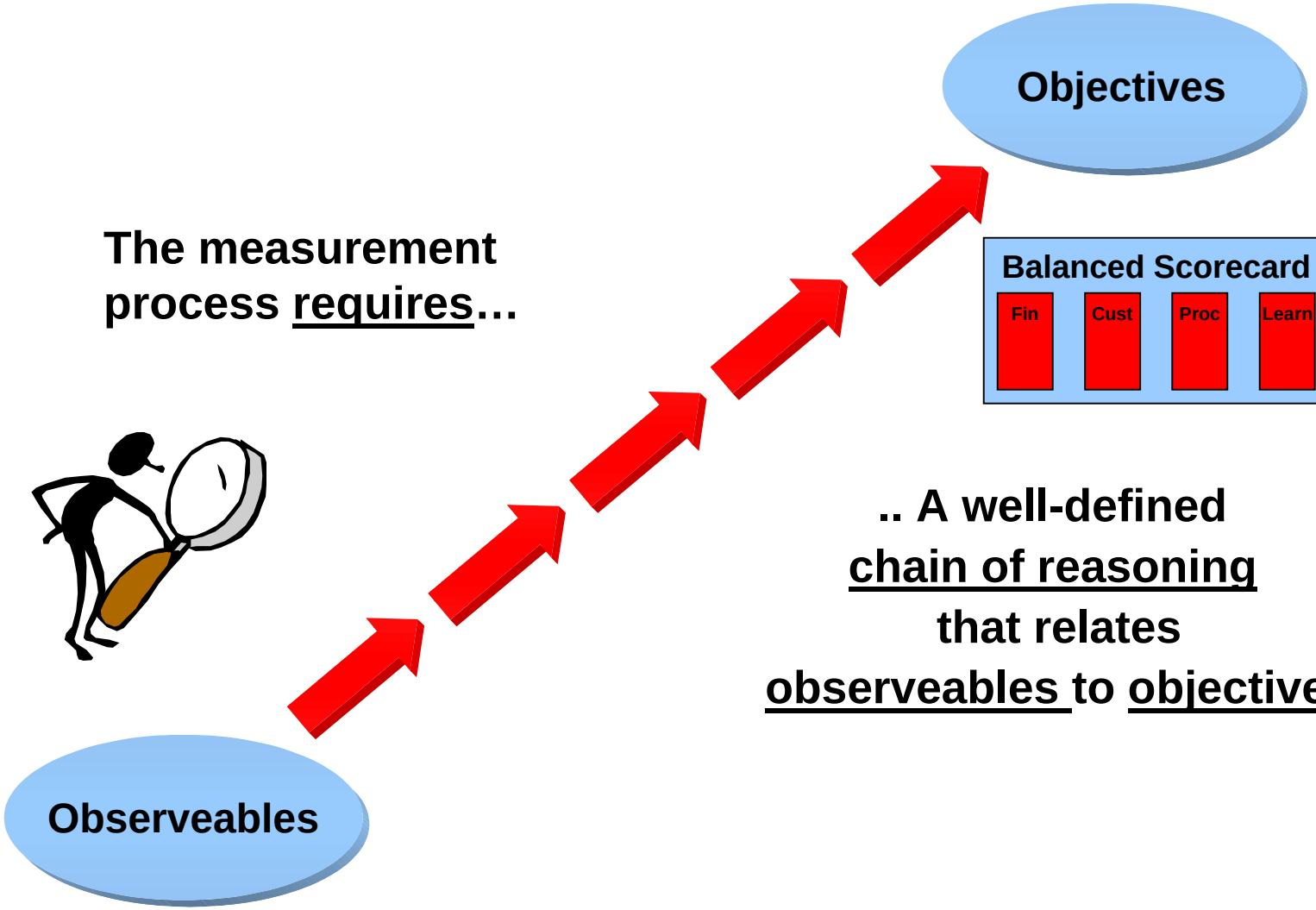
So,
Let's <u>assume</u> that we have
well-defined indicators for value



and
think about
how to measure them



The Measurement Process



The measurement process requires…

.. A well-defined chain of reasoning that relates observeables to objectives

BALANCED SCORECARD
PERSPECTIVES AND OBJECTIVES

CUSTOMER
- *Customer Satisfaction*
- *Effective Service/Partnership*

FINANCIAL
- *Optimum Cost Efficiency of Purchasing Operations*

MISSION VISION STRATEGY

INTERNAL BUSINESS PROCESSES
- *Acquisition Excellence*
- *Most Effective Use of Contracting Approaches*
- *Streamlined Processes*
- *Process Control*
- *On-Time Delivery*
- *Supplier Satisfaction*
- *Socioeconomics*

LEARNING AND GROWTH
- *Access to Strategic Information*
- *Employee Satisfaction*
- *Organization Structured for Continuous Improvement*
- *Quality Workforce*

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DoE-2: Customer Measures

CUSTOMER PERSPECTIVE

OBJECTIVE	MEASURE	TARGET
Customer Satisfaction *Data Source: Customer Survey*	Timeliness: Extent of customer satisfaction with timeliness of procurement processing; planning activities; and on-going communications.	86%
	Quality: Extent of customer satisfaction with the quality of goods and services delivered.	89%
Effective Service/Partnership *Data Source: Customer Survey*	Extent of customer satisfaction with the responsiveness, cooperation, and level of communication with the procurement office.	89%

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IT Services Branch, Gov't of Ontario

CUSTOMER

- *Customer Satisfaction: Targeted Services*
- *Customer Satisfaction: general*

FINANCIAL

- *Expenditure Variance*
- *Revenue Variance*

MISSION
VISION
STRATEGY

INTERNAL BUSINESS PROCESSES

- *Service Levels Index*
- *Project Variance Index*

I&IT CAPACITY and INFRASTRUCTURE

- *Branch Professional Development*
- *Staff - Organisation Goal Alignment*
- *Job Satisfaction*
- *Technology Currency*

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Balanced Scorecard Users

Public Sector

Canada

- Citizenship & Immigration
- Public Works & Government Services
- Natural Resources
- Government of Ontario
- …others

US

- IRS
- NASA
- Veterans Benefits Administration
- US Post Office
- Dept. of Energy
- …others

Private Sector

General Motors

Prudential Insurance

Kodak

Motorola

Texas Instruments

Xerox

AT&T

Sears

Johnson & Johnson

Chase Manhattan

Rockwell International

CIGNA Property & Casualty

Sun Microsystems

… others

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BSC Requires Mgmt Communication

What objectives management seeks

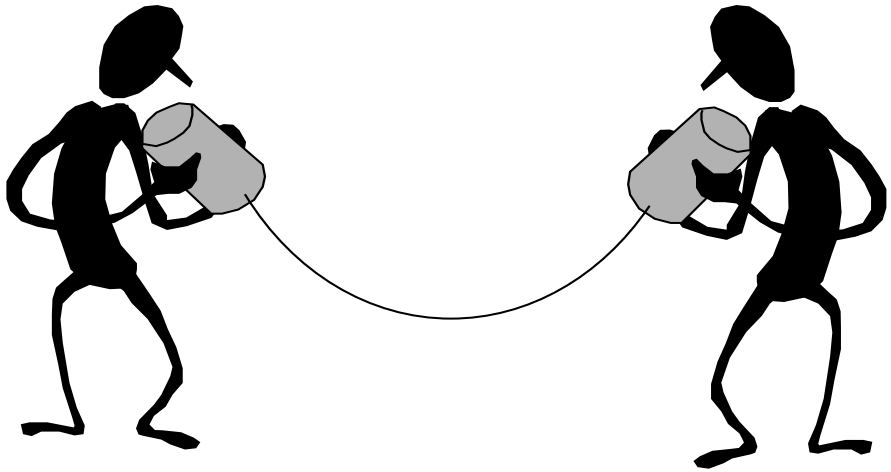
How they will be interpreted

How they will be acted upon

- **Openness in communication**
- **Missed results do not cause punitive measures**

Foundation for change initiatives

Driver for organizational change



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Assessing Organizational Readiness

Understanding, involvement, and commitment of senior managers

Recognition of resources necessary to design and implement performance management

Integration of performance measures with existing planning, budgeting, and evaluation processes

Support of clients and stakeholders

Recognizing and addressing organizational culture

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Building the Performance Model

Understand the objectives and their interrelationships

- **Cause and effect of one objective on another**
- **Time sequencing**
- **Points with high leverage**
- **Identify champions for key objectives**

Relate (groups of) objectives to Balanced Scorecard categories

Identify those objectives appropriate for IM/IT as starting point for IM/IT Balanced Scorecard

- **Commercial lessons are often more directly relevant at this level**

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Scorecard Failures

The metrics are poorly defined

Baseline performance is missing

Improvement targets are arbitrarily fixed by management rather than based on client or stakeholder requirements

The rate of change assumed is far faster than is possible

Too much focus on high level goals rather than processes required to achieve those goals

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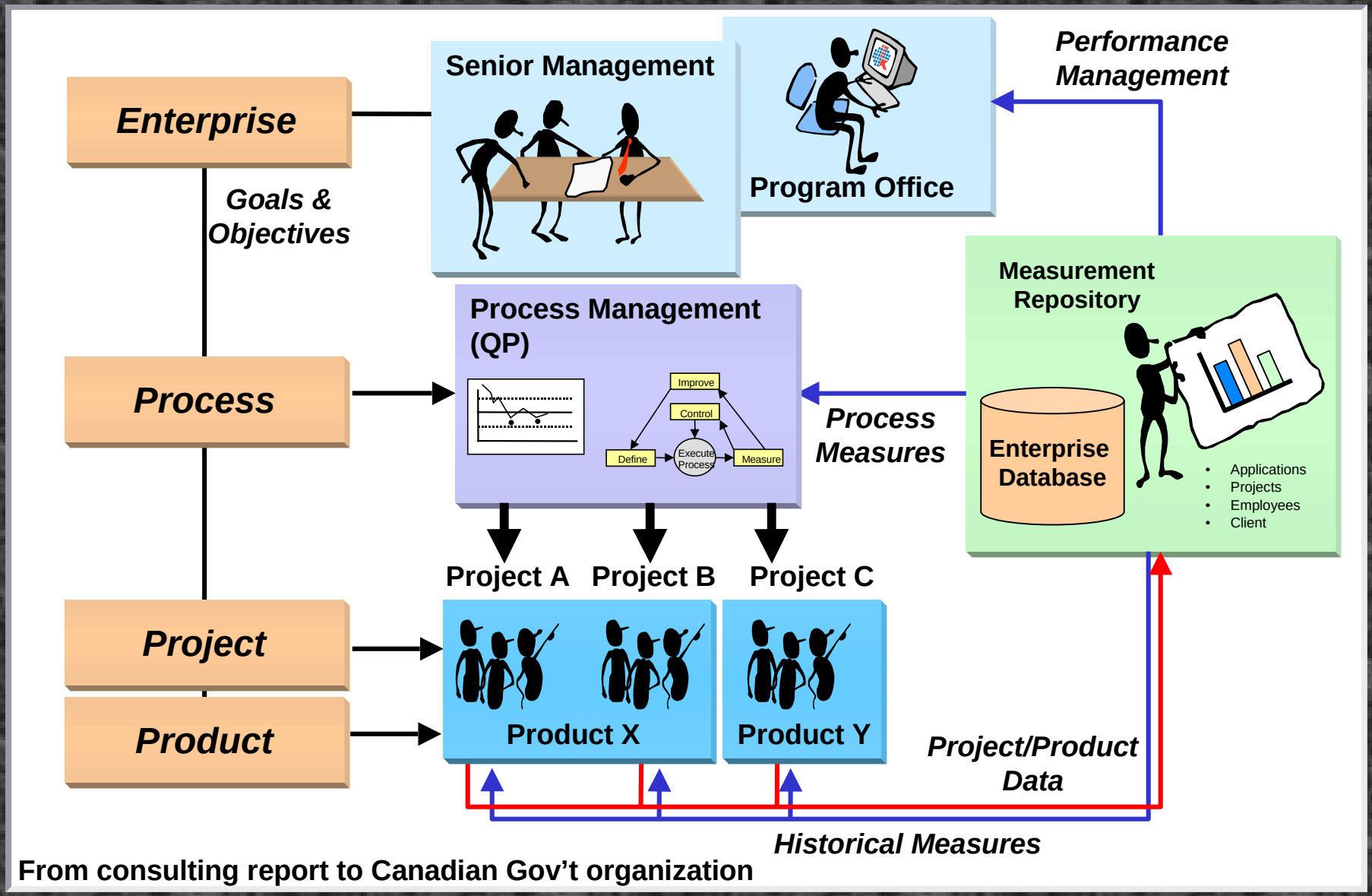
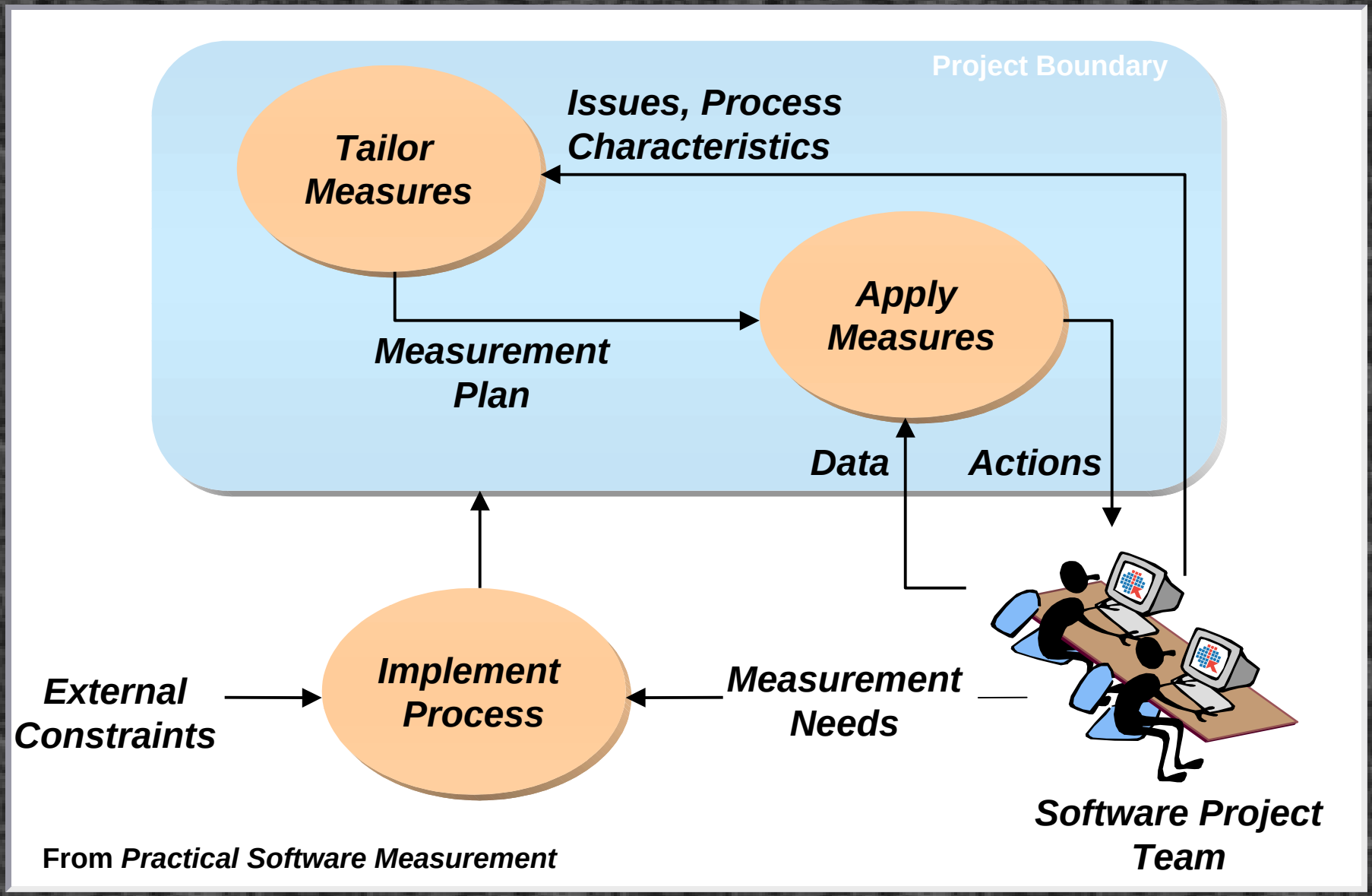
Layers of Measurement



From consulting report to Canadian Gov't organization

Project Measurement Process



From *Practical Software Measurement*

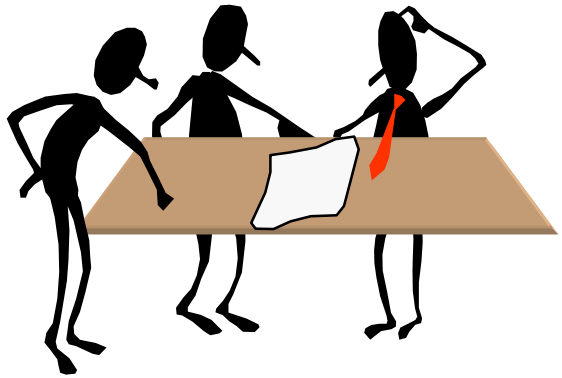
Summary

Determining the strategic objectives

- **Is an *executive task***
- ***Precedes* establishment of a measurement program**

There are existing foundations for establishing the linkage between project behavior and management objectives

- **The *Balanced Scorecard* to represent the progress to objectives**
- **Measurement frameworks such as *Practical Software Measurement***



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Summary - 2

There are useful "universal objectives"

- **Good for getting started**
  - **quality**
  - **productivity**
  - **cost effectiveness**
- **These still require formulation into useful objectives**
- **They do not replace the need for organizational measures**

Adopting a measurement program

- **Is partially a technical problem**
- **Is *mostly* a cultural problem**
- **Takes time and a continuous focus**