



State of Michigan

Department of Central Procurement
Division of Supplier Relationship Management

2018 George Cronin Awards for Procurement Excellence

The Unrealized Transformative Power of Internally-Focused KPIs in Public Procurement

Executive Summary

Historically, good principles for private sector procurement have not always been implemented in the public sector. Considering the widely disparate goals in each sector, this makes sense. While good government stewardship is paramount and somewhat akin to the profit motive in the private sector, obtaining the best value for goods and services for the citizenry is certainly an altogether different animal.

Upon careful scrutiny, however, the value of employing certain best practices from the private sector in public procurement becomes manifest. In more recent years, trends in private industry procurement have moved away from pure profit maximization through traditional means (i.e., financial measures) towards a more advanced approach using metrics and more algorithmic analysis. In particular, the use of Key Performance Indicators (“KPIs”) to measure seemingly less tangible factors has become standard across industries.

Of course, private companies typically use these KPIs to increase profitability. The State of Michigan, of course, has no profit motive, so how can KPIs be used effectively to achieve public procurement goals? The answer to that question is the basis for this submission.

As will be demonstrated, Innovation is the primary strength of this program. It does not appear to have been employed on a large scale anywhere in public procurement. This is certainly an area where effective implementation could have long ranging benefits for all public procurement. The high degree of Transferability is another strength. Written policy is easily transferrable, and efficacy statistics are easily demonstrated. Further, the program was fully implemented with internal resources, and using existing standard software products.

By their very nature, KPIs are documented measurables that explicitly lay out the variables measured. Service Improvement is one of the key objects measured via several specific KPIs. This can be empirically documented with factual support. The resultant high level of mutual benefit is attractive to both suppliers and procurement. Cost Reduction is important and is certainly measured. However, this can admittedly be difficult to measure, as KPIs in these instances must be based on principled, intellectually honest metrics. Additionally, many of the KPIs discussed in this submission shy away from this sort of pure financial analysis. Ultimately, the State of Michigan steadfastly maintains that tangible financial benefits are a consequence of effective alignment of KPIs with clearly defined organizational strategy.

Innovation

KPIs are not a novel concept. Their implementation in public procurement is not necessarily novel either. However, most KPIs used in this context focus on the external performance of suppliers, including costs and quality of goods. The most commonly utilized KPIs within a procurement enterprise typically deal with cost savings alone. There is nothing wrong with this approach; the State of Michigan’s Central Procurement Services division certainly measures and tracks these things and is constantly looking for new and creative ways to save.

It does not appear, however, that internally-focused KPIs have met with widespread acceptance in the realm of public procurement. Most can see the obvious intangible value in these sorts of

measures. KPIs that measure speed, efficiency, work quality, etc. are useful, but attempting to discern measurable tangible economic value from these can be difficult. Perhaps that is the chief obstacle to more frequent implementation.

It would be easy to say that a government procurement entity has but one simple goal – deliver goods and services to its citizens at the best possible cost. Consequently, KPIs would measure cost savings over time and end use satisfaction. However, KPIs that just look at these two outputs only look backward and are not as useful for predicting future performance. To compensate for this, the State of Michigan uses a mix of leading (input-oriented, harder to measure but easy to influence) and lagging (output-oriented, easy to measure but hard to influence) indicators as KPI.

The State of Michigan measures performance using hard dollar savings and net promoter scores (“NPS”), a common private sector measure of customer satisfaction. Additionally, the State measures itself against service level agreement (SLA) timetables (a leading indicator of customer satisfaction), employee attrition rate (a leading indicator of both savings and customer satisfaction), and average supplier performance rating (a leading indicator of customer satisfaction) among others (*For a full list, please see the 2018 KPIs attachment*). Importantly, KPIs have been developed for every service area of Central Procurement Services. (*Please see the attached Central Procurement Services Map*).

Often, even when measured, KPIs are seen only by a select few executives and used for reporting purposes. The State of Michigan has taken several steps to ensure that every member of the staff sees and participates in the measuring of our KPI. First, the data that is used for KPIs is gathered directly from employees’ work within the State of Michigan’s central database, which also allows buyers (and their managers) to view their personal performance against the KPIs at any time. KPIs are also displayed on a large screen television in the front of the office, in a continuous loop that shows current results as well as trends, which are updated daily. This allows both staff and visitors to view our performance at a glance. Lastly, the State of Michigan generates agency-specific reports (*Please see the attached example agency (DNR) quarterly report for the 3rd Quarter FY2018*) each quarter to show our agency customers how we are performing for them, as well as an overall quarterly report (*Please see the attached FY2018 Q1, Q2 and Q3 Full Report*).

Transferability

Employing a KPI-based strategy is something any public procurement office can copy.

Obviously some KPIs are not going to be applicable in some states. A measure of responsiveness to agency requests is not likely to be a very useful metric in a decentralized purchasing environment. The primary task is to do comprehensive self-evaluation to determine strategic goals going forward. Once that is accomplished, selecting KPIs and the individual component metrics is relatively simple. Implementing and ensuring KPIs receive the visibility needed to make them successful can be more difficult.

The State of Michigan has implemented its KPI program with software products that are standard issue within the State of Michigan (Microsoft Access, PowerPoint, Publisher, SharePoint, etc.). This is efficient from a cost standpoint and demonstrates transferability. Where the State of

Michigan has invested its resources in staff dedicated to technology and reporting who have a heavy focus on KPI tracking and reporting.

Service Improvement

For the State of Michigan, Service Improvement is at the very core of our KPI strategy. Our KPIs for the sourcing division measure compliance with time-based SLAs for our various types of solicitations, customer satisfaction measured by NPS, and actual hard savings. Internally focused KPIs are also used to measure internal performance. There are many KPIs used in this arena. Included are measures of how rapidly we respond to internal service requests from our agencies, how efficiently we monitor our new and existing contracts, how we maintain our professional development, how quickly we respond to FOIA requests, and how well we retain our employees.

The best evidence of service improvement can be demonstrated by the KPIs themselves. Since implementing them for the 1st quarter of the State of Michigan's 2017 Fiscal Year, a marked improvement can be seen. The percentage of Requests for Proposals meeting their SLA targets has increased from 25% to 62% and NPS has increased from 60 to 75 (note that industry heavyweight Apple has an NPS of 72). Anecdotally, in our regular meetings with agency customers a noted shift in tone has occurred, from reviewing agency complaints and grievances, to a general sense of satisfaction. This is not to say that KPIs alone have caused all of this improvement, but there is no denying that there is substantial correlation between the implementation of these KPIs and a dramatic improvement in the overall perception of Central Procurement Services.

We certainly expect to keep this progress going. Another great feature of maintaining these performance statistics is that they demonstrate our shortcomings in a meaningful way. By using KPIs, we are not only able to see and measure our improvement, but also to quantifiably identify our weaknesses. This allows us to see where we need improvement, and in what areas we need the most improvement. Consequently, we can allocate time and resources to improving in those areas at maximum efficiency.

Cost Reduction

Measurement drives behavior, demonstrates what an organization values, and has an important effect on culture. Often, savings are measured in ways that are unreliable, speculative, and that are not taken seriously by people inside or outside of Procurement. In the end, measuring savings has little to no real effect on the bottom line. To change this, the State of Michigan has taken several important steps to ensure that its KPI demonstrate real, demonstrable, and credible savings.

The State of Michigan set a tight definition of what would be considered hard savings: a purchase price that is lower than previously delivered price, reducing a planned contractual price increase, (e.g., when a 3% CPI increase is permitted within a contract, but Procurement negotiates that to 1%, the delta of 2% is considered hard savings), or where no prior pricing history exists and a purchase price that is lower than accurate budget allocation. Savings are also

only claimed in their first 12 months. (*For the full program definition, please see the attached Cost Savings Definition PowerPoint presentation*).

Any claimed savings are entered into the central procurement database and reviewed by management. To further engender confidence in the savings, an internal audit is periodically brought in to review both the savings program and validate the individual savings themselves. As a result, the State of Michigan realized \$11.2 million in savings in FY 2017, and another \$3.2 million in savings to date in the current fiscal year.

Conclusion

The State of Michigan’s approach to utilization of KPIs beyond the traditional measuring approach used in the public sector. By leveraging a wide range of leading and lagging indicators, ensuring KPIs have high visibility at all levels throughout the organization, engaging outside stallholder to validate data, and creatively using available software resources, the State of Michigan has developed a program that has driven performance within the organization in a positive direction, that has demonstrated real service improvement, and that has helped drive savings.

