



Establishing Performance Measures



Overview

Why measure performance?

Performance measures in the productivity management cycle

Performance measure types

Establishing performance measures

Using performance measures

Applying standards with performance measures

Evaluating performance measures



Why Measure?

If you don't (or can't) measure:

- ◆ **How do you know you and/or your subordinates are providing value?**
- ◆ **How can you feel good about the service you are providing customers?**
- ◆ **How can you feel good about your own performance?**
- ◆ **How effectively can you compete for scarce resources?**



What Performance Measures Can Do

- ◆ **Establish a baseline for measuring change and supporting benchmarking**
- ◆ **Establish productivity goals linked to organizational plans and track goal achievement**
- ◆ **Create incentives - provide basis for evaluating performance**
- ◆ **Identify improvement opportunities**



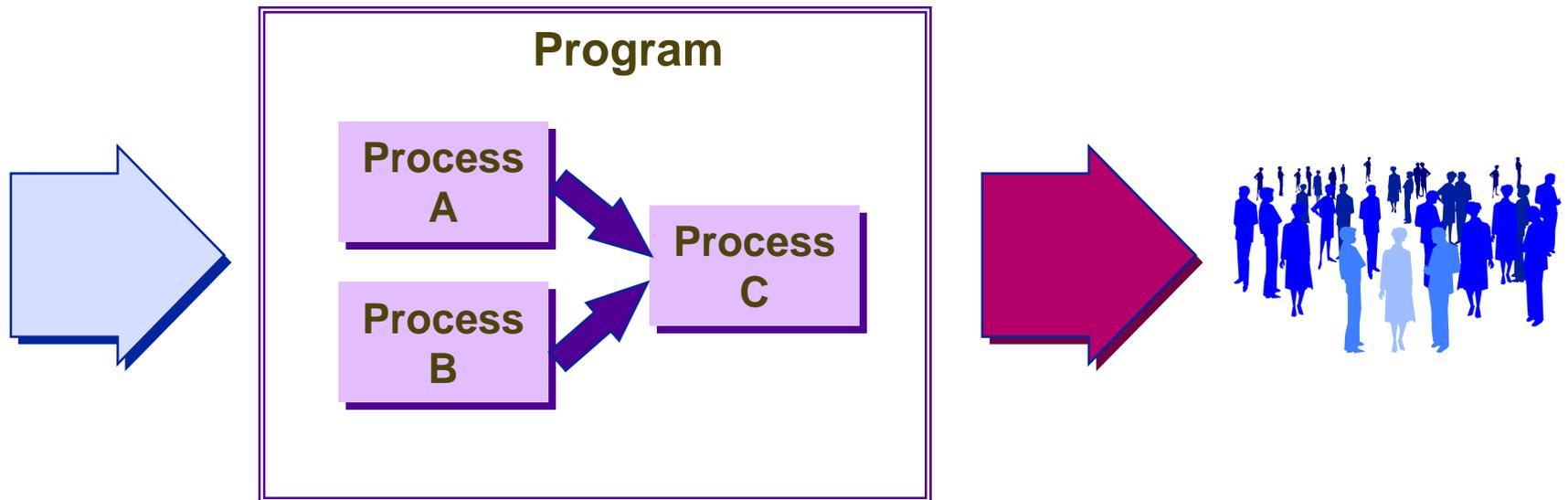
Performance Measure Categories

**Input
Measures**

**Process
Measures**

**Output
Measures**

**Outcome
Measures**





Information Provided by Performance Measures

Input Measures

Are we applying the right resources?

- \$s
- Manpower
- Input quality

Process Measures

Are we doing things the right way?

- Cycle time
- Throughput
- Error rates

Output Measures

Do our outputs meet customer requirements?

- Hours of operation
- Workload (# actions)
- Unit Cost

Outcome Measures

Are we achieving the right results?

- Complaints
- Recidivism
- Awards



Information Provided by Performance Measures

Input Measures

Process Measures

Output Measures

Outcome Measures

Financial Measures

Productivity Measures

Are we applying the right resources?

Are we doing things the right way?

Do our outputs meet customer requirements?

Are we achieving the right results?

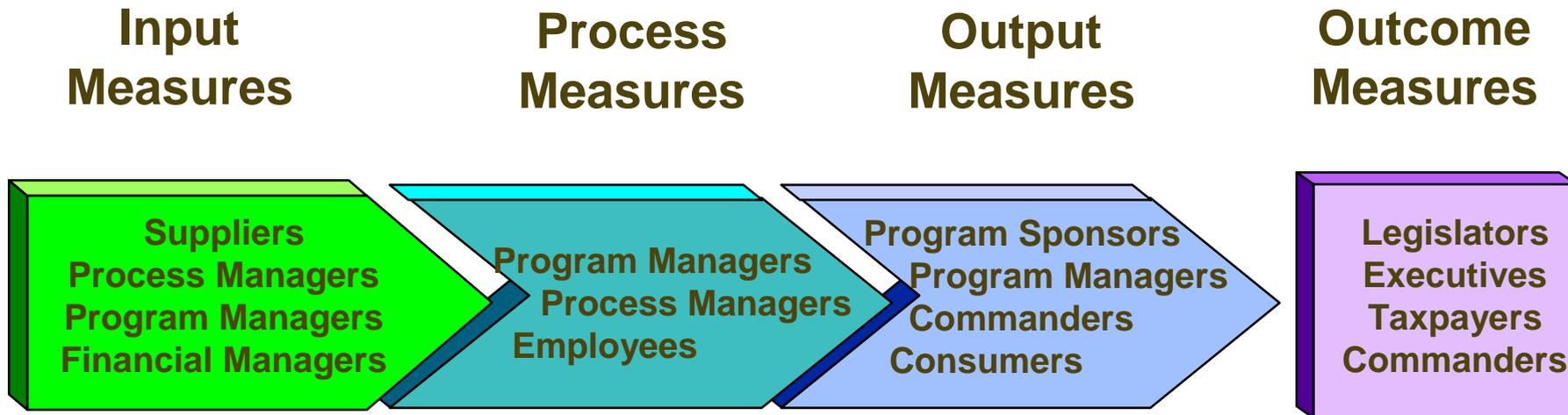
Efficiency Measures

Effectiveness Measures



Perspective Matters

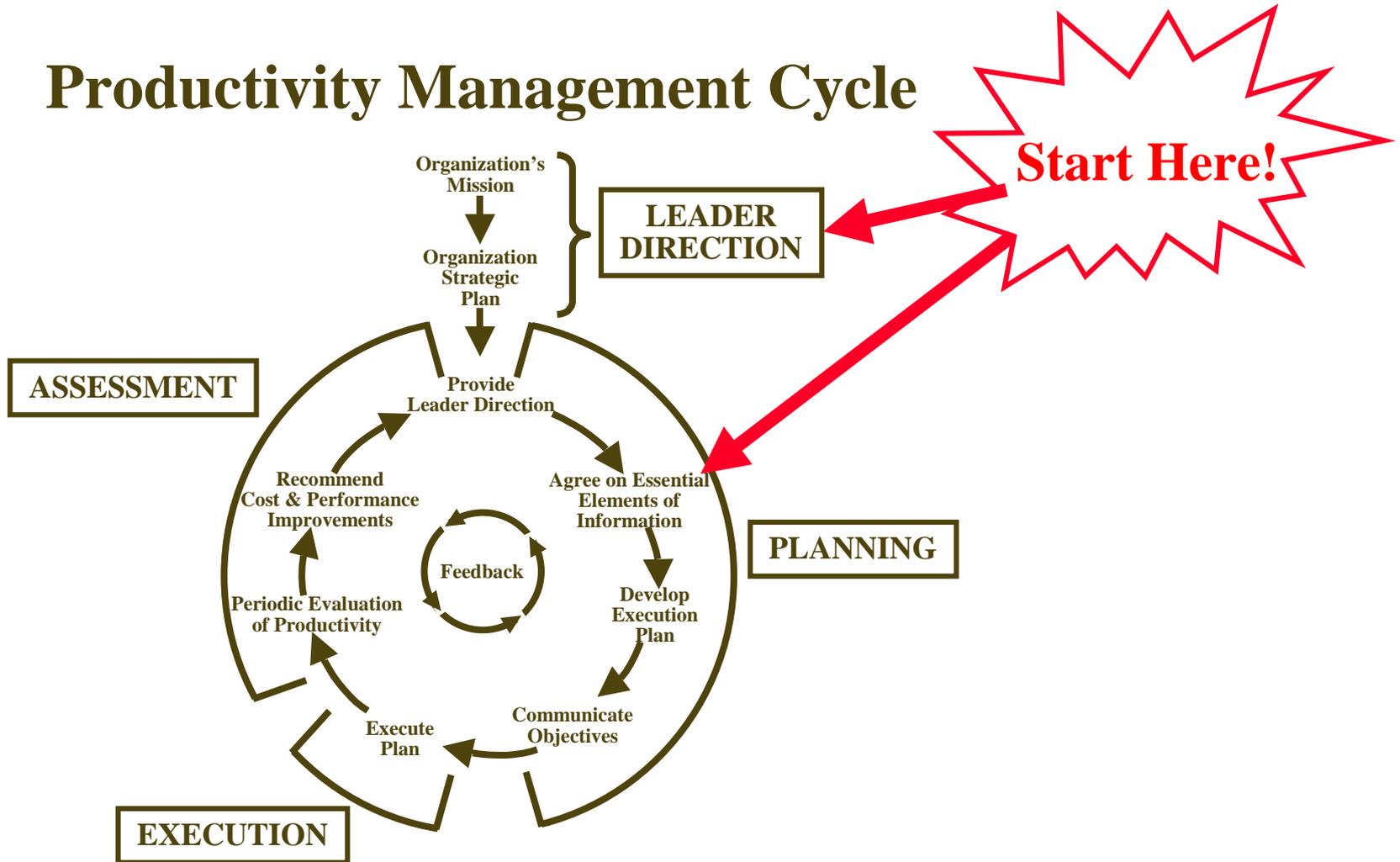
Organizational level drives the information you need, how you obtain it, and how you use it





Getting Started

Productivity Management Cycle





Getting Started

- ◆ **Leader direction**
 - **Identify critical performance areas**
 - Assigned missions
 - Command emphasis and strategy
 - Customers' and stakeholders' requirements
 - Higher headquarters' requests
 - **Identify essential information wanted/needed to support decisionmaking and critical success factors**
 - **Identify known performance goals**
- ◆ **Establish agreement on performance measures to meet essential information requirements and measure critical success factors**



Identifying Appropriate Performance Measures

Major Considerations:

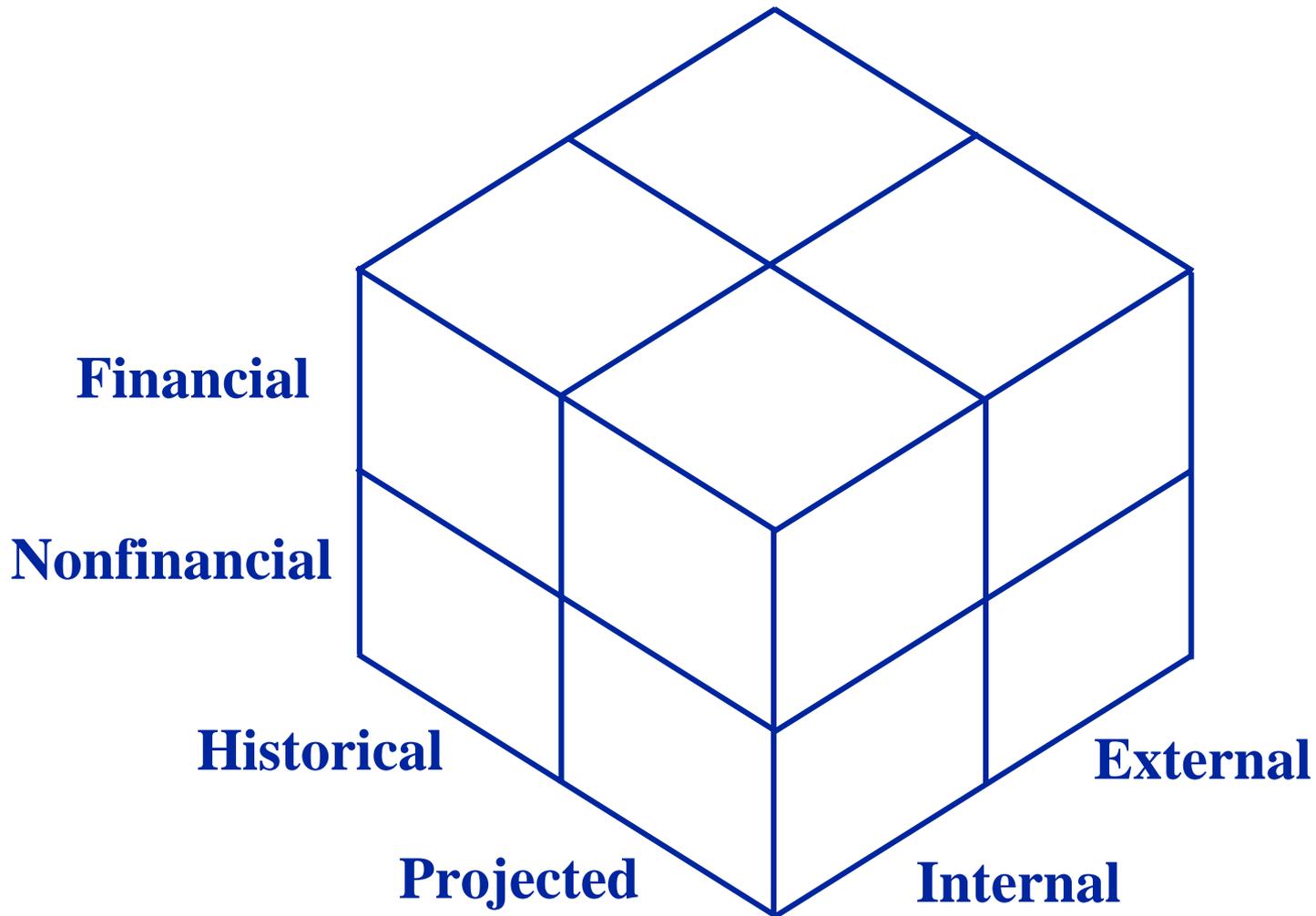
- ◆ **What organizational levels will be supported?**
 - **Top organizational and external needs already identified**
 - **Identify the lowest organizational level targeted by cost management model**

Remember: Perspective matters

- ◆ **What processes will be measured?**
 - **Identify the processes to be measured at each organizational level**
 - **Measure actual production versus supporting activities**
- ◆ **What information can/will managers use?**
 - **Identify the indicators/measures to support the lowest level processes and work up to the leader's requirements**
- ◆ **What will it cost to collect and maintain the information?**



A Classification Scheme for Information



Adapted from: Lawrence A. Gordon, *Managerial Accounting Concepts and Empirical Evidence*, 5th ed., McGraw-Hill Companies, Inc. p 7.



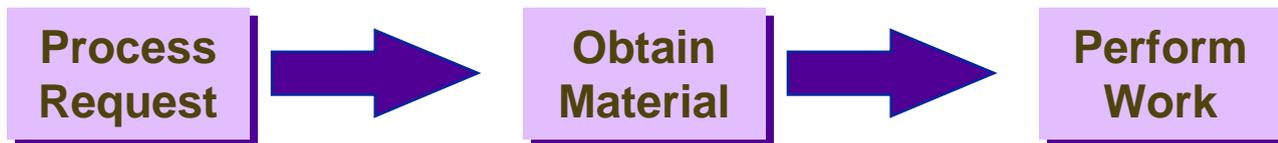
Families of Indicators/Measures

- ◆ **For each process, establish a family of indicators/ measures:**
 - **Cycle time**
 - **Productivity**
 - **Quality/accuracy**
 - **Cost**
 - **Timeliness**
- ◆ **Discipline the number of measures to minimum essential**
- ◆ **Select measures that are not closely correlated**



Families of Indicators/Measures

End to End Process



Cycle Time
\$/Requests Processed
Frequency of errors
% processed on time

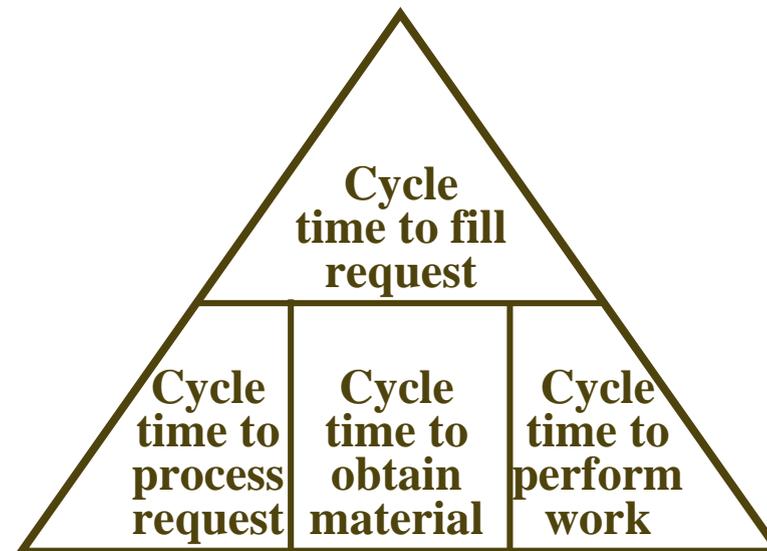
Cycle Time
\$/Purchase
Frequency of return items
% deliveries on time

Cycle Time
\$/Unit work
Frequency of call backs
% services on time



Nesting Measures to Support Different Organizational Levels

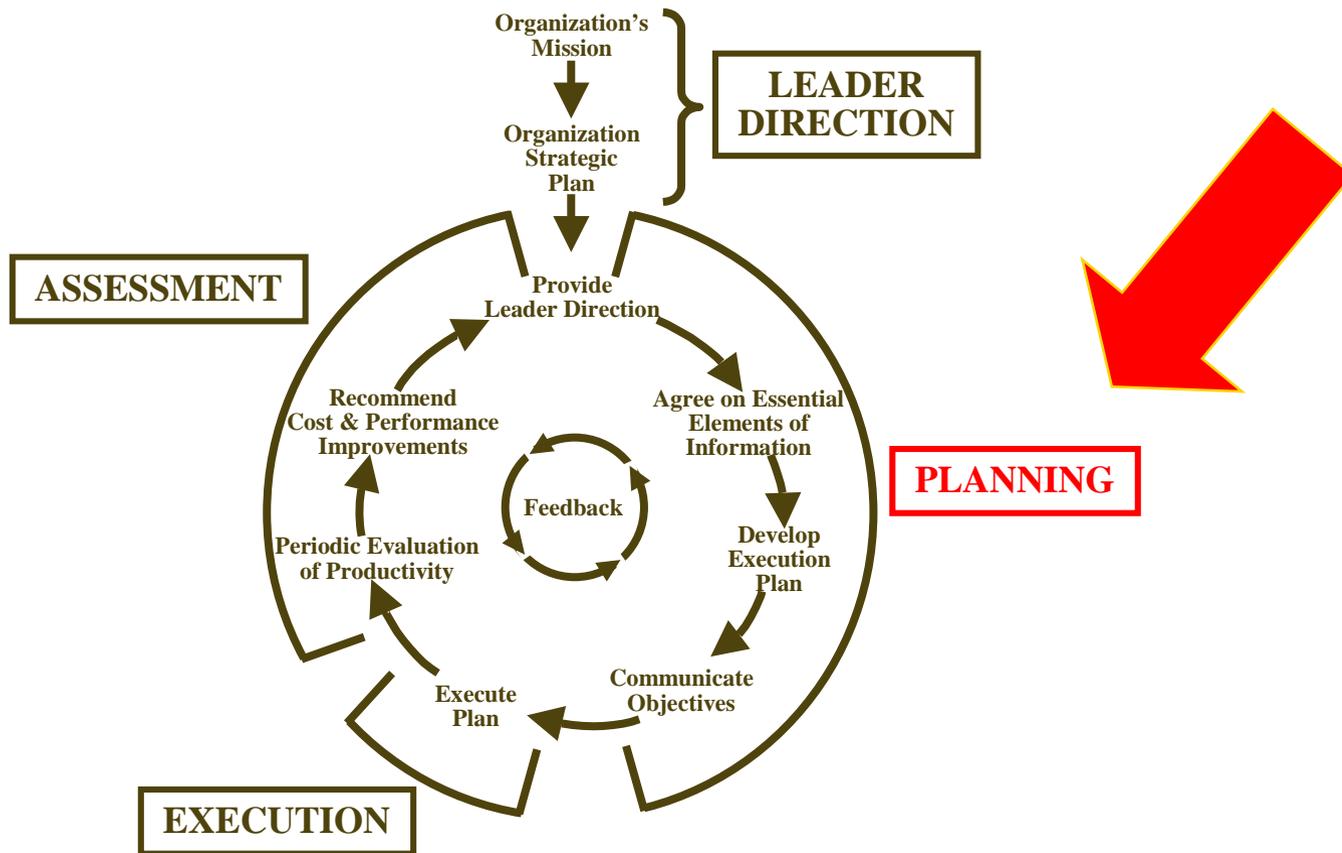
- ◆ **The Leader should be viewing end-to-end processes**
- ◆ **Lower level managers supervise sub-processes**
- ◆ **Nest similar lower level measures to roll-up to the higher level measures**





Getting Started

Productivity Management Cycle





Develop Plan

- ◆ **Identify sources of data and information:**
 - **Use existing systems (preferably automated), if possible**
 - **Establish responsibility for collection**
 - **Determine frequency of collection and distribution**
 - **Establish the method of collection and transmission**
 - **Identify the user's of the information and the means of distribution**
 - **Above can be organized into a table(s)**



How Often?

“Measuring performance once a year is like dieting on your birthday and not knowing why you cannot lose weight.”



How Often?

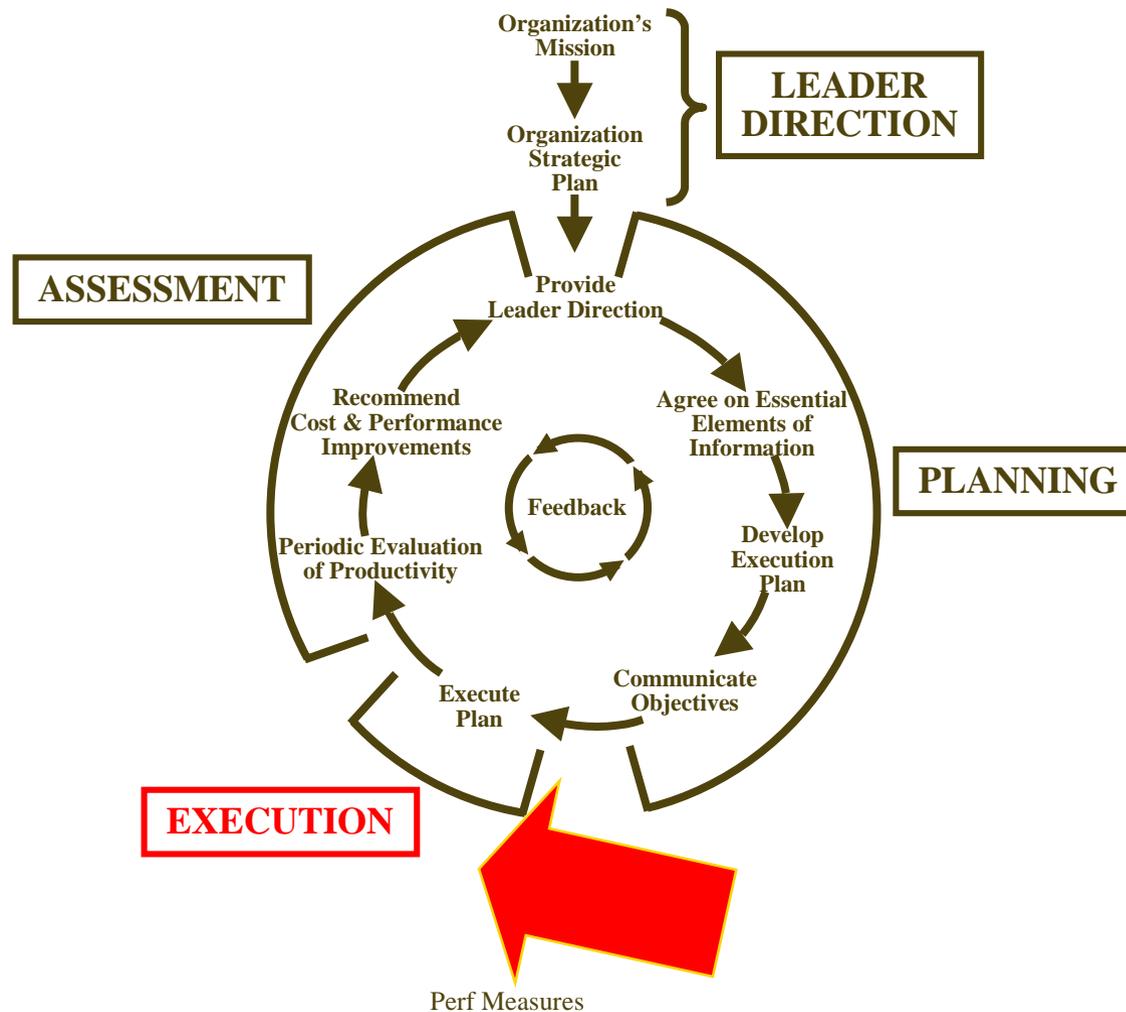
The collection cycle for a measure should be approximately twice as often as your decision cycle that uses the measure

- ◆ **DoD financial cycle is monthly**
- ◆ **Review and analysis cycles are quarterly**



Getting Started

Productivity Management Cycle





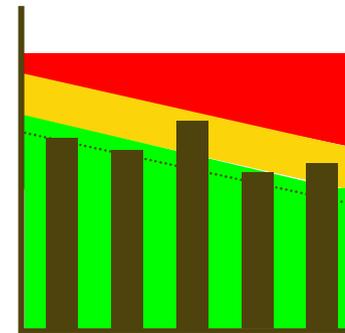
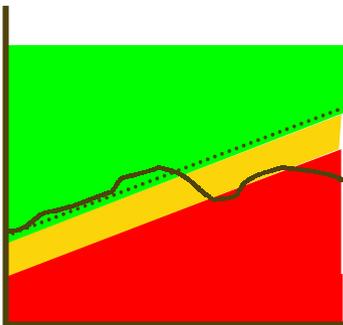
Execute Plan

- ◆ **Collect data**
- ◆ **Transform data**
- ◆ **Establish baseline for measurement (first time)**
- ◆ **Display and distribute information**



Displaying Information

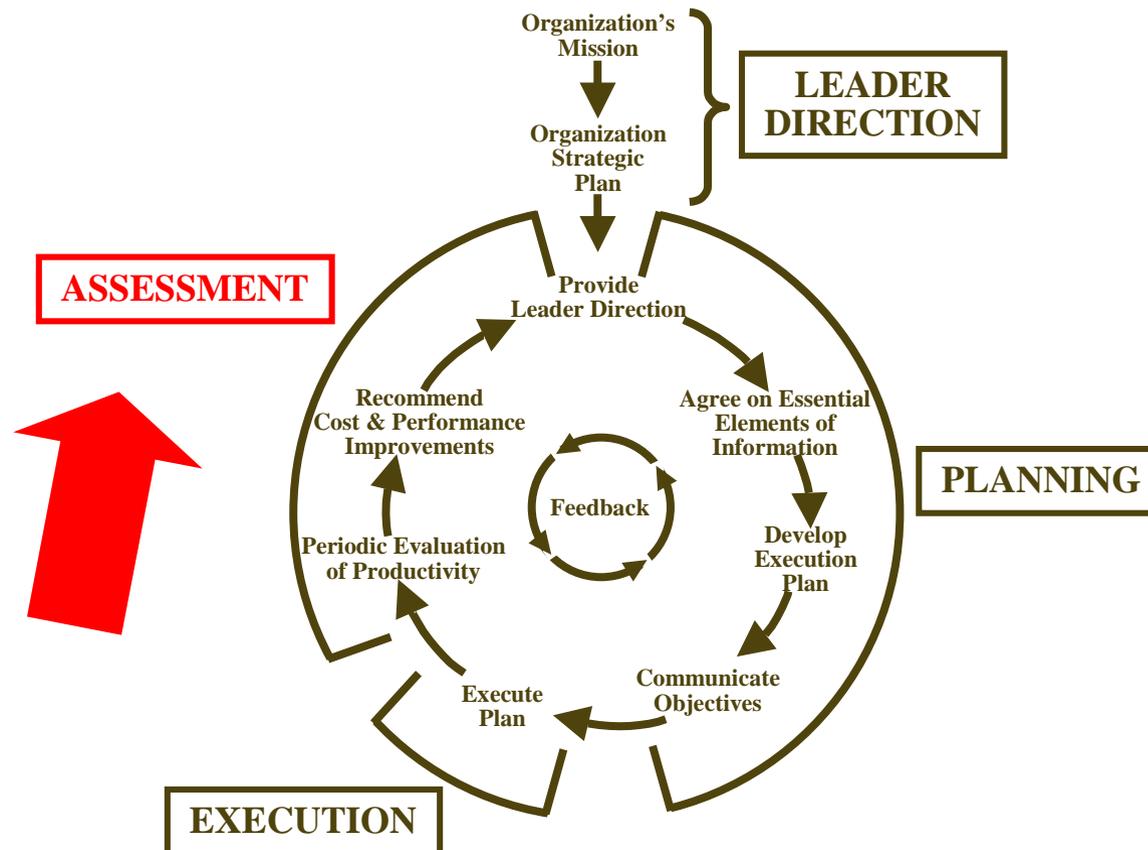
- ◆ **Communication is important!**
- ◆ **Use simple graphical displays targeted at intended user**
- ◆ **Use standard displays with consistent use of color and other features**





Getting Started

Productivity Management Cycle





Assess the Performance Measures

- ◆ **Users evaluate the effectiveness of the performance measures used**
 - **Establish a scale to rate performance measures (R-A-G, 1-5, 1-10, etc.)**
 - **Identify evaluation factors for measures**
 - **Support goals?**
 - **Identify productivity improvements?**
 - **Judge performance?**
 - **Measure progress?**
 - **Useful in day-to-day management? Across divisions?**
 - » **Plan, control, monitor, diagnose?**
 - **Provide right incentives?**
 - **Encourage future organization health?**
 - **Available in timely manner?**
- ◆ **Develop recommended changes to measures**
- ◆ **Report to Leader**



Management Decision & Choice

Don't Stumble into Change:



*Will Lead
To*



Make a Conscious Decision



*Will Result
in*



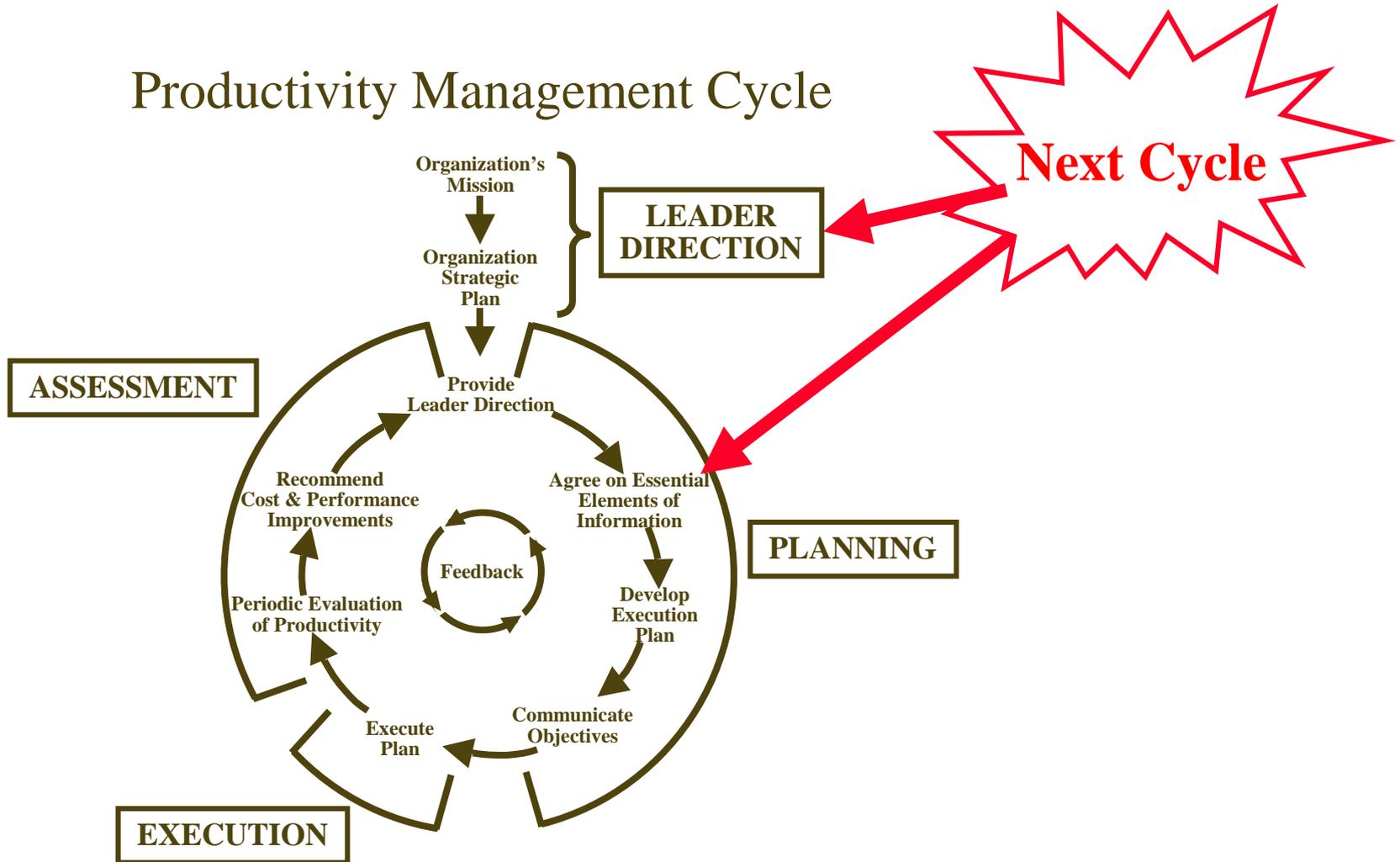
*To Produce a
desired*





Getting Started

Productivity Management Cycle





Developing Measures



Metric, Measure, & Performance Indicator

These three terms are often used interchangeably at present. Those who distinguish among them say that “metric” is the unit of measure, “measure” means a specific observation characterizing performance, and “performance indicator” is a specifically defined variable.

Metric → *Yards*

Measure → *9 yards*

Indicator → *10 yards for 1st Down*



Standard

- ◆ **The arbitrary rating scale placed over the performance indicator measurement scale to evaluate how well something is done**
- ◆ **Can move -- does not depend on scale**
- ◆ **Examples**
 - **Over 98% of soldiers qualified to do “x”**
 - **91-97% of soldiers qualified to do “x”**
 - **Less than 90% of soldiers qualified to do “x”**

 - **Excellent -- Less than 15 minutes of down time per year**
 - **Acceptable -- 15 to 30 minutes of down time per year**
 - **Unacceptable -- More than 30 minutes of down time per year**



Measuring Key Activities

- ◆ **How do we know we have the right key activities?**
- ◆ **Are we measuring the right things about those key activities?**
- ◆ **Are the metrics, measures, and performance indicators appropriate to the activity being performed?**
- ◆ **Are the standard ranges placed over the performance indicators meaningful to leadership -- organization, MACOM, HQDA?**



Summary

**Activity Based Costing
+ Performance Measurement
+ Management Actions
= *ABM***