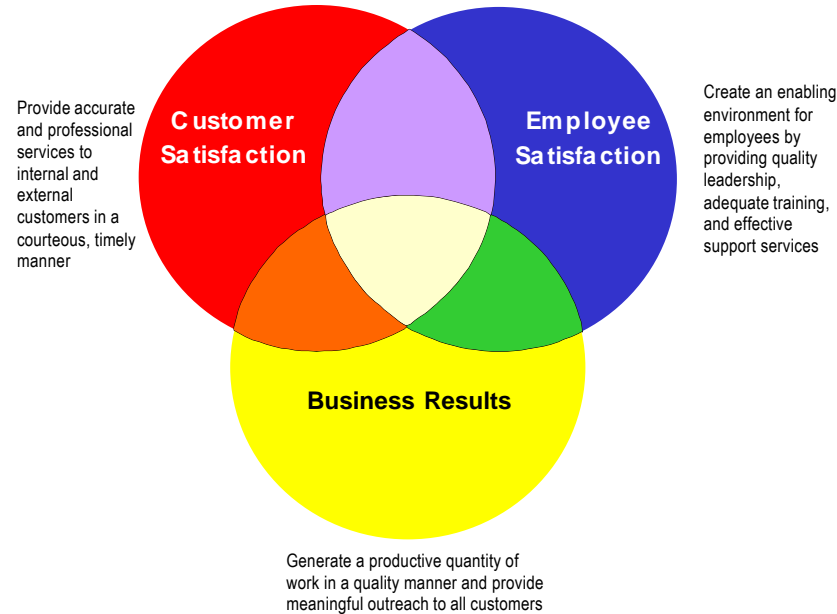


ORGANIZATIONAL PERFORMANCE MANAGEMENT AND THE IRS BALANCED MEASUREMENT SYSTEM



OFFICE OF ORGANIZATIONAL PERFORMANCE MANAGEMENT

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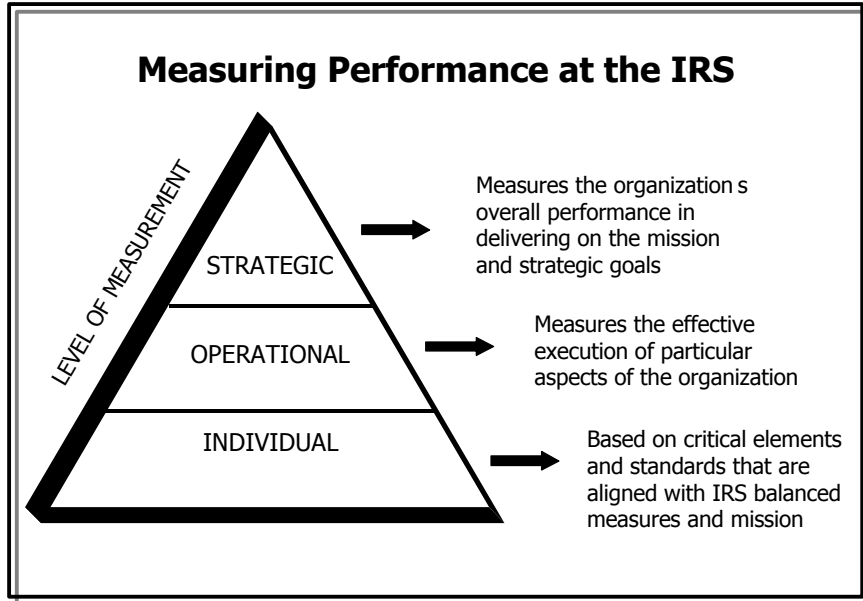


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The IRS Balanced Measurement System has been developed as part of the effort to modernize the IRS and to reflect the Service's priorities, as articulated in the IRS mission. This new approach to measurement is intended to help shift the focus of individuals and the organization away from achieving a specific target or number to achieving the overall mission and strategic goals of the IRS.

To help ensure balance, each of the three components of balanced measures—customer satisfaction, employee satisfaction, and business results—will be carefully considered by the IRS when setting organizational objectives, establishing goals, assessing progress and results, and evaluating individual performance.

The IRS will use balanced measures, comprised of both output and outcome measures¹, at both the strategic level and the operational level to measure organizational performance. At the individual level, critical elements and critical performance expectations that support and align with the IRS mission and balanced measures approach will be the basis by which employees are evaluated.

In September 1999, a Balanced Measures Regulation was issued to formally establish the IRS new performance management system. The issuance of the regulation, which followed a public comment period, sets forth the structure for measuring organizational and employee performance within the IRS. A copy of the regulation is available on the IRS Insider and the IRS Digital Daily (www.irs.gov).

At the strategic level, measures will be used to assess overall performance in delivering on the mission and three strategic goals. Strategic measures will apply to the organization as a whole and to each of the major operating and functional divisions in the modernized IRS.

At the operational management level, balanced measures are used to assess the effectiveness of program and service delivery of particular components of the organization.

The IRS has translated its mission into three strategic goals of service to each taxpayer, service to all taxpayers,

¹ Output measures reflect units produced or services produced by a program, e.g., cases closed, calls answered. Outcome measures reflect results—the changes or accomplishments that are achieved, e.g., customer satisfaction, employee satisfaction, quality.

and productivity through a quality work environment. These three strategic goals are supported by the balanced measures as depicted in the next table. This framework will assist the IRS in describing how programs and initiatives tie to achievement of the mission and goals as reflected in improvements in the measurement results.

Relationship of Strategic Goals to Balanced Measures

STRATEGIC GOAL	BALANCED MEASURE
<ul style="list-style-type: none"> ◆ Objectives 	
Service to Each Taxpayer <ul style="list-style-type: none"> ◆ Make filing easier ◆ Provide first quality service to each taxpayer needing assistance ◆ Provide prompt, professional, helpful treatment to taxpayers in cases where additional taxes may be due 	Customer Satisfaction
Service to All Taxpayers <ul style="list-style-type: none"> ◆ Increase Fairness of Compliance ◆ Increase Overall Compliance 	Business Results (Quality, Quantity & Outreach)
Productivity through a Quality Work Environment <ul style="list-style-type: none"> ◆ Increase employee job satisfaction ◆ Hold agency employment stable while economy grows and service improves 	Employee Satisfaction

OPERATIONAL LEVEL BALANCED MEASURES FRAMEWORK

Service to Each Taxpayer/Customer Satisfaction

The service to each taxpayer goal is measured from the customer's point of view. The goal of the Customer Satisfaction element is to provide accurate and professional services to internal and external customers in a courteous, timely manner. The customer satisfaction goals and accomplishments of operating units within the IRS are determined on the basis of customer feedback collected via methods such as questionnaires, surveys and other types

of information gathering mechanisms. Information to measure customer satisfaction for a particular work unit is gathered from a sample of the customers served. Customers are permitted to provide information requested for these purposes anonymously. Customers may include individual taxpayers, organizational units or employees within the IRS and external groups affected by the services performed by the IRS operating unit.

Service to All Taxpayers / Business Results

The service to all taxpayers goal is gauged through a combination of quality, quantity and outreach measures. The goal of the Business Results elements is to generate a productive quantity of work in a quality manner and to provide meaningful outreach to all customers. The business results measures consist of numerical scores determined under the elements of Quantity and Quality.

- ◆ The quantity measures, which are to be used in conjunction with the quality, customer satisfaction, and employee satisfaction measures², provide information about the volume and mix of work products and services produced by IRS operating units and consist of outcome-neutral production and resource data. Examples include the number of cases closed, work items completed, customer education, assistance and outreach efforts undertaken, hours expended and similar inventory, workload and staffing information.

² The Balanced Measures Regulation restricts the use of quantity measures for organizational units with employees who exercise judgement with regard to enforcement of the tax law. Quantity measures may be used to set organizational goals or to evaluate organizational performance in these areas only if done in conjunction with the other elements of the Balanced Measurement System. (See section 801.2(b) of the Regulation.)

- ◆ The quality measures provide information about how well IRS operating units developed and delivered their products and services. The quality measures are determined based upon a comparison of a sample of work items handled by certain functions or organizational units against a prescribed set of standards that incorporate the customers point of view. Additional quality measures will gauge the accuracy and timeliness of the products and services provided.

Productivity Through a Quality Work Environment / Employee Satisfaction

The productivity through a quality work environment goal is assessed via measures of employee satisfaction. The goal of the Employee Satisfaction element is to create an enabling work environment for employees by providing quality leadership, adequate training, and effective support services. The employee satisfaction ratings to be given within the IRS are determined on the basis of information gathered via survey. All employees have an opportunity to provide information regarding employee satisfaction under conditions that guarantee them anonymity.

ADDITIONAL LINKAGES BETWEEN BALANCED MEASURES AND STRATEGIC GOALS

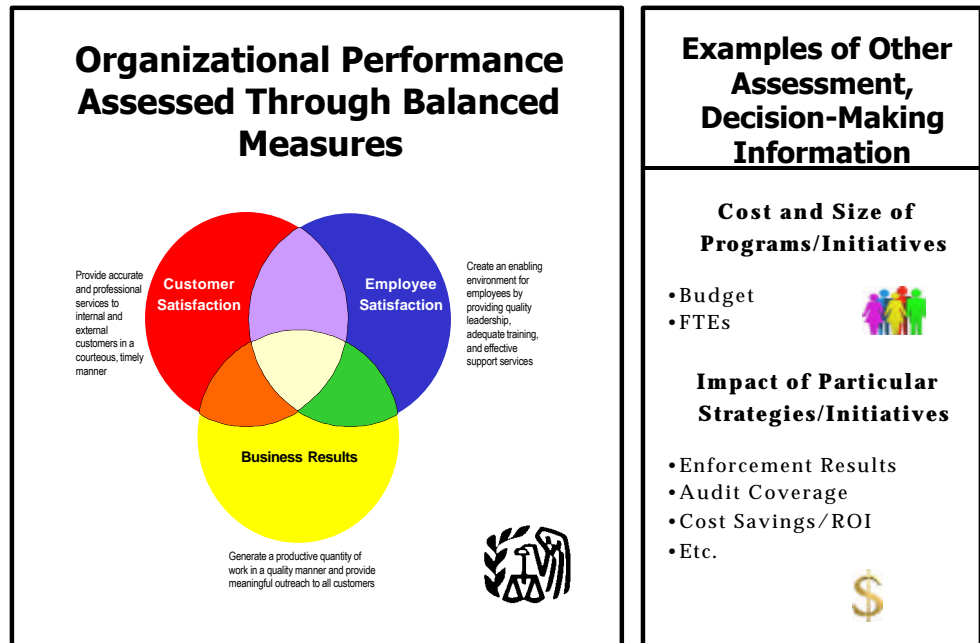
The relationship of operational performance measures to strategic goals as described above is intended to help illustrate the primary linkages between the measures and goals. The IRS recognizes that secondary linkages between the measures and the three goals also exist. For example, efforts to improve employee satisfaction in support of the productivity through a quality work environment goal

often result in improvements to customer service thereby enhancing the *service to each taxpayer* goal. Similarly, quality efforts that improve the timeliness and accuracy of work performed not only result in improved business results and *service to all taxpayers* but can also result in improved levels of customer satisfaction and better *service to each taxpayer*.

USE OF ENFORCEMENT DATA

In addition to the balanced measures, the IRS collects a great deal of other information about programs and services that is useful for purposes of tracking, analyzing and reflecting the factors that affect overall performance. Some of this information, such as dollars collected, dollars assessed, liens filed, and seizures executed, are *records of*

Performance Assessment Framework



tax enforcement results which the organization is prohibited by law from using to evaluate or to impose or suggest production quotas or goals for any employee.

Therefore, in the IRS Balanced Measurement System, enforcement statistics are not measures of performance at either the operational or strategic level. Enforcement statistics are used, however, at a strategic level to make projections for and to assess the effectiveness of particular strategies and initiatives. Such information is intended to help illustrate the potential impact of resource and strategy decisions on factors that affect overall compliance, such as audit coverage.

DEVELOPING BALANCED MEASURES

At the Strategic Level

As described earlier, measures at the strategic level are meaningful for the service as a whole and for each of the operating and functional divisions. They will be comprised of measures such as burden, compliance, overall customer satisfaction and employee satisfaction, and productivity. Taxpayer burden and voluntary compliance, for example, are among the most important outcomes affected by IRS activities for which measurements at the strategic level are critical but also inherently difficult to develop. The challenge is in identifying valid and reliable ways to measure them.

To date, the balanced measures effort has focused primarily on the development of measures at the operational level. However, work began in FY 1999 and

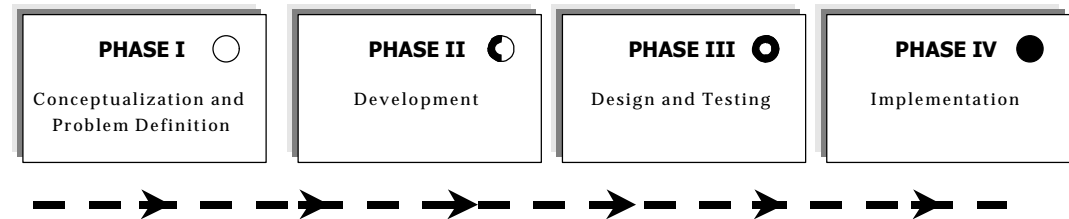
will accelerate in FY 2000 to develop strategic measures for roll-out in the modernized IRS during FY 2001. Once fully implemented, strategic measures will be used by the IRS in its annual performance plan at the Strategic Management Level and for each Operating Division and Functional Division.

At the Operational Level

The IRS is utilizing a four-step process for the development of balanced measures in each of its Operating Divisions and Functional Divisions. The total duration from start to finish of this process varies depending on the availability and usability of existing measures as well as the complexity and related system requirements of the final set of measures selected.

In Phase I, Conceptualization and Problem Definition, the measures team is convened, a charter and timeline is

Balanced Measures Development Process



prepared, and a baseline of current measures, if applicable, is completed. The teams are comprised of national office and field IRS personnel and union representatives. In Phase II, Development, the team identifies a proposed set of measures for each element of the balanced measurement framework—customer satisfaction, employee satisfaction, and business results. During this phase, best practice

reviews are conducted and a pro/con analysis is applied to each proposed measure. Phase II concludes upon approval of the proposed set of measures by the IRS Organizational Performance Management Steering Committee. For purposes of obtaining additional feedback on the proposed measures, information is also shared with external stakeholders and others via press releases and the IRS Digital Daily web site. In Phase III, Design and Testing, the approved measures are thoroughly tested and revised as necessary. An implementation plan is prepared for the final phase, Implementation. During implementation Phase IV, any management information system requirements and cost and personnel needs are resolved. Prior to rolling out the measures, a communication and training plan is completed and ownership of the measures is clearly established in the relevant Operating or Functional Division.

PROGRESS UPDATE

The IRS completed balanced measures development for the Examination, Collection and three Customer Service product lines in calendar year (CY) 1998. In CY 1999, additional balanced measures were approved for Tax

Exempt and Government Entities³, Large and Mid-Size Business, Appeals, Taxpayer Advocate Service, Research, Statistics of Income, and additional Customer Service product lines. These measures are undergoing final design and implementation. Other measures teams underway in CY 1999 that are expected to have approved balanced

measures in early CY 2000 include Information Systems, Criminal Investigation, Counsel, Submission Processing, and Agency Wide Shared Services. All remaining areas, including Small Business/Self-Employed and the Wage & Investment Operating Divisions, will commence measures development in CY 2000. For the Small Business/Self Employed and Wage and Investment Operating Divisions, much of the balanced measures work that has already been completed for the Examination, Collection, and Customer Service functions will be applicable. The Measures Development Progress table reports on progress for the Operating Divisions and Functional Divisions.

<u>Measures Development Progress</u>	
Large and Mid-Size Business	●
Tax Exempt and Government Entities	●
Small Business and Self Employed*	○
Wage and Investment*	○
Information Systems	◐
Agency-Wide Shared Services	◐
Taxpayer Advocate Service	●
Criminal Investigation	◐
Appeals	●
Counsel	◐
CORE	◐

KEY:

○	Not yet started or Phase I
◐	Phase II, Development Underway
◑	Phase III, Testing and Final Development
●	Phase IV, Implementation

As of 12/99

*Much of the balanced measures development work already completed in Examination, Collection and Customer Service will be transferable and applicable to these Operating Divisions.

³ Balanced measures were approved for most of the Tax Exempt portion of TE/GE. Additional measures work is yet to be done for the Coordinated Exam Program, Customer Account Services, and Government Entities.

SUMMARY

In moving forward with the creation of a new organization focused on providing America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all, it is essential that the IRS change how it measures organizational performance. Key to this change is the development of new, balanced measures that are aligned with the mission and strategic goals of the new IRS.

The transition from the old ways of doing business to the new, modernized IRS will take time. The measures reflected in this document will help move the IRS in that direction and bring the organization a step closer to a truly balanced framework of measurements at the strategic and operational levels.

As the balanced measures are tested and used throughout the organization, lessons will be learned and refinements in the measures may be necessary. However, the basic concept of what needs to be measured—customer satisfaction, employee satisfaction, and business results—will remain stable and firmly grounded in the organizational design principles of the modernized IRS.