

# Picturing performance

by Dan Scharf

## KPIs create a snapshot to measure public sector procurement

**I**N THE PUBLIC SECTOR, the age of accountability has dawned. Citizens and businesses are demanding service levels, availability and accuracy that surpass what is expected from the private sector. This fundamental change has resulted in a new focus on activity measurement throughout both the external service delivery functions of government as well as the support functions such as HR, financial management, and supply chain management. What are the issues around effective performance measurement of the public sector procurement function? Are there best practices?

Performance measurement is a simple concept. Procurement organizations expend resources (costs) in a regulated process (compliance and time) to source and qualify vendors to purchase goods and services from. These procurements are measured (volume and price) and the recipients of the goods and services are surveyed or interviewed to understand their level of satisfaction and the quality of the procurement service. This basic data is aggregated to measure progress towards the organization's strategic objectives. Derivations that accurately reflect a prediction of the future state or an assessment of the current state are generally called key performance indicators (KPIs).

It all sounds very analytical.

In practice, performance measurement is a challenge. Procurement managers and executives contend with a lack or absence of standards in measurement, conflict between overlapping priorities, confusion between strategic goals and tactical performance, and the challenge of coherently measuring a very wide range of goods and services. For example, the data collected on the procurement for a major crown project is significantly different than that collected for a procurement of desks. While contending with these realities, executives must clearly demonstrate and plan for the contribution of the procurement function to government transformation initiatives.

Most procurement executives have developed or are developing performance management frameworks (PMAFs) to measure the value of procurement to the organization. PMAFs have the basic function of identifying, categorizing and aligning KPIs to strategic and operational objectives. In the Government of Canada, PMAFs are generally organized to support the over-arching Management Accountability Framework ([www.tbs-sct.gc.ca/maf-crg/index\\_e.asp](http://www.tbs-sct.gc.ca/maf-crg/index_e.asp)) developed by Treasury Board Secretariat.

Within this context, procurement managers are struggling to develop a comprehensive representation of value as described by KPIs. Reliance on basic resource utilization measures such as purchase orders per officer provide only a single view of the operation's performance. Other managers who have taken client satisfaction to heart might focus on the Client Satisfaction measurements from the Common Measurement Tool (CMT) ([www.iccs-isac.org/eng/default.asp](http://www.iccs-isac.org/eng/default.asp)) as the primary performance indicator. Each of the above examples provides an accurate but singular view of procurement performance. A complete view, however, is quite complex with many dimensions.

Models can sometimes help to clarify complexity. A simplistic conceptual model for procurement performance measurement can be quickly visualized. Consider a simple matrix or spreadsheet where each row in the spreadsheet represents a specific basic element of measurement – time, cost, compliance, client satisfaction, quality, and volume. Each column represents a specific work group function within the procurement organization – sourcing activities and purchasing activities. Each “cell” in this spreadsheet has a formula derived from the basic workflow management, cost reporting, and client satisfaction measurement systems and tools used by the organization.

But there is one more complicating feature in this spreadsheet. The organization

procures different goods and services, so we can also see additional tabs across the spreadsheet for specific commodity groups – professional services, office supplies, printers and computers etc. Each dimension of this spreadsheet is complicated because data for the measurement elements are frequently collected at a much finer level of detail. For example, costs are broken down under the organization's chart of accounts covering items such as labour, legal, office costs, travel etc. Volume of transactions might be further broken down by their result – successful, cancelled, challenged, no response, unable to supply etc. Time would be measured according to the procurement process – for example, RFP design and preparation, posting, evaluation, contract negotiation and shipping. Similarly, the commodity tabs can be grouped in any hierarchy based on an appropriate convention.

Each “cell” in the spreadsheet represents an opportunity for a unique measurement possibly sourced from specialized transaction files, time reporting systems, or compliance reports. An experienced procurement manager will quickly populate the spreadsheet and identify gaps where data is unavailable or not aggregated. PMAFs group the rows of this spreadsheet (the performance elements) to align with specific strategic or operational objectives.

Once a conceptual model of performance is achieved, clarity is the first benefit. There is usually much angst and discussion about what the “right” KPIs are. There are clearly differences between strategic objectives (outcomes) and operational objectives (outputs). Is one type of measure better than the other? As well, “key” is in the eye of the beholder. KPIs for the operational manager will be at a lower level of detail than KPIs for procurement executives.

Some managers are oriented to the strategic objective (outcomes) e.g., maintaining satisfactory life quality during

periods of unemployment vs. operational managers who are oriented to tactical objectives (outputs) e.g., being able to answer a callers question within three minutes. In procurement organizations, the outputs are operational – a typical KPI may be procurements categorized by commodity or complexity divided by officer time or total cost. We can conceive strategic outcomes in procurement – for example, an assessment of client opportunity costs/gains for timeliness or perhaps defect tracking for life-critical equipment. Working from a conceptual model such as a PMAF clarifies these differences and integrates specific KPIs to provide a 360-degree view of the organization.

A private sector example highlights measurement of strategic vs. tactical procurement. Supply chain performance is the fundamental driver for Wal-Mart's overall business success. That company's ability to source, purchase and track goods cheaper and faster than other retail organizations has driven its overall market performance. Wal-Mart's most recent initiative with vendors is to have suppliers tag in-

dividual products with RFID technology to virtually eliminate shipping/delivery errors and improve distribution. It is likely that "tagged" is a KPI for specific Wal-Mart commodity groups.

In the public sector, the procurement of a low-cost computer is tactical. Typical KPIs for this commodity group are likely unit price and cost of procurement. However, the procurement and shipping of a cost-effective computer, pre-configured to the client department's standards has a much more significant effect on the total cost of ownership. The per-unit cost might be higher but the procurement has dramatically reduced the true cost of the asset to the client. Which KPI reflects the differing contribution of a timely and effective procurement to the overall cost performance of the client organization? One procurement is measured by output (\$ per computer/divided by procurement cost), while the other can be measured against an outcome.

Mark Seely, director of PWGSC's Value Management Office (VMO) is tasked with establishing a measurement discipline to monitor the progress of the department's "The Way Forward" program. The Government of Canada's Expenditure Review process identified procurement reform at PWGSC as a significant opportunity to realize savings in operational costs over the coming years. It is the VMO's responsibility to track the realization of these savings. As most readers will know, one of the goals is to gain efficiencies through "10/10/50" – a 10 percent reduction in the price of goods, a 10 percent reduction in the cost of procurement, and a 50 percent reduction in procurement cycle time. VMO has used the Balanced Scorecard methodology to implement a PMAF for the measurement of procurement within the Government of Canada.

For PWGSC, nine high-level indicators have been defined. Leading indicators are readiness assessments of capabilities in HR, commodity management, project management, policy changes and IM/IT infrastructure. These indicators are similar to standard project management status boards – red, yellow, green signals that summarize actual activity against plan. Four additional lagging indicators provide a view of the procurement function: effi-

ciency, quality, customer satisfaction and other government objectives. For efficiency, the measures for 10/10/50 are collected from actual procurement data as it becomes available. Quality is represented as four KPIs providing ratios on the quality of: procurement processes (complaints, errors), product, contractors and client procurement decisions (e.g., the ratio of procured purchases to new procurements).

Within Canada, is it realistic to believe that a standard PMAF for procurement can be developed? Given that there is a high degree of correlation between the basic data elements collected in any procurement process, it seems realistic. Are the variations in strategic objectives between provincial, municipal, and federal governments within Canada significant enough to alter the KPIs? At a high level, it would seem reasonable that reductions in procurement cycles, price of goods acquired and cost of the procurement function are probably objectives representative of many Canadian governments.

A couple of summary caveats are worth stating. The current management emphasis on the reliance of KPIs is seductive. KPIs do not provide the context contained in a quality face-to-face interaction with a vendor or a client. Reading the details of a procurement challenge, or pouring through emails and documents about the quality of a purchased good provides a level of understanding that cannot be represented in aggregated performance statistics. Second, senior management can easily focus on a specific KPI that measures an important but short-term operational characteristic.

Procurement KPIs need to be viewed holistically and preferably with a supporting narrative analysis. In practice, there is no single statistic that sensibly reflects the overall performance of a procurement operation. Finally, every organization is only as effective as its people. Hiring, training, deploying and developing healthy and engaged procurement teams is perhaps the primary contributor to overall performance.

Walk around, interact, measure and then decide. ~~~

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