

IRS
BALANCED
MEASURES
and
PERFORMANCE MANAGEMENT

August 28, 2001

Organizational and Individual
Performance

The Balanced Measurement System— Mandates for Change

- The IRS Restructuring and Reform Act of 1998 (RRA '98) required the IRS to change its measures to balance customer service with overall tax administration responsibilities
- Treasury Regulation Part 801-- Balanced System for Measuring Organizational and Employee Performance -- implements the IRS Balanced Measurement System

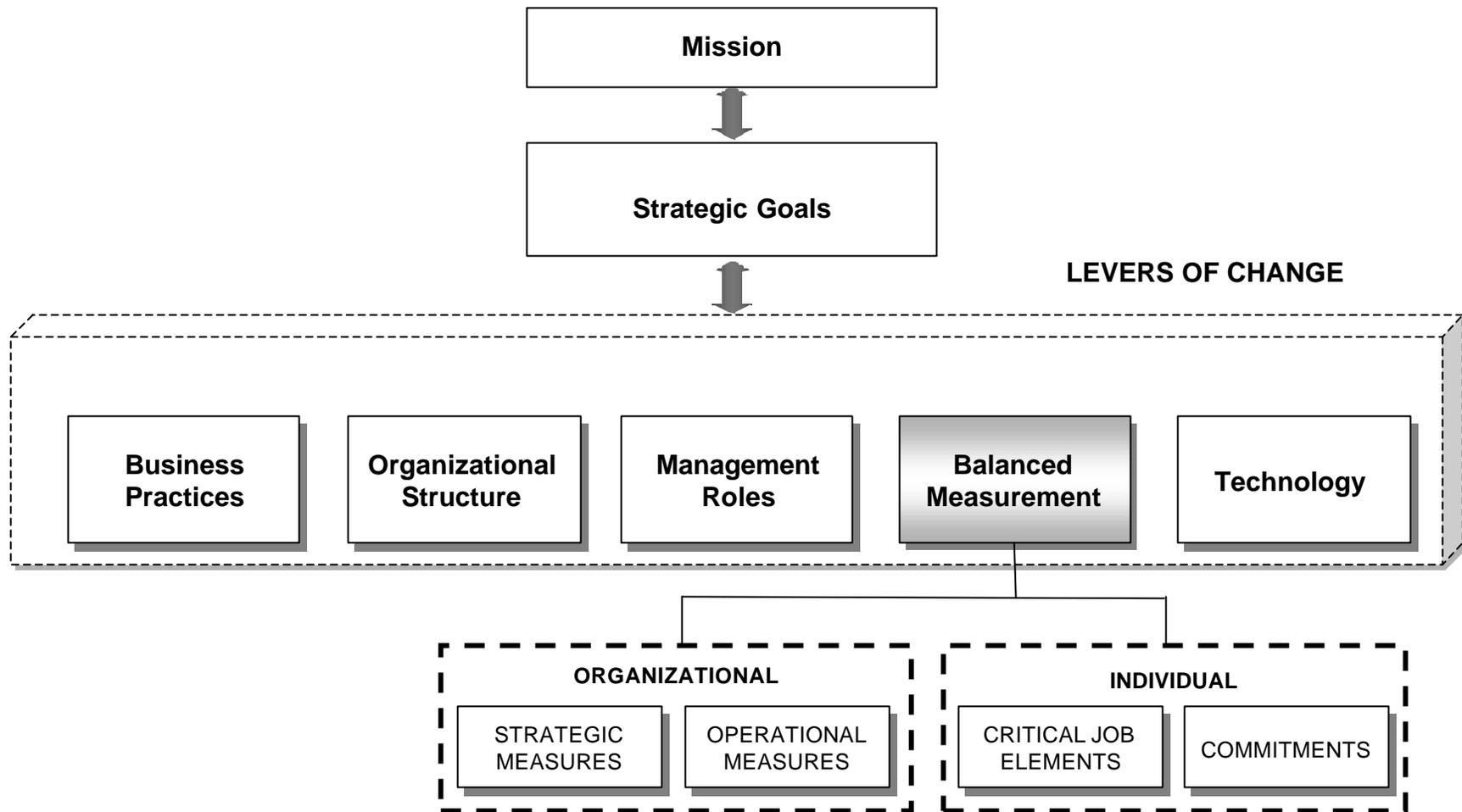
Previous Approaches

- Emphasis on Achieving Measures
- Dependent on Dollar Results
- No Customer or Employee Measures
- Large Number of Measures
- Process Measures Used

Balanced Approach

- Emphasis on Achieving Mission
- Balanced Priorities
- New Customer Satisfaction and Employee Satisfaction Measures
- Small Number of Measures
- Outcome Measures Used

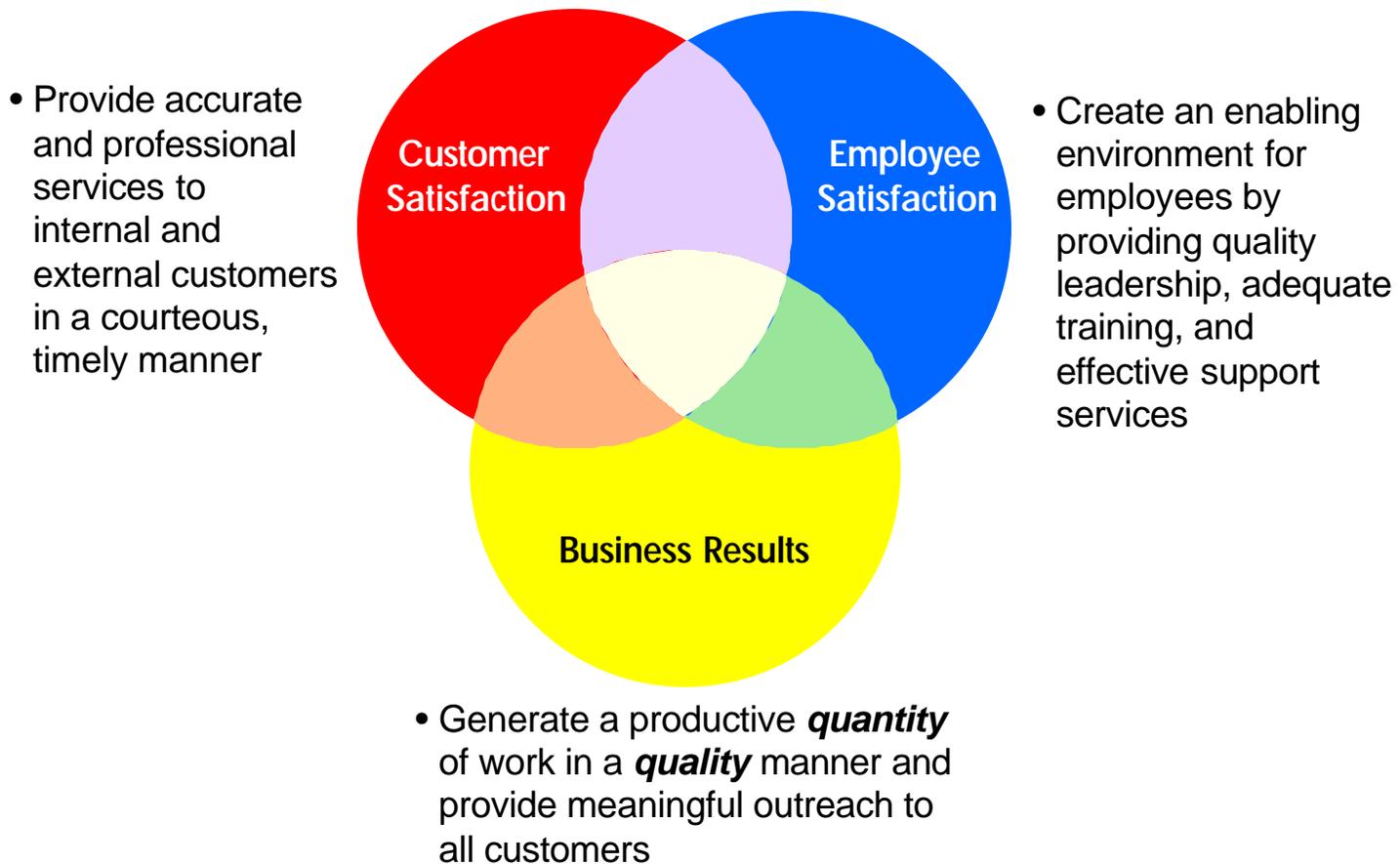
The Balanced Measurement System is one of the Five Levers of Change



Objectives of the IRS Balanced Measurement System

- Translate the IRS mission and strategic goals into a tool to:
 - Communicate organizational priorities
 - Guide and motivate performance
 - Obtain feedback
- Establish Employee Satisfaction and Customer Satisfaction as organizational objectives equal in importance to Business Results
- Support managers in taking actions to foster employee and customer satisfaction
- Provide a clearer picture to customers of how IRS values improving customer and employee satisfaction

Overview of the IRS Balanced Measurement System



The Balanced Measurement System— Customer Satisfaction

Key Questions the Balanced Measurement System Helps to Answer:

- What is the general level of customer satisfaction in specific IRS transactions?
- How often and why are there customer complaints?
- What are taxpayers' perceptions and expectations of the IRS?

The Balanced Measurement System— Employee Satisfaction

Key Questions the Balanced Measurement System Helps to Answer:

- What is the general level of employee satisfaction?
- How do employees perceive the effectiveness of levels of management?
- Are we providing the right working environment?

The Balanced Measurement System— Business Results

Key Questions the Balanced Measurement System Helps to Answer:

QUALITY

- Did we assess/collect the proper tax?
- Did we provide quality customer service?

QUANTITY

- Did we use our resources in accordance with the plan?

The Balanced Measurement System— Strategic Measures

Mission Statement

Providing America's taxpayers top quality service by helping them understand and meet their tax responsibilities by applying the tax law with integrity and fairness to all.

Strategic Goals

Service to Each Taxpayer

- Make filing easier
- Provide first quality service to each taxpayer needing help with his or her return or account
- Provide prompt, professional, helpful treatment to taxpayers in cases where additional taxes may be due

Taxpayer Burden
Customer Satisfaction/
Dissatisfaction

Service to All Taxpayers

- Increase fairness of compliance
- Increase overall compliance

Taxpayer Compliance
(Payment, Filing, Return Accuracy)

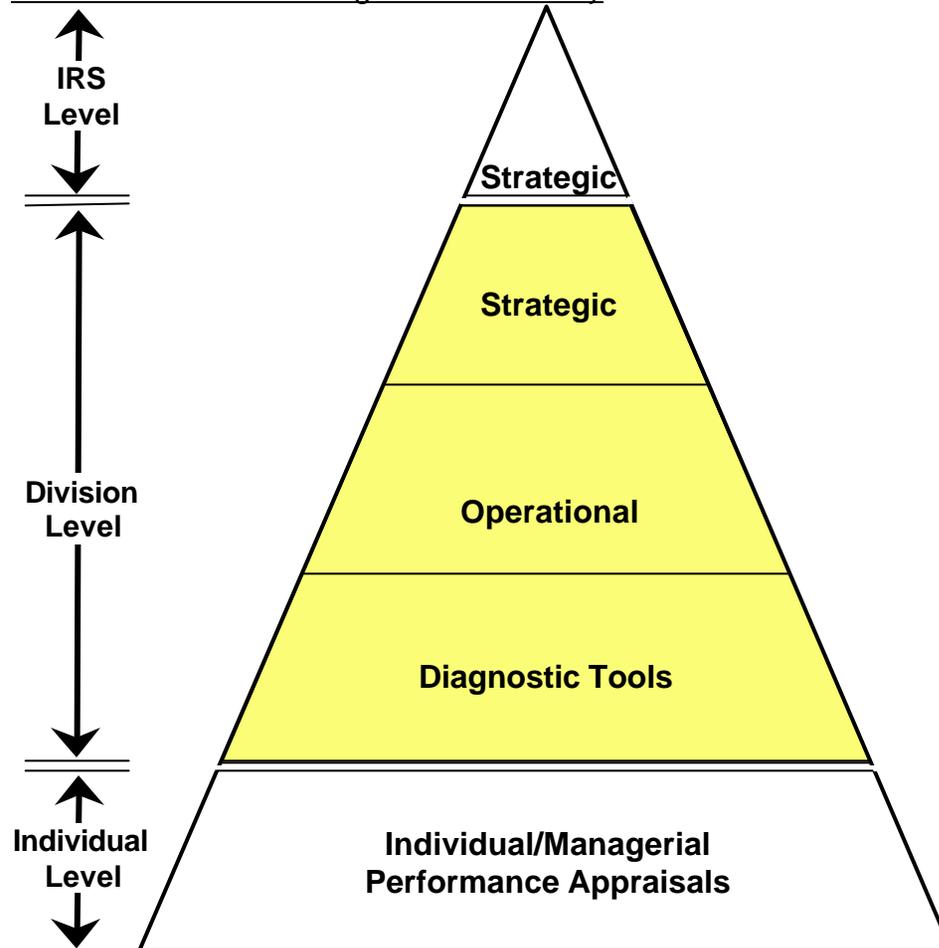
Productivity Through A Quality Work Environment

- Increase employee job satisfaction
- Hold agency employment stable while economy grows and service improves

Employee Satisfaction
Productivity

Balanced Measures and the Management Hierarchy

Measures and the Management Hierarchy



Objectives

Examples

- | | |
|---|--|
| <ul style="list-style-type: none"> • Given the strategies, measure the effectiveness of execution of particular aspects of the organization • Help identify the underlying factors that affect changes in performance measures • Assess how organizational measures relate to individual/managerial performance appraisals | <ul style="list-style-type: none"> • Business Results: <ul style="list-style-type: none"> – Quality – Quantity • Customer Satisfaction • Employee Satisfaction • Not measures • Process tools • Reference guide defines how to use • Critical job elements for employees • Commitments for executives |
|---|--|

The Balanced Measurement System— Operational Measures and Diagnostic Tools

- Operational Measures gauge the effectiveness of execution of particular programs, given the organizational strategies
Examples: Number of cases closed; customer satisfaction ratings
- Diagnostic Tools help identify the underlying factors that affect changes in performance measures and guide actions
Examples: Meeting with employees to get behind employee satisfaction scores; analyzing procedures to assess cycle times

The Balanced Measurement System— Diagnostic Tool Examples

BALANCED MEASURE	DIAGNOSTIC TOOL
<ul style="list-style-type: none">• Customer Satisfaction	<ul style="list-style-type: none">• Transaction Survey Items• Employee Training, Level of Experience
<ul style="list-style-type: none">• Employee Satisfaction	<ul style="list-style-type: none">• Individual Survey Items• Absenteeism Rates• Turnover Rates
<ul style="list-style-type: none">• Business Results—Quality	<ul style="list-style-type: none">• Individual Quality Standards• Employee Training, Level of Expertise
<ul style="list-style-type: none">• Business Results—Quantity	<ul style="list-style-type: none">• Calls Per Unit of Effort• Case Closures per Unit of Effort• Cycle Time

Regulation 801 was promulgated on September 7, 1999 to implement Sections 1201 and 1204 of RRA '98

- Provides rules for establishing the Balanced Measurement System
- Requires IRS to establish a performance evaluation system for individual employees that aligns with the Balanced Measurement System
 - Performance criteria will include elements that support the organizational measures of Customer Satisfaction, Employee Satisfaction, and Business Results
 - Organizational measures will not directly determine the evaluation of individual employees
 - All employees will be evaluated on whether they provided fair and equitable treatment to taxpayers (Retention Standard)

Regulation 801: Use Of Enforcement Data

- ROTERs are data, statistics, compilations of information or other numerical or quantitative recordings of tax enforcement results reached in one or more cases, such as
 - Dollars collected
 - Dollars assessed
 - Liens files
 - Seizures executed
- Employees who exercise judgment on ROTERs in cases concerning one or more taxpayers may be evaluated on information derived from a review of the work done on the taxpayer cases handled by the employee

Regulation 801: Use Of Enforcement Data (Cont'd)

- Enforcement statistics are not measures of performance at either the operational or strategic level
- Enforcement statistics are used at a strategic level to project and assess the effectiveness of strategies and initiatives
- Enforcement statistics are also used for forecasting, financial planning, resource management, and the formulation of case selection criteria

Regulation 801: Employee Performance Evaluation System

- Do not use performance measures based in whole or part on Quantity Measures to evaluate performance or impose or suggest goals for employees who exercise judgment with respect to Records of Tax Enforcement Results (ROTERTs)
- Do not use ROTERTs to evaluate employees or to impose or suggest production quotas or goals for employees

Example: Appropriate Individual Assessment

- In conducting a performance evaluation, a supervisor may take into consideration information showing that the employee failed to propose an adequate adjustment to tax liability in one of the cases the employee examined

IF...

that information is derived from a review of the work done on the case

- All information derived from such a review of individual cases handled by an employee, including time expended, issues raised, and enforcement outcomes reached, may be considered in evaluating an employee

Changes to the Individual Performance Management System link organizational goals and measures to individual performance appraisals

- Strengthen the linkages between Individual Performance Management and the Service's mission, strategic business goals, business plans, and Balanced Measures
- Shift the focus of Individual Performance Management from a single event (the annual performance evaluation) to a systematic, ongoing process that supports the Service's culture and enhances results
- Change the perception of performance management as a time-consuming, stressful human resource activity to a process for helping achieve business objectives
- Ensure long-term success by balancing the achievement of results with demonstration of actions taken to achieve them

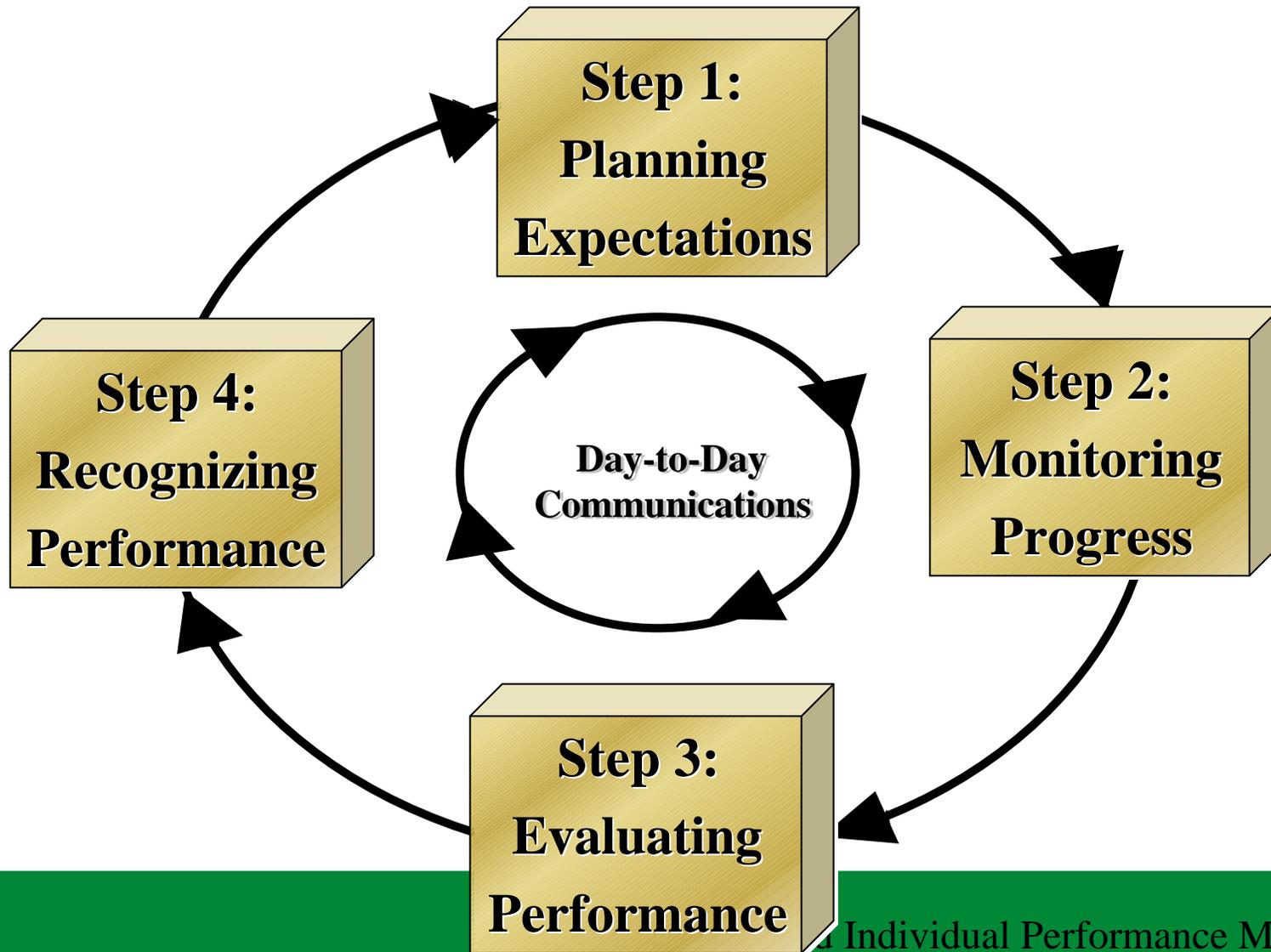
Critical Job Elements for Employees and Responsibilities for Executives, Managers and Management Officials Have Been Aligned with Balanced Measurement System Categories

Executive/Manager Responsibilities	Management Official Responsibilities	Employee Critical Job Elements
<ul style="list-style-type: none"> ◆ Leadership ◆ Employee Satisfaction ◆ Customer Satisfaction ◆ Business Results ◆ Equal Employment Opportunity 	<ul style="list-style-type: none"> ◆ Program Leadership ◆ Employee Satisfaction ◆ Customer Satisfaction ◆ Business Results ◆ Professional Expertise 	<ul style="list-style-type: none"> ◆ Employee Satisfaction - Employee Contribution ◆ Customer Satisfaction - Knowledge ◆ Customer Satisfaction - Application ◆ Business Results - Quality ◆ Business Results - Efficiency

Individual Performance Management System Phases

- Phase I - Compliance with RRA'98
 - Retention Standard - FY 1999
 - Establishment of Performance Management Executive Council
- Phase II - Alignment with Balanced Measurement System
 - Executives, Managers and Management Officials - January 2000
 - Employee Critical Job Elements - August 2001
- Phase III - Redesign to strengthen linkage to selection, pay and development

The Performance Management Cycle



Step 1: Planning Expectations

- Responsibilities, Commitments and Retention Standard are discussed at beginning of rating period.
- Responsibilities are common for all executives and managers.
- Commitments are specific for all executives and managers.

Step 2: Monitoring Progress

- Observe and document behavior throughout performance period.
- Provide feedback and ongoing coaching.
- Conduct mandatory mid-year progress review.
- Modify Commitments as necessary.

Step 3: Evaluating Performance

- Request Self-Assessment from subordinate managers at end of rating period.
- Provide summary narrative evaluation based on performance of Responsibilities and Commitments.
- Conduct performance review boards for executives and senior managers.
- Conduct evaluation meeting.

Step 4: Recognizing Performance

- Special Act, Special Service, and Manager Awards
- Performance Awards
- Quality Step Increases
- Time-Off Awards
- Incentive Pay
- Honorary Awards
- Pay for Performance Programs; e.g., Executive Incentive Awards, Senior Manager Payband

Responsibilities and Balanced Measurement System

Executives and Managers

- Leadership
- Employee Satisfaction
- Customer Satisfaction
- Business Results
- Equal Employment Opportunity

Principal Commitment

- Appears in Performance Agreement for each executive and manager with organization-wide program plan responsibility.
- Statement that incorporates organizational-specific program plans identifying organizational objectives.
- Focus is on individual overall attainment of objectives.
- Identifies actions to accomplish the objectives and measures of success.
- Relates to one or more of the five Responsibilities.
- Contains key indicators of measurable outcomes.

Supporting Commitments

- Statements of critical actions, objectives, and results that executive or manager expects to accomplish during the rating period.
- Description of actions that link to Responsibilities, Balanced Measures, and Leadership Competencies.
- Focus is on individual actions that support organizational priorities.
- Are specific, measurable, and outcome or output oriented.

Leadership Competencies

- Leadership Competencies are a basis for selection, development, evaluation and recognition.
- Leadership Competencies provide:
 - Clear definition of Knowledge, Skills, and Abilities required for the job
 - Consistent information for recruitment, career planning, employee development, training, and evaluation
 - Links between performance behaviors and recognition

Linking Responsibilities and Leadership Competencies

Leadership

Adaptability
Communication
Decisiveness
Integrity/Honesty
Service Motivation
Strategic Thinking

Employee Satisfaction

Continual Learning
Developing Others
Diversity Awareness
Group Leadership
Teamwork

Equal Employment Opportunity

Customer Satisfaction

Customer Focus
Entrepreneurship
External Awareness
Influencing /Negotiating
Partnering

Business Results

Achievement Orientation
Business Acumen
Political Savvy
Problem Solving
Technical Credibility

Critical Job Elements (CJEs) Redesign

- Alignment of individual performance elements with organizational Balanced Measurement System
- No change to IRS and Union Collective Bargaining Agreement
- IRS and Union joint development of CJEs
- Simplification of current system

CJE Redesign Methodology

- Standardization to 5 CJEs
 - Employee Satisfaction - Employee Contribution
 - Customer Satisfaction - Knowledge
 - Customer Satisfaction - Application
 - Business Results - Quality
 - Business Results - Efficiency
- Employee Satisfaction - Employee Contribution CJE same for all employees