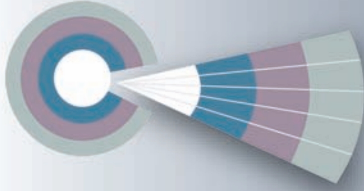


Chief Balancing Officers

"Checking the results of a decision against expectations shows executives what their strengths are, where they need to improve and where they lack knowledge or information."
Peter Drucker

Executive Management bears the ultimate responsibility for the success or failure of government operations. Yet the government senior management team must work largely by indirect means: setting goals and communicating strategy, strengthening the organizational culture, recruiting talent and building teams, and determining how to allocate funding and resources.

The team faces complexity, uncertainty, time pressures and constraints in its efforts to lead the organization and set and deliver on performance expectations. Today, these traditional challenges occur in the context of unprecedented levels of legislative and citizen scrutiny. Executive Management must find the proper equilibrium among these pressures, striking the right balance at the top and causing this influence to pervade the organization.

In the wake of various U.S. government Integrity Act standards and catastrophe planning initiatives worldwide, governance, risk management and compliance standards are major focal points for Executive Management. Governance starts with performance. It reflects the highest-level balancing act for management: *Are we performing policy mandates and satisfying citizens' expectations?* Risk starts with the flip side of performance: *Are we successfully assuming and managing the right risks to sustain this performance?* Compliance sets the rules by which we must play: *Are we fulfilling regulatory and statutory requirements?* Executive Management must understand and balance these forces to ensure long-term success with the public, legislators, employees and the law.

Performance management has to be recognized as a top priority. In the U.S., for example, the President's Executive Order 13450 directs all U.S. federal agencies to appoint Performance Improvement Officers and follow proscribed standards for planning, controlling and certifying management results.

Driving your organization's performance is an exercise in balancing:

- Strategic goals and operational objectives.
- Financial performance and operational drivers.
- Short-term and long-term pressures.
- Top-down and bottom-up perspectives.

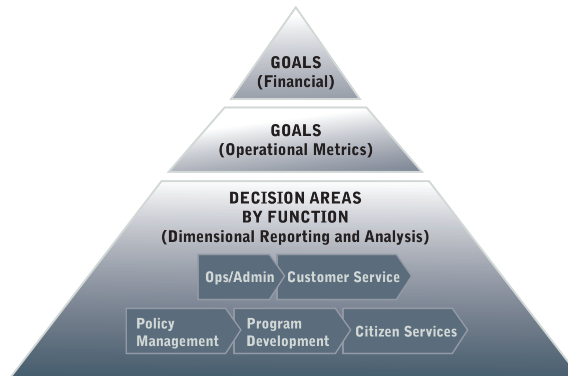
There are many management approaches borrowed from the business world that help unlock the right formula: Total Quality Management, Balanced Scorecard, Six Sigma, home-grown variations of these and more. Such approaches provide focus, context and alignment for decisions. They all require the development of a performance management system. This system turns your management philosophy into executable actions for decision-makers at the top and throughout the organization. Among the many methodologies and frameworks for defining a performance management system, three basic concepts are universal:

1. How does this action tie back to the financials? (the *so what?* question)
2. How does this action tie back to organizational functions and roles? (the *who is accountable?* question)
3. How does this fit with the business process? (the *where?*, *when?*, and *how?* questions)

While many government organizations embrace a business philosophy, most lack the performance management system necessary to make it truly successful. Four common barriers prevent Executive Management from striking the right balance in achieving performance, managing risk and ensuring compliance.

Barrier 1: ***Poor vertical visibility of performance drivers***

Executive Management requires a simple vertical hierarchy to connect goals and objectives to underlying functions, processes and decision areas—including a clear tie back to the financials. This hierarchy is central to a performance management system. With it, Executive Management can understand what has happened, guide today's actions and plan future performance. However, despite extensive work in this area (Six Sigma, Balanced Scorecard, Total Quality Management, etc.), organizations still struggle with successfully implementing a performance management system. Why? It is difficult to translate the top-to-bottom conceptual logic—goals and objectives, leading and lagging indicators, financial and operational considerations, cause and effect—into practical, measurable areas for which people can feel accountable. The many interrelated factors become too complex to implement or manage.



As this illustration shows, a pyramidal hierarchy ensures a clear, logical path to follow from strategic goals at the highest level to operational objectives at the functional level and then down to specific decision areas within those functions. This reduces the number of goals at the top while building detail at appropriate levels of the organization. This creates a basis for delegating accountability.

The pyramid structure requires a consistency and logic that governs cause-and-effect assumptions. Metadata underpin this consistency, which requires defining appropriate rules and controlling changes through them.

Barrier 2: ***Unclear ownership of performance goals and accountability for them at the front line***

Executive Management is accountable for everything, but directly controls nothing. Executives rely on many individuals to strike the right balance and make the right decisions. Micro-managing is maligned for good reasons: it is not feasible for an executive to be everywhere, doing everything; it weakens everyone under the executive; and it distracts the executive from strategy into tactical execution.

Successful leadership thrives in an environment where there is clear ownership of and accountability for results up and down the organization, rather than merely expected tasks and duties. Ownership requires clearly assigned roles in making decisions that drive performance goals and objectives. Accountability requires measuring the value of actions and outcomes. Using the pyramid structure, you can overlay the goal hierarchy with primary and contributory roles in decision-making according to work functions and decision areas. People in primary roles confirm the accuracy of the core metrics in the decision making process.

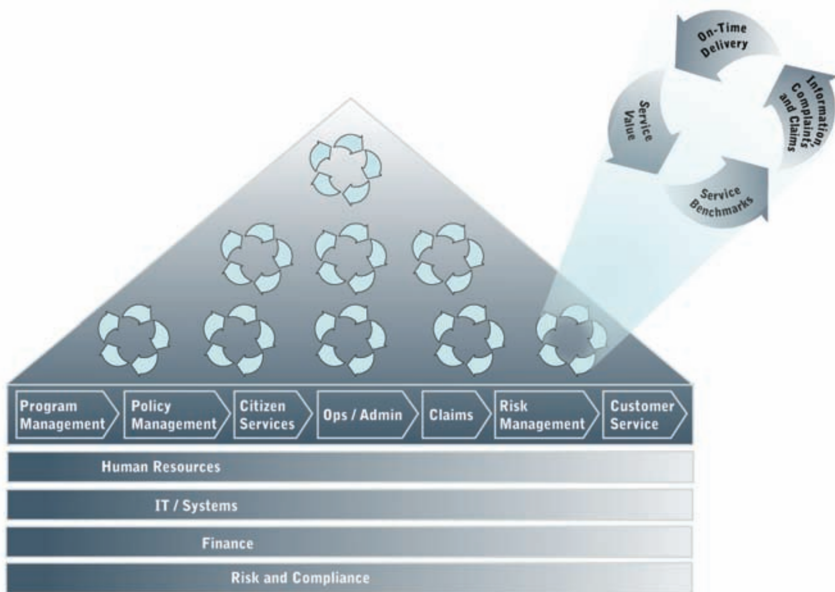
You can assign accountability for these decision areas through the planning process. When you ask people to contribute a target number or set an acceptable threshold for a goal or measure, you have shared ownership of the outcome and helped link the person back to the financial results.

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
IT/Systems				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Regulatory/Compliance				
	Executives			•
	Managers	•		
	Analysts	•		
Audit				
	Executives			•
	Managers	•		
	Professionals	•		
Finance				
	Executives			•
	Analysts		•	
	Professionals		•	

Barrier 3: ***Poor horizontal visibility of cross-functional alignment and coordination***

A true performance management system spans more than one function or department. It sits above the process flow in a related but nonlinear fashion. Many performance decisions draw upon different elements across process flows in an iterative way.

Even if your performance management system adequately captures vertical cause-and-effect relationships, it may still lack visibility across different functions that share common goals or objectives. This visibility is necessary for striking the right balance throughout the organization.

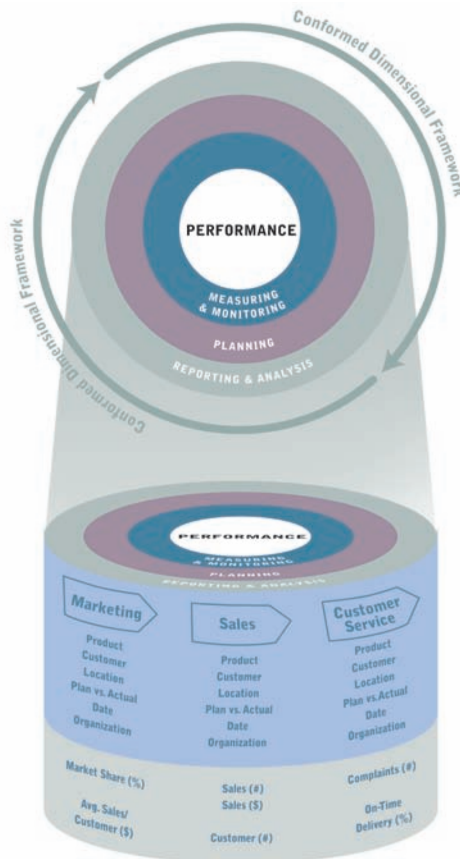


Decision areas overlay the familiar view of core processes and underlying support processes. Each functional set of decision areas provides an iterative feedback loop. Cross-functional sets combine to address additional performance goals and objectives.

Cross-functional or "horizontal" visibility lets decision-makers across various organizational processes collaborate and execute strategy. It also lets Executive Management weigh in on the difficult choices that cannot be resolved at lower functional levels. Delays in cross-functional handoffs and misalignments among departments negatively affect your overall performance.

The performance management system must include two capabilities. First, it must show how everything fits together in terms of process. Second, it must include a consistent definition of and context for performance drivers across functions that share common goals or objectives. In metadata terms, horizontal consistency means defining common dimensions shared across functional decision-making processes. For example, it is critical to define and track government services, citizen constituencies and locations—the anchors of the organization—consistently across processes.

Horizontal Coordination: Conformed Dimensionality Across the Value Chain



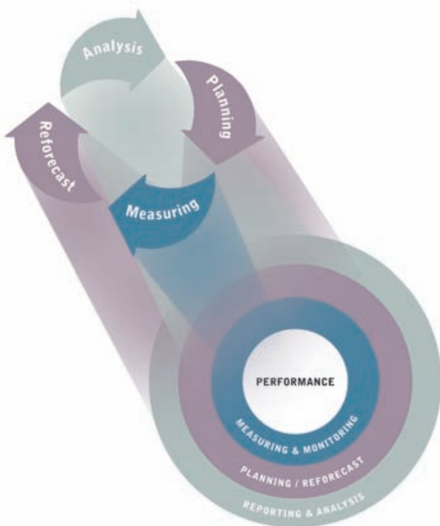
Barrier 4: ***Current executive information capabilities do not support the nonlinear and iterative nature of decision-making/management processes***

For most employees, decision-making work has increased relative to transaction work, but this situation is not reflected in the information we receive to do our jobs. This problem is most acute in the management process itself. Decision-making should flow top-down and bottom-up in an iterative closed loop. Various decisions in different functions need to be grouped and understood together when they affect the same goals. There are also different decision-making cycles and requirements for long-term strategic goals than for short-term monthly and quarterly operations.

These metrics constantly evolve because **1**) they often need tweaking (typically realized by using them), and **2**) people's behavior eventually adapts to what is being measured. There is a natural tendency for people to learn over time how to "work the system," which obscures its original intent. This requires agile, adaptive and controlled metadata functionality of rules, definitions and audit trails.

A multiyear strategic management planning process starts by reassessing assumptions and conventional wisdom based on rigorous **analysis**. You must validate or readjust what is important, which should therefore be **measured** and translated into operational **plans** that can be delegated down through the organization. Decision flow then switches to monthly or quarterly monitoring of performance with fast, drill-down analysis and reporting on the underlying causes of results. When these causes have been understood by each of the contributing decision-makers, you can reforecast adjustments to operational and financial plans.

The bottom line: *You need performance management information at each of these steps to support your decision-makers effectively.*



Strategic management cycle:

- **Analysis** ➔ Where do we want to be? (vision and goals)
- **Measures** ➔ What's important? (priorities)
- **Planning** ➔ How do we get there? (objectives and targets)

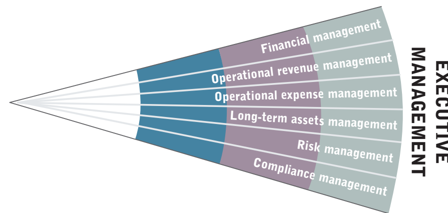
Operational management cycle:

- **Monitoring** ➔ How are we doing?
- **Analysis and reporting** ➔ Why?
- **Planning** ➔ What should we be doing?

Decision Areas

The six decision areas listed below support the core governance, risk and compliance balancing act of Executive Management. They include four performance management decision areas and one decision area each for risk and compliance management.

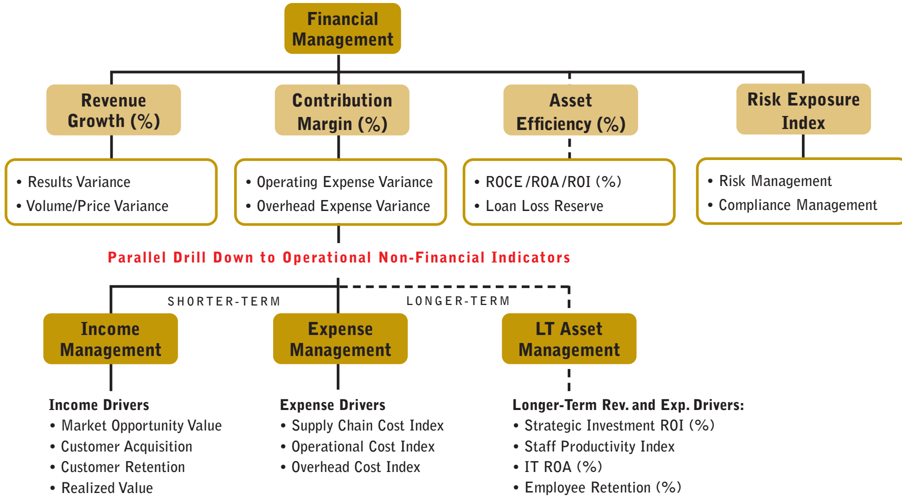
- **Performance ➔**
  - **Financial management ➔** Are we performing to stakeholder expectations?
  - **Operational revenue management ➔** Are we driving revenue growth effectively?
  - **Operational expense management ➔** Are we managing operational expenses effectively?
  - **Long-term assets management ➔** Are we managing long-term assets effectively to increase future revenue and expense management capabilities?
- **Risk management ➔** Are we managing the risks of sustaining this performance?
- **Compliance management ➔** Are we complying with regulatory requirements?



The four decision areas for performance management are further designed to support several interrelated balancing acts: between leading and lagging indicators, between income and expense trade-offs, between short-term and long-term resource allocations, and between top-down and bottom-up management processes. Specifically, each of these decision areas has two integrated levels: an overview "dashboard" level and a more detailed operational level.

The latter is an intermediate level that points to other underlying decision areas that contain even more detail, as in the pyramid structure outlined on page 119. It allows Executive Management to gain a comprehensive view of organizational performance and to zero in on additional detail for greater insight when necessary, then reset targets and plans accordingly. In each case, the set of goals in the overview level dashboard is purposely limited to one illustrative goal per theme, with additional goals and metrics made available at the next drill-down level. Each government organization will have its own variations on these goals and may determine that more than one indicator should be added at the dashboard level.

Inspired by the Balanced Scorecard framework, the four performance management decision areas provide clear, parallel paths to drill down from goals into their underlying operational drivers. The citizen-focused perspective is adapted to include information and metrics from decision areas that drive income or funding. The internal process perspective is adapted to focus on operational expense drivers.



The learning and growth perspective also reflects investment and leverage from long-term assets such as human capital and IT assets. The financial management perspective is where we analyze and monitor directly quantifiable financial indicators, but the three other performance management decision areas provide parallel nonfinancial paths to drill down to operational drivers. The functions and decision areas described in the rest of this book form a bottom-up framework for designing effective and interconnected information sweet spots of scorecards and dashboards, analytical and reports and budgets and plans. Each decision area in this chapter shows a path or starting point for linking the other decision areas together in a top-down logic and, by doing so, establishing cross-functional teams to drive shared goals and objectives. This chapter also highlights the balancing act and trade-offs that Executive Management must make.

Financial Management

The financial scorecard is a well-developed executive information sweet spot. Its bottom-line results are tied to pay classifications and overall risk factors, to align performance expectations with executive team motivation. The three basic performance measures illustrated here are critical to any government organization. Funding growth and operating margin are linked to the statement of income and asset efficiency is linked to the balance sheet. The fourth is a high-level risk measure.

Funding growth is a key component of value recognition. If costs stay flat, funding increases will directly affect value creation, Citizens and legislators watch the operating margin and the associated percentage of operating margin to funding ratios. More sophisticated performance measures include return on capital employed (ROCE) and return on assets (ROA). Risk exposure is the flip side of this coin, tracking various categories of risks and mitigating factors that could affect the organization's ability to meet its performance goals.

These measures more closely align with the legislators' perspective, since they give an indication of the risks/rewards generated by a given capital or asset base. Since the capital tied up in the organization has a certain opportunity cost for government oversight, unless performance is sufficiently high, funding and appropriations may not be sustainable.

Funding & Revenue Growth (%)
Is funding or revenue growing for executing mission fulfillment? How fast? How does this compare with projections? Executive Management reviews the income statement and the income plan variance to find out how the government organization performs against plan and drills down to find the drivers of any income variances. Program sources or variances tell Executive Management what other decision areas should be examined. For example, if funding is increasing, then Executive Management should review the regulatory mandates profile to confirm there is effective program upside planning. If funding is decreasing, then specific service-delivery standards need to be reviewed.

Operating Margin (%)
The operating margin is a vital internal performance benchmark. When matched to organizations with comparable mandates, it provides a performance comparison for tax payers and legislators. If operating margins are weakening, Executive Management will examine the income statement to determine why. Other margin indicators will help identify what type of income sources or expenses are changing. Operational plan variance may suggest that operating expenses are significantly higher than plan and the drill-down variance into the chart of accounts that apply to specific departments can help determine the cause.

Asset Efficiency (%)
Assessing the organization's performance through asset efficiency evaluation or similar measures gives Executive Management benchmarks to evaluate governance effectiveness. If the asset efficiency index is not aligned with comparable government organizations, Executive Management can look at

causes in the balance sheet or income statement. The strategic investments decision areas may highlight when a major strategic decision or government program has impacted the asset base.

Alternatively, by looking more closely at the management of assets and liabilities, Executive Management may decide that more effort should placed on asset management activities to improve overall efficiency and economic benchmarks. The funding gaps decision area can give Executive Management confidence that cash and other forms of liquidity are effectively matched to program mission targets.

Risk Exposure Index

Executive Management needs a clear understanding of exposure changes in the government organization's major categories of risk. Its ability to communicate these risks while instilling confidence in the public and regulators that it is managing them appropriately is critical. While risk management performance is what satisfies regulators or legislators oversight, citizens expect that controls for these risks are solidly managed. Risk exposure is a derived metric that shows residual risk after inherent risk has been mitigated.

Executive Management can review changes in exposure and evaluate the potential impact on resource allocation across the operation. Drilling down into the risk management decision area gives Executive Management additional insight into inherent risk (such as loss events, loss amounts or risk assessments) and into the methods of responding to risk (such as avoidance, acceptance and transfer).

> ***"We have a number of metrics (data cubes) that help us track profit and loss margins, student and staff details, activity-based costing and asset management. The flexibility of our system has allowed users to drill down from a 'big picture' overview provided by our dashboard. This allows us to make decisions on everything from opening up a new offshore campus to minute details like the individual cost of teaching a class of ten students in a particular subject."***
>
> Chris Grange, Vice President, Administration, University of Wollongong

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Likewise, review of compliance management shows the effectiveness of internal controls and the status of current compliance programs and audit activity. Managing compliance is clearly driven by the organization's reputation for diligence, hence the need for Executive Management to be informed and involved. Audit performance is first reported to audit oversight committees, whose members are now directly accountable for financial misstatements and inaccuracies. Internal controls documentation extends to external relationship coordination as well. Oversight groups must be assured that governance and audit procedures are defined and tested to assure performance management transparency

Financial Management

Revenue Growth (%)

Income Statement

Goals
- Income Actual vs. Plan Variance ($/%)
- New Income Actual vs. Plan Variance ($/%)
- Net Income ($)

Drill-Down Variance

Goals
- Net Income/Contribution Change ($/%)
- Income Change ($/%)

Results Plan Variance

Goals
- Results Variance ($/%)
- Results Plan ($/%)

Contributor Margin (%)

Income Statement

Goals
- Services Income ($/%)
- Funding Income (%)
- Net Incurred Losses ($/%)
- Loss Adjustment Expense ($/%)
- Management (Gen&Admin) Expense ($/%)

Drill-Down Variance

Goals
- Program/Service Expense Variance ($/%)

Operational Plan Variance

Goals
- Expense Ratio
- Operating Expense Variance $/%
- Operating Efficiency (% of assets)

Asset Efficiency (%) Surplus / ROA

Income Statement

Goals
- Actual vs. Plan Variance ($/%)
- Net Income ($)
- Net income / Net Contribution ($/%)

Balance Sheet

Goals
- Income: Surplus
- Loss Reserves:Surplus
- Return on Assets

CapEx and Strategic Investments

Goals
- Investment ($)
- NPV ($)
- ROI (%)

Cash Balances

Goals
- Liquidity Ratio
- Volatile Liability Dependency
- Cash & Securities/Assets
- GL $ Reconciliation (%)

Treasury

Goals
- Interest Sensitivity Ratio (%) (Assets/Liabilities)
- Dollar Gap Ratio (%) (Interest Sensitivity)

Risk Exposure Index

Risk Management (internal)

Goals
- Loss Incidents (#)
- Loss Value ($)
- Risk Level Index
- Risk Management Audit Score

Compliance Management

Goals
- Compliance Completion (%)
- Compliance Costs ($)
- Material Deficiencies (#)
- Materiality Rating
- Regulatory Compliance (%)
- Risk Level Index

Claims

Goals
- Claims Pending (#/$)
- Average Settlement Time
- Case Reserve ($/%)
- IBNR ($/%)

Loss Control

Goals
- Risk Exposure Count ($)
- Maximum Potential Loss ($/%)
- Loss Controls (#)
- Loss Controls Assessment Score
- Loss Adjustment Expense ($/%)
- Expected Net Loss ($/%)

IT Compliance Mgmt.

Goals
- Compliance Completion (%)
- Compliance Costs ($)
- Material Deficiencies (#)
- Regulatory Compliance (%)
- Risk Level Index

CITIZEN SERVICES | FINANCE | EXEC. MANAGEMENT

Operational Revenue Management

Income/funding performance is a key driver of mission planning success. Executive Management must focus on managing revenue or income goals and directing the organization and its resources to the most important sources of funding. This requires cross-functional cooperation that looks to future factors that affect organization growth or contraction. The strategic plan for growth involves looking at all policy management, citizen services and program development operations and the organization's ability to serve more citizens or programs in order to generate new income, and compares this to ongoing performance commitments.

Market Services Value ($)

While you may structure your organization along functional services lines, demand cuts across policy and program management operations. By clustering the decision areas associated with citizen services, you allow more complete and aligned decision-making. This important performance driver allows you to develop an overarching index or series of indicators to describe performance. If needed, Executive Management can drill down further into specific decision areas and the related goals and metrics. If Citizen Services value tracks below an acceptable level, Executive Management may look for better service delivery methods.

For example, consider the foreclosure risk many cities are facing. Let's suppose there are demands among citizens, politicians and advocacy groups that various levels of government step in with mortgage relief programs. This demand segment is clearly significant and may be the tip of deeper economic problems that require additional social services support. However, the government may have poor market service experience. A market assessment indicates a low level of government operations readiness, suggesting it would be better to respond by working with knowledgeable, third-party service agents. A service assessment has evaluated the costs necessary to service this demand segment. Available feedback gives some confidence that these new service strategies will hit the mark. Executive Management can now assimilate this information and decide the best way forward through the relevant service delivery channels.

Citizen Services Growth (%)

As discussed in the Citizen Services chapter, services are fundamentally bound to revenue and income projections. Government has a limited ability to influence its revenue. And where a government is bound to balance its books every year, it must operate a highly fluid cost structure.

Revenue management must be concerned with the methods for services growth management. This means becoming well versed in income projections and models and the expectations for the future revenue pipeline and demand-service activities. If you have weak market intelligence, surveying citizen service calls may be a solution. The servicing growth percentage lets Executive Management monitor this key performance area. Executive Management must closely scrutinize program services innovation to see if new services are fully funded by delivering their projected revenue levels and generating required funding (e.g., grants and federal program dollars).

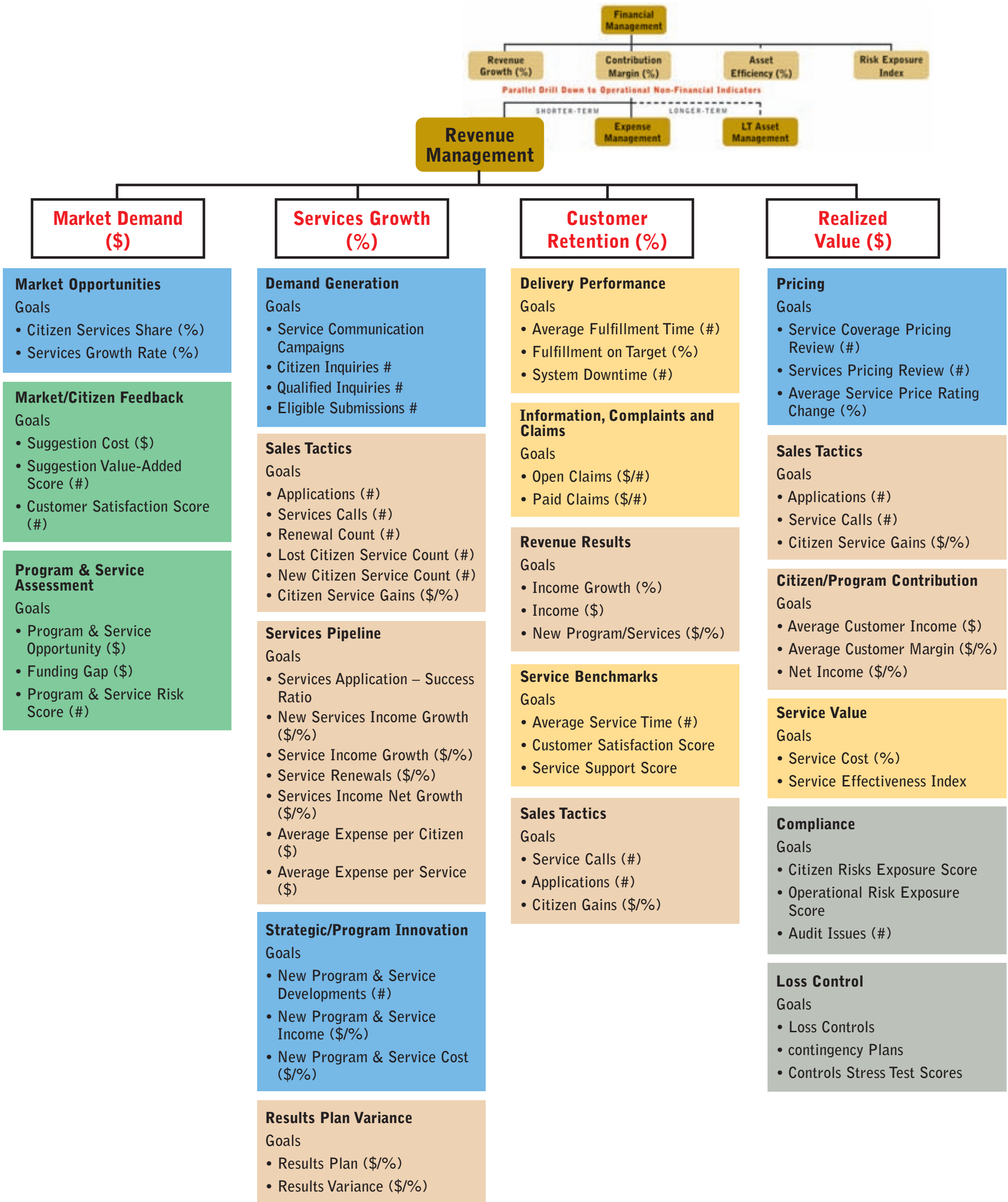
Executive Management must be particularly attentive to early performance indicators. If projected revenues and funding are not delivered, you must quickly find out why and communicate this to all relevant levels in the organization. Results plan variance analysis becomes an essential information sweet spot for determining the why and where of problems, allowing for a decision regarding the what. You must explain these findings well enough that there is confidence in the proposed measures and also be detailed enough to allow lower levels of the organization to execute effectively.

Citizen Services Utilization (%)
Growing revenue or funding is not enough if income leaks away due to poor services utilization performance. If the retention index is low, Executive Management must focus on the operational and performance issues that directly affect services erosion. Early indicators of potential problems are likely to come from inadequate administrative delivery performance and from complaints and claims. Monitoring these early indicators informs the team and helps ensure accountability from those responsible. Service benchmarks also offer insights into customer service problems that need to be managed. These benchmarks may also indicate the relative service performance differences between agencies, highlighting disadvantages that could lead to citizen dissatisfaction and further erosion.

Despite positive numbers in these early-warning measures, the revenue results decision area may indicate poor results, with decreasing income and funding from existing relationships. The solution may be rebalancing service delivery tactics. Perhaps greater emphasis on improving transaction information is needed to better clarify service requirements and fulfillment methods.

Realized Value ($)
Realized value provides an overview of the effort going into managing revenue and funding growth and its effect on operating margins. The citizen services value contribution decision area is an important sweet spot for Executive Management. You must review and pursue different strategies if they are important to the organization. A program review may indicate that the program is under-funded and not delivering the results projected. Reducing services for a large but underserved segment would be a bad decision, due to political fallout or the risk that it would accelerate a negative spiral. Reviewing the service cost of the service value metric could highlight too much spending on service support. In that case, you might introduce a service change to re-engineer the realized value targets and results.

Executive Management may also examine service costs and benefits to determine realized value performance thresholds. You may look at options to correct the underperformance of certain service offerings. These could include discontinuing the service, or changing tactics. Assessing charges for certain niche segments may offer an option in the short term to counteract losses somewhere else. Compensating for losses by increasing value elsewhere is a common decision area in the Executive Management balancing act.



POLICY MGMT | CITIZEN SERVICES | PROGRAM MGMT | CUSTOMER SERVICE | EXEC. MANAGEMENT

Operational Expense Management

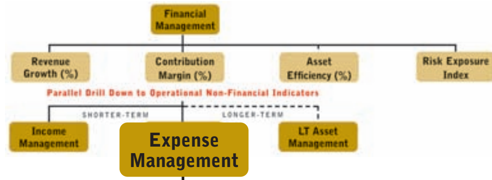
Once citizens are drawing on entitlements or committed to using government services, there is limited scope for operating and delivery errors. Information that helps Executive Management identify operating anomalies and act quickly can make the difference between success and failure. By grouping relevant functional decision areas together, the information sweet spots can be aligned with typical performance concerns. These challenges need to be approached cross-functionally and cannot be solved in isolated silos.

Government performance is a process that starts with inputs and ends with outputs. In between, you must manage value-added activities for efficiencies and costs. On the input side, this starts with "supply chain" efficiency, followed by the internal operating processes needed to deliver a service. You manage these internal operating processes by monitoring operating costs, reflecting the key driver in achieving sustainable financial targets. Organizations carry a number of support functions broadly classified as overhead. You must manage these overhead costs to ensure that, for example, departmental headcounts do not grow out of control and that your various support activities deliver real value.

When you have a finished service expense management profile, you must distribute and deliver output, bringing the cycle back to efficiency across the total network.

Supplier and Distribution Chain Cost Index
This index highlights the balancing act for management between external resources input and output. The unpredictable is the norm. Transaction volume spikes, citizen complaints, operational failures and third-party support failures mean that this month's service and resource requirements are not the same as last month's. The revenue/funding plan variance metric reflects future income expectations; if it indicates an unexpected increase in new citizen accounts, claims and customer support, Network and Logistics must respond to assure adequate capacity. If distribution chain resources are not allocated and aligned with citizen expectations, the expected level of service may be disappointing and become a problem that Executive Management must address. By looking at, for example, possible incentives for addressing short-term delivery concerns, there is minimal long-term negative impact on citizens. This applies most acutely to claims and support services that affect service response timelines.

The ability to see across supplier and distribution chain indicators helps Executive Management understand the overall situation. Planning must take into account handling catastrophic events as well as standard operational cycles. Poor delivery can highlight a problem that may also be reflected in poor process performance. The surge in transactions may create an increase in operating failures that Executive Management must decide either is temporary or requires an increase in capacity. Information, complaints and claims may indicate risk and exposure with certain customers. Temporary process bottlenecks can be solved by looking at delivery performance. Increasing back-office capacity with additional short-term resources may delay investment, but will probably require a reassessment whether the existing infrastructure is sufficient. This ability to see information supply



Supply Chain Cost Index

Procurement
Goals
- Supplier Testing Score
- Supplier Timeliness (%)
- Purchase Price/Unit ($)
- Supplier Performance Rating

Network and Logistics
Goals
- Transaction Timeliness (%)
- Efficiency Ratio (#)
- Customer Growth (%)
- Infrastructure Score (#)

Delivery Performance
Goals
- Average Fulfillment Time (#)
- Fulfillment on Target (%)
- System Downtime (#)

Information, Complaints and Claims
Goals
- Open inquiries ($/#)
- Resolved inquiries ($/#)
- Lost Citizen Count (#)

Results Plan Variance
Goals
- Results Variance ($/%)
- Results Plan ($/%)

Process Efficiency
Goals
- Operational Failures (#)
- Process Cost ($)
- Process Value-Add ($)

Operational Cost Index

Production and Capacity
Goals
- Capacity Utilization (%)
- Systems Up-Time (%)
- Transaction Volume (#)

Cost and Quality Management
Goals
- Transaction Reconciliation ($/%)
- Cost per Transaction ($)

Program Development Milestones
Goals
- Program & Service Development Cost ($)
- Program & Service Development Lead Time (#)
- Project Completion by Milestone (#/%)

Operational Plan Variance
Goals
- Operating Expense Variance ($/%)
- Overhead Efficiency (% of Assets)
- Cost/Income Ratio (%)

Information, Complaints and Claims
Goals
- Open Inquiries ($/#)
- Resolved Inquiries ($/#)

Project / SDLC Management
Goals
- IT Project Completion (%)
- IT Project Lead Time (#)
- IT Project ROI (%)

IT Vendor Management
Goals
- IT Contract Cost ($)
- IT Project Completion (%)
- IT Project Lead Time (#)
- IT Vendor On-Time (%)
- SLA Performance (%)

Operational Risk
Goals
- Operational Risk Rating (#)
- Controls Performance Rating (#)
- Contingency Testing Score (#)

Management Cost Index

Income Statement
Goals
- Actual vs. Plan Variance ($/%)
- Income ($)
- Net Income/Profit ($/%)

Organization and Staffing
Goals
- Average Tenure (#)
- Employee Turnover (%)
- Headcount (#) / Plan (%)

Cost and Quality Management
Goals
- Transaction Reconciliation ($/%)
- Cost per Transaction ($)

Operational Plan Variance
Goals
- Operating Expense Variance ($/%)
- Overhead Efficiency (% of Assets)
- Cost/Income Ratio (%)

Benefits
Goals
- Benefit Cost Increase (%)
- Benefit Costs ($)
- Benefit Costs/Payroll (%)

OPERATIONS | CUSTOMER SERVICE | IT | PROGRAM MANAGEMENT
HUMAN RESOURCES | CITIZEN SERVICES | FINANCE | EXEC. MANAGEMENT

and distribution chains from end to end and to derive information from different decision areas is essential to good leadership. When Executive Management understands the various tolerances and risks, it can confidently make an informed decision. Information gaps are not acceptable reasons for failure.

Operational Cost Index

Executive Management uses operational cost to monitor the operation's backbone and the related cost implications of inefficiencies and bottlenecks. For example, if you approve a new transaction system, how can you manage and monitor its implementation effectively? In the project management/software development life cycle (SDLC) decision area, a clear plan will outline the scope of work and time needed to implement the new system. Executive Management must watch cost and time overruns and perceived risks. You can use the service vendor management decision area and its indicators of past vendor performance to mitigate risks and make better forecasts.

If the policy application process is difficult—causing system rejections, delivery delays and an increase in complaints and claims—Executive Management can look at capacity management. With the information from this sweet spot, it can assess the implications of using overtime to push applications through. You can gauge cost implications from the operational efficiency and quality management decision areas. The increase in operating costs will affect the operational plan variance. Executive Management will use this information to communicate the discrepancy from plan and focus on solving this problem. The above example illustrates the importance of managing the unforeseen by using fact-based indicators. Every organization has to be ready for the unexpected. Government organizations that manage these situations as they occur gain a significant advantage.

Overhead Cost Index

Monitoring support functions with the overhead cost index ensures the balance between cost and value makes sense. If this area underperforms, you can analyze the organization and staffing decision areas to look at headcounts or the income statement to review more detailed functional costs. Management analyzes ratios to understand the cost changes and the relative importance of various support functions or departments. For example, percentage of back-office costs to assets and percentage of branch headcount to total headcount will tell you whether these resources are changing in proportion to the organization. Increasing revenue unaccompanied by an increase in Customer Services headcount could affect future customer relationships and account loyalty.

The results plan variance gives Executive Management a key indicator to determine future resource requirements and support costs. If you expect strong income growth, then this insight can be used to look at the operational plan variance. Senior management can take a more active role in deciding if future income and funding growth requires broad resource upgrades in the support functions. You can integrate the associated increase or decrease in costs into the planning process. Fast, proactive decision-making increases responsive capabilities across the organization.

Long-Term Asset Management

Long-term investment and asset decisions represent Executive Management's opportunity to influence the future direction and success of the organization. This is where the right investment choice can fundamentally redefine both the revenue opportunities and cost efficiencies of an organization. Unfortunately these important decisions are both costly and risky. Senior management has to decide carefully which investment options have priority. The uncertainties involved in these long-term investment decisions are difficult to balance against a backdrop of short-term performance pressures. Failure is not a palatable option. What are long-term assets? From a balance sheet perspective, what asset/liability mix is required, for what risk exposure and at what expected level of performance?

From an executive perspective they also must include intangible assets such as human capital and IT capability and infrastructure. Designing key measures that offer a holistic perspective on these investments (tangible and intangible) allows Executive Management to monitor the long-term health of the organization.

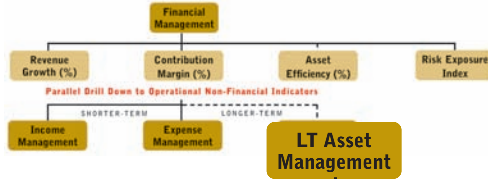
Strategic Investment ROI (%)

The strategic investment ROI percentage tracks strategic projects. This sweet spot lets Executive Management learn from the past and adapt those experiences to future decision-making. Strategic investment decisions, for example, a technology upgrade, require input from a number of decision areas. The customer service decision area may have identified a high-priority crisis response requirement. You may build a case for a technology-based solution if existing options for the organization are limited and program performance analysis shows poor citizen service results. The case for innovation strengthens if your existing service is under-performing and there is little prospect of generating satisfactory response rates. If the market assessment decision area has identified potential solutions that satisfy due diligence tests, you then require financial evaluations. Through the CapEx and strategic investments decision areas, Executive Management can review scenarios with associated ROI assumptions. If these conform to the investment evaluation process, then Executive Management must consider whether the balance sheet is strong enough to absorb the project.

The above example reflects the type of information sweet spots that Executive Management requires in order to make strategic investment decisions. By making strategic investments a dedicated sweet spot, it can monitor investment results and the rationale for specific decisions. With Executive Management well informed by past investment reviews of the key factors that influence success or failure, you reduce the risks for the future.

Staff Productivity Index

Human capital is a key asset of any organization and Executive Management must track this asset's productivity. A basic assessment uses headcount and assets managed per employee by department, but there are many added levels of sophistication in this tracking. Understanding the context for changes in staff productivity requires Executive Management to seek information from a number of decision areas.



Strategic Investment ROI (%)

CapEx and Strategic Investments
Goals
- Investment ($)
- NPV ($)
- ROI (%)

Balance Sheet
Goals
- Return on Assets

Market Service Opportunities
Goals
- Citizen Share (%)
- Market Growth Rate (%)

Program & Service Assessment
Goals
- Product & Service Opportunity ($)
- Market Gap ($)
- Product & Service Risk Score (#)

Strategic/Product Innovation
Goals
- New Product & Service Developments (#)
- New Product & Service Income ($ /%)
- New Product & Service Cost ($/%)

Staff Productivity Index

Organization and Staffing
Goals
- Average Tenure (#)
- Employee Turnover (%)
- Headcount (#) / Plan (%)

Results Plan Variance
Goals
- Results Variance ($/%)
- Results Plan ($/%)

Business Value Map
Goals
- Business Priority Score
- Business Value ($)
- Information Quality Index
- IT Capability Index
- IT Costs ($)

Compensation
Goals
- Average Compensation Increase ($)
- Average Compensation Increase (%)
- Compensation Cost ($)

Operational Plan Variance
Goals
- Operating Expense variance ($/%)
- Operating Efficiency (% of Assets)
- Cost / Income Ratio (%)

Training and Development
Goals
- Skills Rating Gap (%)
- Training and Development Cost ($)
- Training and Development Activity

IT ROA (%)

Business Value Map
Goals
- Business Priority Score
- Business Value ($)
- Information Quality Index
- IT Capability Index
- IT Costs ($)

IT Portfolio Management
Goals
- IT Capability Index
- IT Costs ($)
- IT Efficiency Index

Project / SDLC Management
Goals
- IT Project Completion (%)
- IT Project Lead Time (#)
- IT Project ROI (%)

IT Vendor Management
Goals
- IT Contract Cost ($)
- IT Project Completion (%)
- IT Project Lead Time (#)
- IT Vendor On-Time (%)
- SLA Performance (%)

Results Plan Variance
Goals
- Results Variance ($/%)
- Results Plan ($/%)

Employee Retention (%)

Talent and Succession
Goals
- Employee Satisfaction Index (#)
- Succession Gaps (#)
- Talent Gaps (#)

Organization and Staffing
Goals
- Average Tenure (#)
- Employee Turnover (%)
- Headcount (#) / Plan (%)

Benefits
Goals
- Benefit Cost Increase (%)
- Benefit Costs ($)
- Benefit Costs/Payroll (%)

Compensation
Goals
- Averages Compensation Increase ($)
- Average Compensation Increase (%)
- Compensation Cost ($)

Training and Development
Goals
- Skills Rating Gap (%)
- Training and Development Cost ($)
- Training and Development Activity

Income Statement
Goals
- Actual vs. Plan Variance ($/%)
- Income ($)
- Net Income/Profit ($/%)

MARKETING | IT | HUMAN RESOURCES
CITIZEN SERVICES | FINANCE

If this indicator increases, implying improved staff productivity, Executive Management should look at how to sustain it. The results plan variance decision area may show an increase in income or assets versus expectations and organization and staffing information will help Executive Management see if and where additional staff were employed. If overall headcount has not increased and an assessment of the compensation decision area indicates stable staff expenses, you know your staff is more productive. The value map may confirm that a recent project implementation has had a direct and positive impact on staff productivity. You may have seen an associated increase in training and development expenditures due to the new project, but the result directly improves the staff productivity index. With these figures, Executive Management can push for a review of plans and have other functions record the impact in operational plan variance.

IT ROA (%)

Sudden technology shifts can upend the organizational model, so Executive Management must know where and how IT assets are driving value across different organization units, services and functions. Comparing the upward or downward trend in IT ROA with current financial and operational results lets you see potential weaknesses in IT strategy. Likewise, comparisons with staff productivity and strategic investment percentages highlight the level of alignment with long-term goals. If IT ROA is declining in a high-performing area of the organization, a drill-down on the value map may indicate what specific drivers of performance are at risk, such as revenue growth or profit margins. Understanding who is affected leads to a more productive and proactive approach.

Employee Retention (%)

Retaining employees saves money on recruitment and startup costs; keeping the right employees builds one of your most important assets. The talent and succession review decision area provides additional information for Executive Management, making it aware that new people and talent are necessary to improve the capability of the government organization. Designing a blend of internal career advancement and strategic recruiting of new talent is an Executive Management priority.

If the employee retention percentage is a concern, you may examine compensation and benefits information, looking at government pay grade comparisons. Overall staff cost-to-income ratios provide high-level benchmarks for senior management to compare against recruiting sources. Do you increase staff costs through position upgrading, with the associated effect on the income statement, to reverse a weak employee retention index? Perhaps low employee morale is the cause. If so, improving compensation may not actually change employee retention. In this case, it may be more productive to invest in employee team-building or other employee development programs. Training and development information may help to set an appropriate strategy.

Risk Management[1]

Recent regulatory trends such as the U.S. Sarbanes-Oxley Act (SOX) and the U.S. Federal Managers Financial Integrity Act have heightened the importance of better risk management. So have trends like globalization, integrated financial markets, the knowledge economy and political uncertainty. The resulting environment and constant rapid change have created countless potential threats to organizational performance. Today, more than ever, how well government entities take and manage risks affects their cost of capital. The financial strength of the U.S. municipal bond market depends on confidence that cities can mitigate all risks and not default on their financial obligations.

This decision area provides a consolidated view of several categories and hierarchies of risk, such as financial and operational risk. In addition to these organizations must monitor environmental and natural risks that impact disaster recovery and continuity. Having a single, integrated universe of identified risks that cuts across common organizational units, functions and processes enables more coordinated and cost-effective risk responses.

The trend toward an integrated view of risk has gained ground, in particular due to the U.S. Federal Manager's Financial Integrity Act and its commercial counterpart, SOX. Many organizational and operational risk frameworks are available, including the so-called COSO II, which identifies four high-level objectives that frame risk management components, as shown in this exhibit from their Enterprise Risk Management–Integrated Framework, published in 2004 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The cube visual reinforces the multidimensional nature of risk management and compliance.

Ideally, this decision area combines both qualitative and quantitative information. Qualitative risk ratings and assessments are more reliable and verifiable when they are underpinned by numbers that measure risk incidents, events and loss amounts. Setting accepted risk thresholds, modeling expected outcomes and monitoring actual results ensures finer insights and tweaking for managing risk.

- The four objectives—strategic, operations, reporting and compliance—are represented by the vertical columns.
- The eight components are represented by horizontal rows.
- The entity and its organizational units are depicted by the third dimension of the matrix.

As a subject, risk management warrants a book of its own. Accordingly, this decision area is only meant to provide an overview of what could easily be several more detailed information sweet spots. Also, although it is represented here as a drill down within Executive Management, many organizations have a separate risk management function.

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For many risks, specific internal controls are in place to mitigate risks. This decision area helps to flag the controls that are most effective and reduce inherent risk to a more acceptable exposure of residual risk.

Risk management is more than tracking obscure or unlikely threats. When risks are tracked against a common map of the organization, it is easier to establish the relationship between performance and risk, like flip sides of the same coin. Insuring common operational risks, notably in Human Resources and Finance, is another area of overlap. For example, the escalating costs of employee benefits and uncertainty in workers' compensation claims are forcing companies to negotiate more self-insurance offerings from their insurance carriers, requiring close analysis and monitoring of reserves-to-losses trends. Likewise, determining the right price for insured cash flow programs requires similar analysis of bad debt reserves.

GOALS	METRICS	DIMENSIONS	

Loss Incidents (#)
Loss Value ($)
Risk Level Index
Risk Management Audit Score
	Claim Payments ($)
	Claim Payments (#)
	Claims Aging (#)
	Control Effectiveness Rating
	Country Risk Rating
	Environmental Risk Rating
	Est. Loss Incidents (#)
	Est. Loss Value ($)
	Intrinsic Risk Rating
	Occupational Risk Rating
	Operational Risk Rating
	Residual Risk Rating
	Risk Impact Rating
	Risk Likelihood Rating
	Write-off Amount ($)
		Control Objectives
		  Control Objective
		Risk Locations
		  Region
		  State/Province
		  County
		  GeoCode
		Reporting Period
		  Year
		  Quarter
		  Month
		Information Supply Chain
		  Information Stage
		Government Program
		  Program Type
		  Program
		Risk Response
		  Response Type
		  Response
			Risk
			  Risk Category
			  Risk Type
			  Risk
			Strategy Focus
			  Strategic Area
			  Strategy
			Transaction Processes
			  Process
			  Sub-Process
			  Activity
			Organization
			  Division
			  Department
			  Organization Code

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Risk Management	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Audit	Executives	•		
	Managers	•		
	Professionals	•		
Finance	Executives			•
	Managers		•	
	Analysts		•	
Legal	Executives			•
	Professionals		•	
Human Resources	Executives			•
	Analysts		•	
Program Management	Executives			•
	Analysts		•	
Services	Executives			•
	Analysts		•	
Procurement	Executives			•
	Analysts		•	
Operations/Production	Executives			•
	Analysts		•	
IT/Systems	Executives			•
	Analysts		•	
Customer Service	Executives			•
General Management	Executives			•

Compliance Management

Managing compliance responsibilities effectively within the government organization is a sign of distinction for overall risk management credibility. The frameworks that guide compliance are often based on a risk perspective anchored in assessments that suggest which organization areas require audits.

Ideally, compliance management provides an integrated view of obligations across the entire regulatory universe. Most organizations face numerous overlapping statutory and regulatory requirements. Knowing where and how to leverage the same controls for multiple reporting requirements can save you considerable effort in compliance.

As in IT compliance management, this decision area can draw on more than one data source. The first is compliance program management solutions, such as the U.S. Federal Managers Financial Integrity Act, that manage projects and programs to ensure compliance. The second source is a new category of tools, often referred to as continuous controls monitoring software that generate real-time or near real-time information about transactions and flag any

GOALS	METRICS	DIMENSIONS	

Compliance Completion (%)
Compliance Costs ($)
Material Deficiencies (#)
Materiality Rating
Regulatory Compliance (%)
Risk Level Index
	Controls (#)
	Exceptions (#)
	External Audit Fees ($)
	Internal Audit Costs ($)
	Issues (#)
	Items Overdue (#)
	Outsourced Internal Audit
	Costs ($)
	Qualitative Materiality Rating
	Quantitative Materiality (%)
	Reg. Audits
	Risk Impact Rating
	Risk Likelihood Rating
	Sample Size (#)
	Significant Deficiencies (#)
	Tests (#)
		Application Software
		  Application Type
		  Software
		Assertions
		Control Frequency
		Control Method
		Control Objective
		  Control Objective
		Control Owners
		  Function
		  Position
		  Control Owner
		Control Type
		Documentation Status
		Entity
		Financial Account
		  Financial Statement Type
		  Financial Statement Line
		  Financial Account
			Reporting Period
			  Year
			  Quarter
			  Month
			In Scope
			Key Control
			Regulators
			  Regulator Type
			  Regulator
			  Reg. Standard
			Remediation Status
			Risks
			  Risk Category
			  Risk Type
			  Risk
			Test Status
			Transaction Processes
			  Process
			  Sub-Process
			  Activity

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Audit				
	Executives	•		
	Managers	•		
	Professionals	•		
Risk Management				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Finance				
	Executives		•	
	Managers		•	
	Analysts		•	
	Professionals		•	
Regulatory/Legal				
	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	
General Management, Human Resources, IT/Systems, Customer Service, Program Management, Services, Procurement, Operations/Production and Loss Control				
	Executives			•

exceptions to expected outcomes, as defined by internal controls. For example, inconsistent accounts payable patterns in terms of purchase order numbers or amounts that are just below authorized levels might indicate fraud.

Finally, compliance management can also draw information from solutions that automate manual spreadsheet-based processes, including reports that are used to perform detective or monitoring control activity. The most common and costly, from a compliance perspective, are manual financial reporting and close processes, in particular for consolidation and adjustments.

As compliance can span several regulatory areas, this decision area is only meant to provide an overview of what could easily be several more detailed information sweet spots. Also, although it is represented here as a drill down within Executive Management, many organizations have a separate internal audit function.