State Approaches to Governing-for-Results and Accountability

Blaine Liner, Pat Dusenbury and Elisa Vinson

December 2000

State Approaches to Governing–for–Results and Accountability

In 1998, the Urban Institute received grants from the Smith Richardson and the Alfred P. Sloan Foundations to support a survey of state performance management practices, or governing–for–results. Project reports, *Making Results–Based State Government Work, Governing–for–Results in the States: Ten Lessons*, and *States, Citizens and Local Performance Management*, are available from the Urban Institute Press or on The Urban Institute Web site, www.urban.org.

The objective of the project was to document and learn about performance management techniques being used by the states. Project team members whose work is reflected in this document include Blaine Liner, project director, Harry Hatry, Elisa Vinson, Pat Dusenbury, Ryan Allen, and Scott Bryant from the Urban Institute; Ron Snell and Jennifer Grooters from the National Conference of State Legislatures; and Wilson Campbell and Jay Fountain from the Governmental Accounting Standards Board. The Smith Richardson and Alfred P. Sloan Foundation provided financial assistance to undertake this work.

The National Conference of State Legislatures assisted the project team in assembling materials and in site visits to Florida, Minnesota, North Carolina, Oregon and Texas, where more than 350 state and local officials and citizens representing more than 150 organizations and agencies were involved in discussions about governing–for–results experiences in those states. Dozens of administrators from other states also helped by explaining their states' approaches.

URBAN INSTITUTE
2100 M Street, NW
Washington, DC 20037

Contents

Chapter 1: Introduction and Overview

The Urban Institute’s Governing–for–Results and Accountability Project team conducted extensive discussions and interviews with elected and appointed officials in Florida, Minnesota, North Carolina, Oregon, and Texas, and with a number of agency directors from other states. Additionally, focus groups and small discussion sessions were held with citizens and citizen representatives in all five study states. The Urban Institute's work on this project has been supported by grants from the Smith Richardson Foundation and the Alfred P. Sloan Foundation.

> The term *governing-for-results* refers to the system of spending and measuring results of spending whereby a government, both the executive and legislative branches, focuses decisions and activities on the benefits, as well as costs, and outputs, of government activities and actions. This means maximizing the quality of services and programs to the government’s citizens and developing proper ways to measure outcomes of those services and programs, especially in the opinion of customers.

Interviews and focus groups confirmed the perception that government is paying increasing attention to results. Why? The motivations given were both numerous and diverse. Table 1.1 lists five goals that appear to be the most important motivations for the public sector’s embrace of governing–for– results techniques along with the internal and external factors driving that movement.

These goals are not new, although they may have gained immediacy in recent years. The idea of governing for results and the desire for greater efficiency and accountability have long been with us. One thing that has changed, however, is our capacity to measure and track results. Important advances that are giving government the tools it needs to focus on results include

- computerization of records,
- database management software that can handle very large files,
- statistical techniques that help identify the underlying factors contributing to a problem, and
- the Internet.

It would be hard to overstate the contribution that advances in information technology and data management are making to implementation. Government is now able to do what many in government have long wanted to do— focus on results. The Internet is emerging as a powerful tool for informing citizens about government performance. A recent survey found that citizens believe the most important benefit of "e–government" (government information and services made available online) is making government more accountable to citizens (Council for Excellence in Government 2000).

Table 1.1 lists government–wide motivations for implementing governing–for–results. Similar forces are at work within agencies and departments. Internally, performance measurement is proving to be a valuable management tool for a range of processes, from program planning to employee evaluation. Externally, performance indicators are providing a common language for communication among policymakers—including the legislature—and with citizens/customers.

We found instances in which one management–oriented administrator had implemented governing–for–results practices in a single agency or department that stood out as a performance–oriented island in a sea of state agencies. Clearly, it is possible for a manager who wants to do a better job to apply results–based practices at the program level. However, results–based governance is more powerful and more likely to survive changes in personnel or administrations if it is recognized and approached as a government–wide system.

Table 1.1
Motivations Behind Governing For Results

GOAL	**ORGANIZATIONAL FACTORS:** (Internal to government)	**POLITICAL FACTORS:** (External to government)
Increase government accountability and efficiency	• Policymakers' dissatisfaction with the quality and cost of service • Budget constraints creating the need to improve resource allocation • Increasing competition among service providers – increasing privatization and use of sub-contractors	• Citizens' dissatisfaction with the quality and cost of service • Tax rebellion, rejection of bond referendums, imposition of term limits, and other votes of "no confidence" • Citizen demands for greater accountability and efficiency – "government to be run like a business"
More effective Mandates and quality controls	• Resistance, resentment of traditional mandates • Preference for mandating <u>results</u> instead of operating procedures • Trend toward decentralized service provision	• Opposition to regulation and a preference for information to help guide consumer choice • Complaints that "one size does not fit all"
Strengthen public participation	• Increased use of strategic planning with community involvement; citizen committees	• Better-educated citizens demanding opportunities to participate in policy debates.[1] • Success of participatory programs like community policing
Improve communication	• Increased complexity of government programs and issues places greater demands upon communication	• Increasing ethnic diversity complicates service delivery for a public-sector committed to equality and creates a greater need for clarity in communicating
Inform policy discussions	• Provide a basis and justification for politically difficult decisions	• Advocacy groups demand information and want to present their own data

The early development of governing–for–results techniques and practices evolved more from independent invention than from cookbooks or established standards of practice. Some of the good inventions are borrowed— from other states, localities, federal efforts, or the private sector, usually with a few improvements or modifications to fit the local culture of process, procedure, and decision–making. Both the National Association of State Budget Officers and the Governmental Accounting Standards Board have provided information on governing–for–results practices and standards.

We believe there is an emerging consensus on what a system of governing for results should look like; that is, how the different components work together and reinforce one another. Still, it is important to acknowledge up-front that a model governing–for–results system is very much a work in progress.

We did not find a completely implemented governing–for–results system in any state that we visited, and within states, there was great variation from agency to agency. We did, however, find a great interest in what such a system might be, and this report represents an effort to move that dialogue ahead. It describes a model governing–for–results system that takes the best practices and lessons learned from the most advanced efforts in states that are leaders in the governing–for–results movement.

Among the states we visited, Oregon has used its governing–for–results system effectively to promote collaboration across government agencies, while Texas and Florida have made great progress in performance budgeting. North Carolina agencies are using performance measurement to oversee local government delivery of state services, and Minnesota has supported local government use of performance measurement. Missouri, Maine, Virginia, North Dakota, and other states not visited also contributed examples of progressive governing–for–results efforts to the model, which also draws upon the innovative work of the Minnesota Citizen's League.

The governing–for–results system described in this report blends strategic planning, performance measurement, and citizen participation. Strategic planning looks forward to define what should be done, while performance measurement looks backward to assess what has been done. When used in concert, strategic planning and performance measurement support a system of performance management. Citizen participation elevates the governing–for–results model from a system promoting greater efficiency in operations and resource allocations to a system for more responsive government.

Generally, the components of a governing-for-results system are in place, but the connections are not always being made. Making the connections requires sharing information.

- Information is the lifeblood of the governing–for–results system, and the capacity to manage large amounts of information is vital to its implementation.
- Performance indicators provide the information. For the governing–for–results system to work, the performance indicators must be credible, accessible, and timely.

This report, like the governing–for–results system that it describes, is outcome–oriented and focuses on what can and should be achieved. Examples are included to illustrate (1) how state and local governments are moving toward results–based governance and (2) what has and what has not worked. It is important to emphasize that we are not suggesting the creation of a new system. Instead, the model governing-for-results system calls for links and interactions among planning, performance measurement, and citizen participation to strengthen those activities. The report is structured as follows.

- Chapter 2 describes the governing–for–results system components—how strategic planning and performance measurement are integrated into a performance management system and, with citizen participation, form the governing–for–results system.
- Chapter 3 describes the role of strategic planning in the governing–for–results system.
- Chapter 4 addresses performance budgeting—the interface between governing–for–results performance management and resource allocation.
- Chapter 5 focuses on performance contracting—how government can use the governing–for–results system to enhance the effectiveness of service contracting.
- Chapter 6 looks at citizen participation and the use of governing–for–results at the local level; it considers how state action can encourage local governments to use results–based governance
- Chapter 7 summarizes progress to date and describes several current and unresolved issues affecting governing–for–results systems.
- The appendix lists relevant Web sites developed by six states in their governing-for-results experience.

Chapter 2: The Governing–for–Results System

As a concept, governing–for–results has few detractors. In practice, there are governing–for–results activities that are outstanding and there are governing-for-results activities deserving and usually receiving harsh criticism. This chapter describes the characteristics of a model governing–for–results system. It describes how strategic planning and performance measurement, used in concert, are the basis for *performance management*. The illustrations show how the pieces fit together. Citizen participation is woven into the fabric of both strategic planning and performance measurement, and comes to the forefront in the context of accountability. It completes the governing–for–results system.

The governing–for–results model described here is flexible and compatible with *Total Quality, Balanced Scorecard* and similar management tools and approaches. Implementation in Texas and Florida, two of the leading states, illustrates this flexibility. A Florida administrator described that state's approach as using (1) strategic planning to identify where they are and where they want to be, (2) quality management tools to close the gap, and (3) performance budgeting to introduce accountability into the process. The Texas Auditor's Office uses a balanced scorecard approach with strategic planning and performance–based budgeting.

Integrated Planning and Performance Management

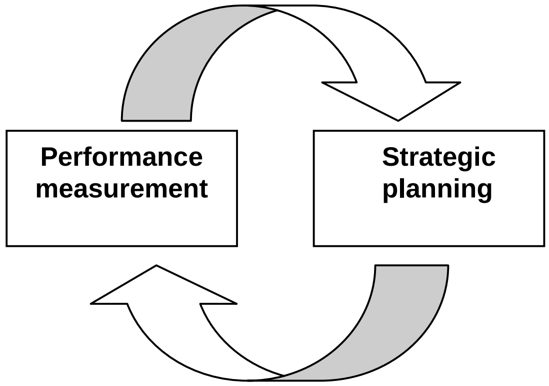
There is a mutually supportive relationship between planning and performance measurement that reinforces both. The relationship is symbiotic because both benefit from the integration.

- Performance measurement provides information needed to revisit and "truth test" strategic goals and objectives. Periodic reporting of performance indicators provides the information to guide adjustments in strategic plans and thus accommodate changes in the environment.
- The strategic plan goals and objectives focus performance measurement on outcomes, while the strategic plan itself is the doorway through which performance measurement affects operations.

The National Conference of State Legislatures, a partner on this project, found that "Coordinated strategic planning across state government and in individual agencies strengthens the performance measurement and reporting process."(Snell and Grooters 2000.)

Merging strategic planning and performance measurement into a continuous cycle of *performance management* is key to the governing–for–results system. Figure 2.1 shows the basic governing–for–results performance management cycle, which operates at state, agency, division, and program levels. In this cycle, strategic planning and performance measurement are both *combined* and *aligned*. This chapter explains these terms in a governing-for-results context.

Figure 2.1
Governing–for–results performance management cycle



Combining Strategic Planning and Performance Measurement

An agency can begin the performance management cycle with either performance measurement or strategic planning. However, it makes intuitive sense that planning come first. Performance measurement requires standards for assessing achievements. If there is no plan in place, the developers of performance indicators will have to start by putting together a quasi plan – a mission statement and goals derived from legislation, reports and interviews, as well as their own experience. This quasi plan is then used in developing performance indicators. Experiences in the states we visited back up the preference for starting with a plan:

- Florida mandated agency strategic plans tied back to the state comprehensive plan as the initial step in implementation of its governing–for–results system. When agencies took the requirement seriously, the agency strategic plans have provided a solid foundation for systematic development of performance indicators.
- Early attempts to connect The Oregon Benchmarks to state agency performance produced uneven results because some agencies had no strategic plan to define desired outcomes.

However, a disagreement arises about the facts, trend data from performance measurement can provide a foundation of shared information that supports developing consensus in strategic planning. Florida and Oregon environmental program administrators emphasized in interviews the importance of good data as the basis for planning.

Planning and performance measurement combine most effectively when performance indicators are specified in the plan itself as in Missouri's *Show Me Results* and in *Oregon Shines II*. The original Oregon Benchmarks were created to measure progress toward *Oregon Shines* (1989) goals. When Oregon Shines was updated in 1997, benchmarks were embedded in the plan. According to Kisser et al. (1998), "Every major finding is linked to a recommendation and benchmarks for monitoring progress. The result is an approach to state strategic planning that could be helpful to leaders in other states who intend to develop their own plans."

Aligning Planning and Performance Measurement

Alignment of planning and performance measurement in the governing–for–results system is both vertical and horizontal. *Vertical alignment* is internal, and refers to alignment within the strategic planning process and within the performance measurement process. *Horizontal alignment* refers to alignment across the strategic planning and performance measurement processes.

Vertical Alignment of Planning

The governing–for–results system includes a *hierarchical* strategic planning process with the state plan at the top of the hierarchy, followed by agency strategic plans, division, program, and project plans. There may be more or fewer levels depending on the agency's size and complexity . If there is no state plan, the strategic planning hierarchy starts with the agency strategic plans. Figure 2.2 illustrates this planning hierarchy.

Vertical alignment means that the goals or benchmarks set forth in the state plan drive the agency strategic plans, and the goals set in the agency strategic plans drive division plans, and so forth through program and project planning. In Florida and Texas, for example, the legislation that mandates agency strategic planning also requires vertical alignment. Florida agency strategic plans must align with the State Comprehensive Plan, and Texas agency strategic plans must be tied to the goals of the Governor's Plan. As the arrows indicate, information flows downward through the strategic planning process.

At the Oregon Department of Forestry, plans are produced in a hierarchical manner that tie the agency's work at the departmental and program levels into the agency–wide biennial strategic plan. In addition, the department has a plan that looks forward twenty to thirty years to envision how the environment should look if current programming is successful. The operating programs cover two years and outline specific, strategic actions that will implement the broader goals of the departmental long–term strategic plan and biennial strategic plan.

Missouri refers to vertical alignment in its strategic planning hierarchy as *integrated* strategic planning. Technical assistance from the (Missouri) Governor's Interagency Planning Council helps agencies implement integrated strategic planning. Figure 2.3 illustrates an example from the Council's instructions for linking agency strategic plans with *Show Me Results*, the state plan, an objective of which is to reduce the rate of infectious diseases.

Figure 2.2 The Strategic Planning Hierarchy

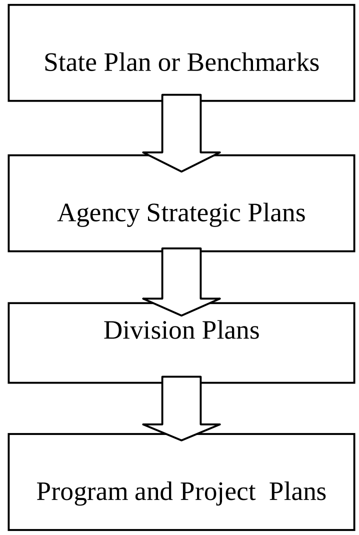


Figure 2.3 Linking Agency Strategic Planning with *Show Me Results*

Infectious diseases

According to the Healthy Missourians sub-cabinet report, one of the significant factors that could affect our ability to reduce the rates of infectious diseases is immunization status.

- DSS could set an objective to increase the immunization rate for influenza and pneumococcal disease among nursing home residents (or among Medicaid recipients in nursing homes)
- DPS could write a similar objective about immunization rates in VA nursing homes. (Note: this might not be a strategic objective for DPS as a whole, but might be appropriate for a divisional plan.)

Source: www.cpi.state.mo.us

Vertical Alignment of Performance Measurement

The governing–for–results performance measurement process looks at more than the desired outcomes. The process also includes performance indicators that measure activities (outputs) and performance indicators that describe intermediate outcomes—including indicators of program effectiveness—that contribute to the desired outcome. Vertical alignment requires that output indicators – activities, customer service, cost and efficiency indicators – relate to the performance indicators that measure intermediate outcomes and through these intermediate outcomes to the desired end outcomes. Information flows upward in the performance measurement process.

The Florida Department of Environmental Protection (DEP) uses different terms to distinguish types of performances indicators. Florida DEP refers to the end outcomes as Tier 1 environmental results, the intermediate outcomes as Tier 2 behavioral changes, and the outputs as Tier 3 agency action measures. Florida DEP instructions for developing action plans call for vertical alignment. ". . . Our agency *action* is designed to change someone's *behavior* in order to achieve environmental *results*." [2]

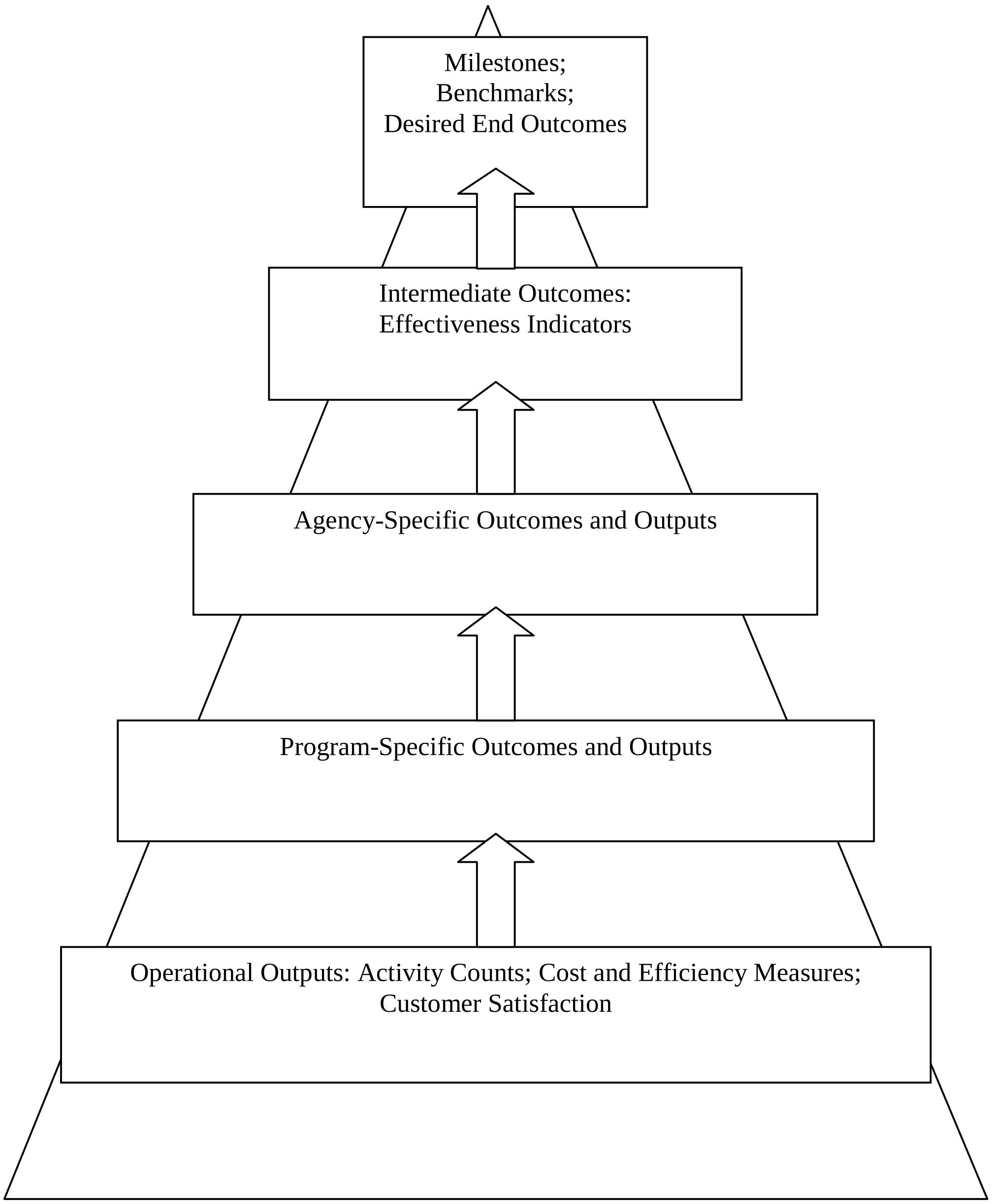
In practice there is usually more than one strategy for each goal and more than one program or project for each strategy. Multiple programs operated by different agencies pursuing different strategies, all linked to a single goal, complicate the vertical alignment of performance measurement.

A second complicating factor is the question of control. Agency and program managers prefer to define desired outcomes as things they can control and believe, correctly, that they have limited influence and little direct control over broad outcomes such as a healthy population. It is not difficult to count outputs, but specifying how the outputs contribute to outcomes can be a stumbling block in implementation of performance measurement. Still, the belief that an activity is contributing to the desired end outcome is the justification for continuing that activity.

Agencies can benefit from technical assistance for aligning their performance measurement process. Minnesota Planning developed an *Outcome Measurement Pyramid* to illustrate the performance measurement process (figure 2.4). The performance pyramid describes the path from output and efficiency indicators to intermediate outcomes tied to programs and strategies and, finally, to general outcomes that align with the state plan goals and benchmarks. Within the performance measurement pyramid, information flows upward.

The base of the performance pyramid contains a large number of indicators recording operational level outputs. Consumer survey results and other service quality feedback are also located at the operational level. Unit costs provide a basis for evaluating efficiency over time and in comparisons with other jurisdictions or with private service providers.

Figure 2.4
The Performance Measurement Pyramid



Source: Adapted by The Urban Institute from *The Outcome Measurement Pyramid* developed in 1997 by Minnesota Planning.

Moving up the pyramid to program and agency levels, performance indicators become fewer, less specific, and more focused on impacts than on actions. The performance indicators at the top of the pyramid are the easily understood end outcomes such as healthy children or reduced crime that are presented in state benchmark reports and cited in newspaper stories.

In Oregon, the Progress Board has produced a *Blue Book* that links agency activities to the Oregon Benchmarks, the performance indicators for the state plan. For example, the Oregon Fish & Wildlife Department has primary links to Oregon Benchmarks 89—salmon recovery, and 90—healthy wildlife species. The department has secondary links to Oregon Benchmarks 81—wetland preservation, and 82—stream quality.

Horizontal alignment requires that the strategic planning and performance measurement processes connect with each other via shared performance indicators. Thus, the indicators that define plan goals and objectives also measure progress toward those goals and objectives. While performance indicators can be developed after a plan is adopted, embedding at least some performance indicators in the plan itself promotes horizontal alignment.

Horizontal alignment between strategic planning and performance measurement occurs throughout the governing–for–results system. At its most general, horizontal alignment means that plan goals define the desired end outcomes, strategies describe intermediate outcomes, and program and project activity assessments produce output, efficiency and service quality indicators (see figure 2.5).

Table 2.1 illustrates vertical and horizontal alignment of planning and performance measurement in a clean water program, where discharges from municipal wastewater treatment facilities are a major contributor to pollution of the state's rivers. (This is a simplified example. In practice, a clean water effort would include additional strategies such as reducing agricultural runoff and reducing toxic discharges into municipal systems, each with implementing programs and projects.)

Figure 2.5
Horizontal Alignment of Planning and Performance Measurement

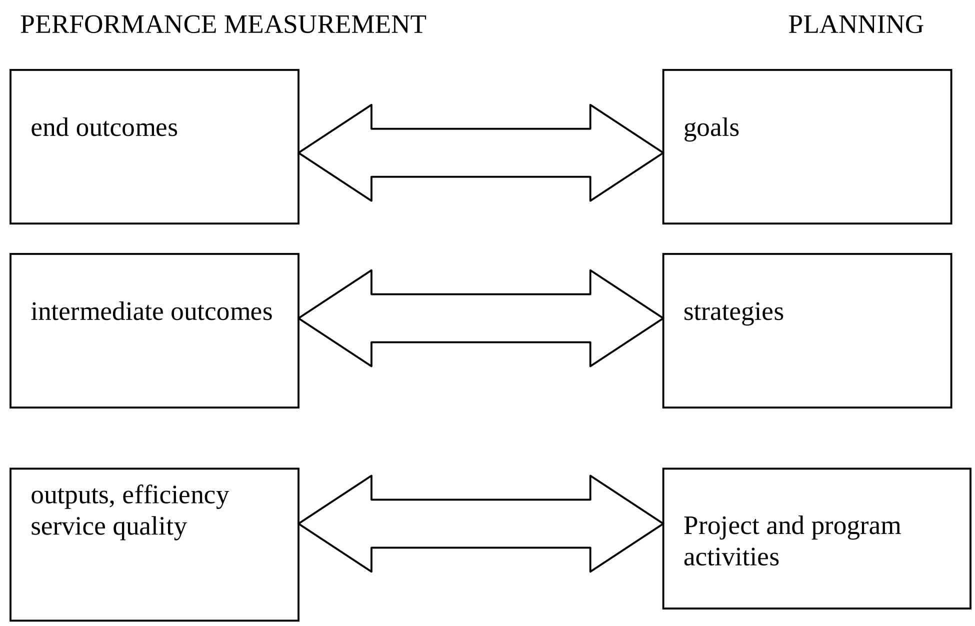


Table 2.1
Alignment of Planning and Performance Measurement

STRATEGIC PLAN	PERFORMANCE MEASUREMENT
Goal: Clean up the state's rivers; Objective: 90% of the state's rivers will be swimable by 2010	Outcome: Clean rivers that people can enjoy Performance Indicator: The percent of the states' rivers that meet standards for swimable water
Strategy: Improve operation of municipal wastewater treatment facilities	Intermediate Outcome: Increases in the percent and number of municipal wastewater treatment facilities meeting regulatory standards Performance Indicators: Measurable reduction in the discharge of specified pollutants from municipal treatment facilities – both per gallon of wastewater treated and total amount discharged
Program: Grants to municipalities for wastewater treatment facility construction • Activity: provide grants • Process: issue competitive RFPs; review responses; commit funds; monitor projects • Budget $x million/year	Output Indicators: • Number of cities with inadequate wastewater treatment facilities that (a) applied for and (b) received program grants • Results of survey asking grant applicants and recipients about the process • Program dollars allocated to upgrade treatment facilities • Percent of allocated funds being used to improve facilities • Progress of individual projects

Change and Alignment

Government activities evolve due to changes in policies, priority shifts, and efforts at program improvement. Governing–for–results is a system, and so alignment means that a change anywhere in the system leads to change and adjustment system–wide. For example, *vertical* alignment requires that a change in the agency strategic plan lead to a resultant change in related division, program, and project plans. *Horizontal* alignment requires that a change in program objectives lead to a parallel change in the program's performance indicators. To maintain horizontal alignment when the legislature changed the agency's mission, the Oregon Economic Development Department contracted with the Progress Board for assistance in developing new performance indicators linked to the benchmarks.

Alignment is a constant principle that accommodates shifts in policy, programs, emphases and activities. Managers report that when alignment is maintained, results–based tools can help manage change. Conversely, when a change is not worked through the governing–for–results system, there will be a disconnect. For example, the Texas Legislature passed a bill in 1997 that altered the way the Texas Water Development Board (TWDB) operated by moving planning from a central to a regional basis. However, there was no corresponding change in the TWDB performance indicators. As a result TWDB has failed to meet its related performance targets.

Troubleshooting Alignment Problems

Difficulties in aligning the planning and performance measurement processes either internally (vertical alignment) or with each other (horizontal alignment) can spotlight management problems. If performance indicators derived from the plans do not flow from one level to another, it suggests that either the performance indicators are not reflecting plan goals properly or that vertical alignment between plans is weak. Weak vertical alignment in the strategic planning process can indicate a mismatch between goals and strategies or a mismatch between strategies and the programs and projects undertaken to implement them.

Florida Department of Environmental Protection–Reshaping Strategies

An example from the Florida Department of Environmental Protection's Division of State Lands (DSL) illustrates how a change in performance measurement can reshape strategies. DSL is responsible for acquiring and managing lands for recreation, preservation of cultural resources, ecosystem management, and protection of the natural habitat for endangered species. The agency proposed performance indicators that counted the number of activities such as appraisals and surveys. The Florida Legislature rejected the proposed performance indicators and called instead for information about population trends among endangered species.

Legislators did not want to report back to the citizens that they allocated public funds for appraisals and surveys. They wanted to report progress in protecting endangered species – the purpose of the program and an outcome people care about. To get this information DSL has begun working with the Division of Fish and Game as well as The Nature Conservancy. As a result, land purchase priorities are developed cooperatively and reflect likely impacts on the desired outcome of protecting endangered species.

Integration with performance measurement can help prioritize apparently conflicting strategic goals. For example, the Oregon Water Department goals of "supplying water to meet the needs of residences, industry and agriculture" and "stewardship of streams" appeared to conflict. When the issue was raised in the context of developing performance indicators, discussion led to agreement that in the long term, a supply of water to meet needs depended upon stewardship of the streams. Thus, stewardship is the higher level goal.

Citizen Participation

Establishing the performance management cycle increases the efficiency and effectiveness of government, which is part of the impetus for implementing results–based government. However, intentions to (1) *strengthen public participation*, (2) *improve communication with citizens*, and (3) *inform policy discussions* are also important motivating factors behind the current governing–for–results movement. All three speak to the third component of the governing–for–results system, citizen participation.

Within the governing–for–results system, citizen participation is integral to both strategic planning and performance measurement. Citizens—or at least *interested citizens*—play a role in strategic planning; for example, they sit on blue ribbon committees and commissions, attend public hearings, and respond to surveys. Citizen involvement in strategic planning builds consensus to support implementation, educates participants, and contributes additional relevant information.

The public sector seeks citizen input into strategic planning at different levels of engagement:

- At the lowest level, the public participates as a recipient of information. Citizen input is limited to asking questions and seeking clarification about details and rationale for a proposed plan of action. Public hearings are held for the purpose of review and comment, and the agency seeking public input usually has leeway in deciding how to respond to that input.
- At an intermediate level, public participation asks citizens to evaluate a proposal or alternative proposals and recommend which action would be more effective and why they think so. Oversight committees frequently operate in this mode.
- The highest level of participation asks citizens to help define the issues and develop alternative proposals to address the issues. Citizens serve on boards, study committees, and task forces that play a direct role in planning and policymaking, putting together strategic plans for states and agencies and often, addressing high priority and contentious issues such as growth management or the appropriate response to growing drug use.

As it becomes clear that government cannot do everything, public participation in planning is becoming more important. Increasingly, citizen panels are being asked to help government devise solutions to difficult issues. Broader public participation usually increases the costs of producing the plan – in both time and resources required. It is a challenge to achieve the appropriate level of citizen participation throughout the planning process.

We believe that general citizen interest escalates greatly when information on outcomes of importance to them are reported. For example, a citizen is much more likely to be interested in data that are broken out by geographic region instead of being presented in statewide aggregate form. Examples exist in education and environment, and can be transferred to any state agency, as long as its services are those that citizens feel are directly relevant to them.

By providing relevant information about government activities and achievements, performance measurement informs citizen involvement and strengthens citizen participation. Special interest groups, such as the Children's Defense Fund, environmental organizations and other issue–oriented citizen groups are very interested in performance information. State agencies promote educated involvement by providing a performance report to the major interest groups in the state with which it has significant contacts.

The citizens' role in performance measurement is not only as the audience for outcome information. Citizens' perception of service quality is an important part of assessment because what citizens expect from their government should be input into service provision decisions. The issue is not just about whether government is doing a job well, it is also about whether the government is doing the job its citizens want and expect it to do. This is particularly relevant for those departments and programs providing direct services to citizens.

NC Local Government Performance Measurement Project–Citizen Perception Needed

The North Carolina (NC) Local Government Performance Measurement Project was management-driven and focused on internal government operations. At the onset, the participants decided not to survey citizens or customers but to rely on data that they were already collecting. The primary reason was philosophic. Project participants and staff felt that citizen survey results would be susceptible to events occurring outside the community; for example, Durham residents' perception of police behavior would be affected by news stories about police brutality in New York City. The second reason was that no funds were available for surveys.

After two years, when the first set of results were calculated, participants realized that the decision not to survey citizens had been a mistake. Particularly in the areas of sanitation and police services, citizen perception is an important indicator of performance. As a result of this insight, the project is seeking funds to finance surveys, and several cities already have surveyed their citizens. A priority for the proposed project–wide survey is involving citizens in defining performance indicators.

Citizens usually contribute a strong outcome focus to performance management, reminding public officials why the government is providing a service. In one city we visited, the transportation department presented a citizens' committee with information about cost savings that would result from changing bus service. The citizens wanted to know how the proposed changes would affect people who took the bus to work, not just about savings.

Accountability and Credibility

The governing–for–results system builds *accountability* as a foundation for responsive government. Performance management, defined as integrated strategic planning and performance measurement, strengthens internal accountability for public agencies. Citizen participation promotes external accountability because, ultimately, it is the citizens to whom government is accountable. For both internal and external accountability, performance indicators provide the information by which achievement is measured.

Accountability requires that performance indicators enjoy credibility among information users—whether they are managers, legislators, or citizens. Performance indicators must be carefully defined and use reliable data. Defining performance indicators is a complex process, and agencies benefit from training and technical assistance.

The choice of performance indicators will evolve over time, and may be amended as part of annual reviews. Initially some indicators may be reported as not measurable because data is not available. An agency may improve a performance indicator as new data becomes available or a new statistical technique is devised. Changes in the indicators can improve their effectiveness at measuring progress toward desired outcomes, but changes should be made only after careful consideration. Consistency over time provides trend data, and changing performance indicators can raise suspicions that data are being cooked. The credibility problem can be addressed by a transition period of reporting both the old and new indicators.

The information provided by performance indicators serves as the common language for conversations about performance between and among front line employees, program managers, agency administrators, elected officials, and citizens. No single set of performance indicators can be appropriate for these different conversations, and so the selection of performance indicators should be tailored to the audience. Moreover, horizontal alignment within the governing–for–results system requires that each plan has its performance indicators. Hence, the performance pyramid (figure 2.4).

The outcomes at the top of the pyramid define things that most citizens care about, such as clean environment, good health, and prosperity. Intermediate levels of performance indicators are used by task forces and groups interested in specific issues. The lowest level performance indicators are used primarily by program managers. At all levels, the performance indicators promote accountability by providing information about how government is doing its job.

Experiences in the states demonstrate that credibility—and thus accountability—can be bolstered through audits of performance indicators or the involvement of a respected outside entity.

- In Florida, the Office of Program Policy Analysis and Government Accountability (OPPAGA) assesses agency performance indicators and provides the results to the legislature. Each agency has an auditor general who works with OPPAGA on development of performance indicators.
- In Texas, the State Auditor's Office (SAO) certifies performance indicators. Each year, the SAO selects agencies and five to ten indicators per agency to review—focusing on "problem agencies" and performance indicators that have generated legislative concern. The SAO reports to the Legislative Audit Committee, which the Speaker of the House and the lieutenant governor cochair. The remaining members are the chairs of the Senate Finance, House Appropriations, House Ways and Means, and Senate State Affairs committees.
- In Louisiana, where the legislature has led the effort to use performance measurement, performance indicators are audited.

The absence of an impartial audit can undermine the usefulness of performance indicators. This has been a factor weakening legislative use of performance indicators submitted by agencies in North Carolina and Minnesota, while limited validation has a similar impact in Oregon. In 1999, Minnesota repealed legislation requiring agencies to submit performance reports but left the requirement that performance indicators be included in the budget.

Accountability is given the greatest attention in the context of resource allocation, and this is where credibility issues are raised most emphatically. Administrators may be tempted to “over–link” a program or project with desired outcomes to enhance its standing in the budget process. The understandable reluctance to report “bad” outcomes is particularly intense when the information is being used to determine funding allocations. While the link to budget decisions places pressure on the governing–for–results system, it is a crucial connection that gives the governing–for–results system relevance. Because of its importance and complexity, performance budgeting is addressed as a separate topic in chapter 4.

Florida Program Budgeting

Florida’s experience with program budgeting illustrates the importance of credible performance indicators. In the mid 1970s, the Florida executive budget was presented at the program level with allocations that could cross department and division lines. However, the legislature appropriated funds at the department and division levels by category. Because the audit was keyed to appropriations, only the data describing appropriated funds were verified. Administrators did not have to substantiate the program data. As a result, the quality of data at the program level steadily deteriorated and was increasingly ignored. Eventually, the program budget was discontinued. Twenty years later, when Florida adopted performance–based program budgeting, the legislature established the Office of Program Policy Analysis and Government Accountability to monitor the quality of performance indicators. (Performance–based budgeting is discussed in detail in Chapter 4.)

In Summary

The governing–for–results system integrates strategic planning and performance measurement to form a cycle of results–based, performance management. Citizen participation makes it a system for accountable government. The flow of information in the form of performance indicators links governing–for–results activities and transforms them into a system. For the system to work, the information has to be credible and relevant, readily understood and widely available. This means that (1) plan goals, strategies, and objectives as well as the related performance indicators are based on good data, easily understood, and clearly related, and (2) participants at each level are familiar with the full governing–for–results system and understand their role in it.

It takes time to introduce strategic planning and performance measurement into public management systems. The federal Government Performance and Results Act (GPRA), enacted in 1993, requires federal agencies to produce strategic plans by September 1997, annual performance plans beginning in FY 99, and then an annual performance report for FY 99 and succeeding years. The smaller scale of state governments could allow a faster implementation schedule. Where governing–for–results elements are already in place—as in states already using strategic planning –

implementation requires less time, but it still takes at least one budget cycle to work out issues. Implementation also requires a financial investment to acquire the data management capacity and train the staff to use performance management.

Once an agency has integrated its planning and performance measurement into a continuous cycle, referred to here as performance management, the component that receives the greatest attention varies depending upon state and agency priorities. Citizen participation helps define those priorities. The governing–for–results system outlined in this chapter provides the foundation for performance budgeting, performance contracting, and performance–based employee evaluation systems. The following chapters discuss how these governing–for–results tools can and are being used to improve management and responsiveness in state and local government.

Chapter 3: Strategic Planning in the Governing-for-Results System

During the 1970's and 80's, governments developed comprehensive plans to guide and coordinate their activities. The federal government mandated regional reviews by councils of local governments to ensure that one agency was not funding a project incompatible with another agency's plans. Most governments used a linear planning model that moved from setting goals and objectives to developing and then implementing programs and projects. After implementation, an arrow circled back to the beginning as a feedback loop.

Comprehensive planning is useful for coordinating across programs and providing broad policy guidance, but policymakers have found that it offers limited guidance for decisionmaking. In the latest review of Florida's state comprehensive plan, the governor noted:

> In my view, the Plan has provided little or no guidance in prioritizing the needs of our state, let alone funding those priorities. The comprehensive, overly broad nature of the Plan does not lend itself to meaningful implementation. [3]

The shortcomings of comprehensive planning have led policymakers to adopt a private sector tool, *strategic* planning. While the comprehensive plan looks at everything, the strategic plan focuses on priorities—a limited number of key issues and critical areas that call for action. Priorities are identified by a scanning process that looks at the internal and external environment and identifies positive and negative trends and events in each. These are the strengths, weaknesses, opportunities, and threats that give the SWOT process its name.

Strategic planning helps an organization (a) adjust to a changing environment, and (b) focus efforts on critical issues. To do this, strategic planning requires continuous and timely feedback. In the private sector, the market provides feedback in the form of profit levels, return on investment, and sales trends. Managers receive that information and adjust their strategies as needed. Comparable information is rarely provided to the public sector, and the end–of–the–process feedback loop is not adequate to the information needs of strategic planning.

A second reason that public sector strategic planning has not been as effective as hoped is that too often government has approached strategic planning as an event rather than a process. A commission is appointed; research, public hearings, and surveys are conducted. After extensive deliberations, a strategic plan is presented to the world with fanfare, but then gradually fades away. Similarly, an agency may produce a strategic plan to meet a mandate but not use that plan to guide agency operations.

The governing–for–results system addresses these issues by using strategic planning in combination with performance measurement. This produces both a continuous process *and* ensures that there will be timely feedback to keep the strategic plan on target. Planning looks ahead toward goals to be accomplished; performance measurement looks back to see what was achieved. The relationship between strategic planning and performance measurement is described as symbiotic because each makes the other more effective, creating a situation in which the whole is greater than the sum of its parts.

The governing–for–results strategic planning process as illustrated in Figure 2.2 has at its highest level the state strategic plan or benchmarks. These guide the agency strategic plans, which in turn guide division, program, and project plans. Once strategies have been set, operational plans—which may be called work plans, action plans, or business plans—set forth the activities that will implement the strategies. While not all these plans are strategic plans, all are part of the hierarchy that is the governing–for–results strategic planning process.

In all the states we visited, this strategic planning process was a work in progress—not yet fully accomplished and still undergoing change. However, these states' experiences provided valuable insights. Lessons can be drawn from examples of successful and unsuccessful efforts. As in life, the clearest lessons often are produced by the things that did not work. Pioneers should be applauded for their vision and foresight even as we describe efforts that missed the mark to inform the attempts of those who come later.

The State Plan—The Governing-for-Results Engine

A 1999 review conducted by the National Conference of State Legislatures found that only 13 of the 50 states had state strategic or long–ranging planning provisions in statute. These include the following:

- strategic planning or visioning by the governor (Alabama, Texas, Hawaii, Wyoming);
- joint effort or oversight by the legislative, executive branches, business representatives (Connecticut, Iowa, Utah);
- a state comprehensive plan in statute and mandated agency strategic plans (Florida), and;
- benchmarking processes with public input carried out by planning agencies (Florida, Minnesota, Oregon), Offices of Budget and Planning (Arizona, Georgia, North Carolina) or other executive branch agencies (Iowa).

The state plan sets forth a vision for the state and supports that vision with goals for achieving it. Some state plans specify strategies for reaching the goals, while others do not and are therefore not really *strategic* plans. Regardless, the state plan and related outcome measures provide a common language for (a) communicating with citizens about quality of life issues, and (b) coordinating across agencies and departments in state government.

An engine can run without all cylinders firing, and a governing–for–results system can function without a state plan, but neither will work at optimum levels. Missouri illustrates how the state plan adds value to the governing–for–results system. Missouri started agency strategic planning in 1995. Agencies wanted to tie their plans into state priorities, and so in 1997, the governor identified 25 *Show Me Results*. The *Result*s were priority outcomes for Missouri citizens that became priority outcomes for the relevant state agencies. The governor set up a subcabinet team for each of the five *Show Me* areas These teams provide a framework for cross–agency collaboration to achieve *Show Me Results*.

Developing the State Plan

The state plan can be developed in either a top–down or a bottom–up process. The top–down approach looks to the governor as the chief planning officer of the state. The governor's office produces the state plan. In Texas, the same legislation that mandates agency strategic planning directs the governor to prepare a state strategic plan, and it is the governor's plan at the top of the strategic hierarchy. In North Carolina, the governor has effectively adopted his campaign promises as the state plan for the tenure of his administration. This *Red Book* of campaign promises is prominently displayed on his desk and contains the highest priority goals for the state.

The bottom–up approach produces a consensus plan developed with broad input. The Governor's Office, the legislature, executive agencies, and representatives of local government all participate along with business and civic leaders, nonprofit organizations, and individual citizens. Public input is sought in meetings held across the state. Developing a consensus state plan is an expensive and time–consuming process that is usually undertaken only every five to ten years. Oregon, Minnesota, North Carolina, and Florida all have gone through this process at least once.

A consensus approach has the advantage of educating and involving citizens, but consensus plans have proven difficult to maintain over time and often suffer from weak links to the governing process. Experience to date suggests that the governor's plan is the more effective approach in the governing–for–results context —especially where there has been legislative engagement as is the case in Missouri and Texas.

Guiding Agency Plans

From its position at the top of the planning hierarchy, the state plan provides direction to the strategic planning of government agencies. This connection is strengthened by legislative mandates as well as by the governor's support.

- Texas agencies are required to begin their strategic plans by identifying the goals and benchmarks in the state strategic plan that are relevant to agency operation. (Texas Statutes Chapter 2056.002(b)(2))

- Florida Statute 186.002 requires state agencies to develop strategic plans that address and are consistent with the state comprehensive plan.

- OR sec. 291.110 calls for state agencies to align their strategic plans with the Oregon Benchmarks and directs the Department of Administrative Services to ensure that state agency activities and programs are directed toward achieving the benchmarks.

The state plan helps agencies (a) define appropriate performance indicators and (b) assess a program's contribution to achieving the desired outcome. In the governing–for–results system, the state plan is horizontally aligned with the highest level outcomes and vertically aligned with agency strategic plans. Through these alignments, the state plan connects agency strategic plans with citizens' concerns .

Providing a Framework for Collaboration

Both consensus and governors' state plans speak to broad issues such as good jobs, healthy citizens, and a clean environment. These outcomes tend to be affected by many forces, and so multiple agencies and programs share responsibility for achieving them. For example, a state plan calls for a high percentage of students to graduate from high school. The outcome "percent of high school students earning a diploma" is affected not only by education programs but also by social service and health programs and juvenile justice programs. The state plan provides an organizing framework for collaboration—among government agencies, and across different levels and branches of government. Although that collaboration can occur without a state plan, it is apt to be a matter of felicitous happenstance rather than systematic organizations.

The Florida GAP Commission—Promoting Collaboration

The Florida Government Accountability to the People (GAP) Commission looked for shared responsibilities and decided to pursue cross–agency cooperation around the outcome "a reduction in juvenile crime." In March 1998 GAP sent letters to state agencies asking if they had a program relating to reducing juvenile crime and received positive responses covering 200 activities spread out over 23 agencies. Narrowing the focus to school–based prevention activities reduced the number of involved agencies to 17.

GAP staff brought the relevant program people together to discuss their activities, educate one another about what they were doing, and identify opportunities for collaboration. The response was mixed—some program managers were enthusiastic; others were reluctant. When GAP lost its funding, no other entity picked up the convening role.

The former director of the GAP Commission noted that interagency collaboration requires not only active political support over time but also convincing the established groups that collaboration is to their advantage. "Bureaucracy" is blamed for the narrow focus often found in agencies, but there are other impediments to collaboration. Substantive legislative committees are organized by agency, appropriations committees fund agencies, and special interest groups are accustomed to working with individual agencies.

The state plan can identify opportunities, but collaboration occurs where the political leadership promotes it. In Oregon, the Governor's Office has convened a Community Solutions Team comprising the commissioners of five infrastructure agencies—Transportation, Housing & Community Services, Economic Development, Land Conservation & Development, and Water Resources—to address shared responsibilities in a coordinated manner. At a meeting during our site visit, the Commissioner of Transportation circulated a draft priority list for road projects for the other departments' review and comment before putting together the final version.

Because government does not control all factors affecting progress toward final outcomes, achieving state plan goals often requires partnerships involving local governments, the business community, and citizens. The state plan serves as a framework supporting public–private partnerships and activities by citizens, businesses, and nonprofit organizations—from community–based organizations to institutions of higher education to organized religion. For example, *Oregon Shines* has a benchmark for high school students' participation in apprenticeship programs. It quickly became apparent that the public high schools could not achieve this alone; they needed cooperation from the business community. The business community supported adoption of that benchmark and has been enlisted to support its implementation.

The Oregon Plan—Framework for Collaboration

The Oregon Plan is a collaborative (federal–state–local, multiagency, and public–private) effort to enhance watershed health and restore native fish—salmon, and steelhead and cutthroat trout—to Oregon waters. It began with a commitment from the partners to work together for the common goal of restoring the native fish. Implementation of that simple goal requires a complex web of actions to reestablish the fishes' natural habitat. These actions include improving stream water quality, enhancing stream flows, removing barriers—culverts, dams, irrigation diversions, and some fish ladders—to fish migration, restoring wetlands, and protecting riparian land. There is also ongoing research into the dynamics of watersheds. The plan itself is the organizing framework for collaboration and cooperation among the government agencies and citizen- and business-volunteers needed to accomplish these tasks.

The Governor's Natural Resources Office is the lead agency, but the Oregon Plan actively involves eleven state and eight federal agencies in its implementation. The Water Resources Department (OWRD) and the Fish and Wildlife Department (OWFD) are key agencies in the implementation of the Oregon Plan. Because the native coho salmon is an endangered species, The Oregon Plan has to conform to the federal Endangered Species Act in defining (1) recovery, and (2) an environment that supports a species. About half of the Oregon Plan is tied to meeting federal Clean Water Act requirements.

A third key state agency, the Oregon Watershed Enhancement Board (OWEB), is not a regulatory agency. OWEB's role is to encourage people and companies to do *more than the law requires* to restore watersheds and streams. OWEB works with more than 90 local watershed councils comprised of landowners, corporate representatives, conservation groups, field people from state agencies, and local government officials. Many councils receive OWEB funding for a full–time staff person, and for monitoring and developing a work plan that addresses the problems identified by the monitoring. Extensive citizen outreach publicizes monitoring results and describes what citizens can do to help restore the native salmon and steelhead and cutthroat trout populations. OWEB also funds the scientific review panel.

Oregon Plan Implementation Report 1999 summarizes progress in that "state and Federal Agencies have modified existing programs, established new programs, and identified new indicators that rectify factors that have contributed to the decline of salmon populations." Citizen and business interests have developed similar projects. The full report can be found online at www.oregon-plan-org.

Communicating with Citizens

State plan goals are defined in general terms and measured with indicators readily understood by the average citizen. One popular format starts with broad goals and then measures progress toward those goals with benchmarks that also provide a finer definition of the goals. (The term *benchmarks* as used here refers to measurable objectives and not to best practices as it would in a Total Quality Management context.) The benchmark format also makes the information more easily understood by setting a hierarchy of goals and clustering-related indicators.

Oregon Shines II uses the benchmark format. Its overall goals, simple, brief, and nonpartisan, are

- quality jobs for all Oregonians;
- safe, caring and engaged communities; and
- healthy, sustainable surroundings.

To measure progress toward those three goals, the Oregon Progress Board currently tracks 92 indicators that are organized into seven categories—economy, education, civic engagement, social support, public safety, community development, and environment—with a composite rating for each area. The indicators are updated as new data becomes available, keeping the state plan fresh and measuring progress toward state goals in terms easily understood by citizens.

Vision Texas: the Statewide Strategic Planning Elements for Texas State Government has a priority goal in each of eight areas—education, public schools; education, higher education; health and human services; public safety and criminal justice; natural resources; economic development; general government; and regulatory. A total of 81 benchmarks track progress toward those goals.

Because strategic plans focus on key issues and not on the entire universe, the related benchmarks are limited in number and represent major priorities, which vary among states. Over time there may be a tendency for the number of indicators to increase as each agency seeks recognition for "its benchmarks." This expansion should be resisted because a large number of statistics is unwieldy and diminishes both the credibility of the process and its clarity for the public. More numerous and more detailed indicators have their place at lower levels of the performance management system, where they assess progress in the agency strategic and program plans.

Maintaining the State Plan

To stay relevant, the state plan has to stay current; that is, to be an ongoing effort, it must be a process, not an event. This is the governor's responsibility in the governor's plan model. A consensus plan needs a sponsor organization, one with adequate and reliable resources so that it can maintain the state plan—convening the bottom–up planning process and, in interim years, updating the indicators. The sponsor organization systematically and periodically assesses progress towards plan goals and objectives, using information the performance measurement system provides.

Maintaining a consensus state plan has proven a challenge in most states. In 1998, North Carolina commissioned a study to identify options for making the NC Progress Board more effective (see box, p. XX), and Minnesota Milestones stopped setting out–year targets for its performance indicators. By the end of 1998, Florida's Government Accountability to the People (GAP) Commission was unfunded and inactive.

The Oregon Progress Board is the exception. Its staff and activities were initially funded as part of the state budget and are currently funded with a portion of the state's lottery money plus payment from other state agencies that hire the staff to provide technical assistance in performance measurement. The Oregon Progress Board has survived – albeit barely – changes in administration and political control of the state legislature. The key to survival has been the active support of the governor. The Progress Board would have lost funding in 1995 if the governor had not chosen to reauthorize it by executive order.

The NC Progress Board–"Inadequate Resources/Relative Anonymity"

The importance to the state plan of connections to the governing process and adequate resources for maintenance are illustrated by the North Carolina experience, where neither were present. The (1993–95) Commission for a Competitive North Carolina produced a plan for the state government to guide public investments. Its final report recommended creation of a NC Progress Board to promote plan implementation and to institutionalize the state planning process. The NC Progress Board, created in 1995, was asked to develop a plan for the entire state—not just state government—and to set targets and monitor progress toward plan goals.

Although the Commission had recommended a quasi–independent board with its own staff, the legislation placed the NC Progress Board in the Department of Administration and provided neither funding nor additional staff. Three years later, a University of North Carolina Institute of Government (1998) evaluation found that: " … the (NC) Progress Board has labored with inadequate resources and in relative anonymity. The Board's vision has yet to be embraced broadly and shows few signs of becoming a catalyst for statewide progress."

The evaluation repeated the recommendations that the NC Progress Board be a not–for–profit corporation outside state government, with its own dedicated staff and adequately funded with a recurring state appropriation. Additional recommendations spoke to empowering the Board and promoting implementation of its recommendations—by expanding its charge to include working for implementation, concentrating on a limited number of key goals, building relationships with state agencies and the university system, and increasing citizen involvement in and awareness of the NC Progress Board.

Interviews with members of the NC Progress Board and its predecessors produced consensus recommendations for making the Progress Board more effective —along with a caution against proceeding at all without changing the current structure. Board members noted that, to date, the process has required substantial investment of time and energy from participants but has had little impact (UNC Institute of Government 1998).

Agency Strategic Plans

If the state plan is the engine, the agency strategic plan (ASP) is the transmission that carries the power to programs and services. The ASP integrates state plan goals and strategies with relevant legislative mandates, and sets forth the mission, vision, and goals of the agency. The ASP guides program and project planning within the agency. It defines the performance indicators used to assess the agency operations and sets the framework for collaboration across divisions or bureaus within the agency. Finally, the ASP makes employees aware of the agency's mission and their role in fulfilling that mission.

Strategic planning is the first activity for agencies implementing a governing–for–results system. To show whether an agency is achieving its desired outcomes, the strategic plan must begin by stating what these outcomes are, and how it intends to achieve them. Ideally, the ASP uses a small number of performance indicators in a well–organized context to give clear direction. The ASP is not a large document, but at a minimum, it includes

- reference to the relevant statewide goals and performance indicators,
- agency vision, mission, and goals, objectives, and alternative strategies forachieving desired results
- assessment of trends and conditions affecting internal agency operations and external demand for its service
- indicators for measuring progress, baseline data, and out–year targets linked to major strategies
- output and efficiency indicators plus information on resource management for each program.

Legislation mandating agency strategic plans typically describes the elements to be included. Specific instructions—legislative or operational—produce consistent plans and eliminate differences in presentation that could hamper cross agency comparisons. During the most recent budget cycle, Florida ASPs were required to use a common set of program categories that could be the basis for a program budget. Texas goes well beyond specifying the table of contents – agencies are required to use standardized page size and numbering, document binding, and format for financial figures and numbers of personnel.

Guidance from a central agency such as the North Carolina Office of Planning and Budget, the Texas Legislative Budget Board, or the Florida Office of Program Policy Analysis and Government Accountability helps agencies achieve quality and consistency in their strategic plans. Technical assistance and training are especially vital in early years of implementation.

The ASP makes the critical connection to the budget process that gives the governing–for–results system operational relevance for agency and program managers. With related performance indicators, the ASP provides a common language by which agencies communicate with the legislature in the context of performance budgeting and with citizens—oversight boards and commissions, stakeholders, and customers. The budget connection derives its importance from the original governing–for–results impetus—a response to fiscal pressures, the desire of policymakers to "get more bang for the buck."

Developing Agency Strategic Plans

Administrators and program managers with input from front–line employees develop the agency strategic plan and related performance indicators. Preliminary steps, such as executive retreats, are buttressed and expanded with reviews by program staff and managers. Creative techniques elicit substantive participation. For example, one agency reported that it asked each employee to write a statement about his or her contribution to a specific objective in the ASP. Managers were asked to describe how each and every employee in their division contributed to ASP objectives.

Legislators on relevant committees and the Governor's Office should participate or be consulted in developing the ASP. Other stakeholders should be consulted as well. Potential stakeholders include the federal government (appropriate agency if applicable), nonprofits or advocacy groups, regional councils, local governments, and citizen groups. At a minimum, drafts of strategic plans and performance indicators should be sent to appropriate stakeholders for comment. It is especially important to involve key legislators in the planning process when agencies are affected by significant changes in their organizational structure or by activities fueled by the need to produce an outcome focus. Otherwise, proposed changes are less likely to gain legislative support required for implementation.

Florida DCA—Prepared for PB-Squared

Because the Florida Department of Community Affairs (DCA) is responsible for a wide variety of programs, it has numerous and varied stakeholders. This creates a particular challenge in the agency's strategic planning process.

The agency strategic planning process began two years before DCA was scheduled to enter the Performance–Based Program Budget (PB-Squared) system, the core of governing–for–results in Florida. Agency administrators created the SPIT (Strategic Planning Investigation Team) Fire Team and charged it with producing an agency strategic plan. To secure buy–in from the top down, DCA conducted an executive retreat to begin setting the vision for the agency and identifying strategic and quantifiable issues.

The SPITfire team sought input from the wide variety of stakeholders in DCA – the legislature, Governor's Office, federal government, nonprofits (advocacy), local governments, and regional councils. Its members looked at every program in DCA and, from statute, identified the program purpose and outcome statements. They asked the appropriate program staffs to review these statements and clarify program purposes and outcomes. Using *Access* database software, SPITfire organized program outcomes to build the agency strategic plan and performance indicators. When the legislature moved the date for DCA to start PB-Squared from FY 2002 to FY 2001, the strategic planning was in place and is providing a good foundation for thenow hurried PB-Squared implementation.

A second example from Florida shows what can happen when an agency fails to establish good communication with the legislature. Florida's performance–based program budget allows consolidation of smaller programs into larger programs for performance reporting. One agency spent 18 months of intensive internal meetings rewriting its strategic plan and developing a new organizational and program structure to propose to the legislature. The legislature, which had not been involved in the process, rejected the agency's proposed performance indicators for its restructured regulatory programs and , instead, significantly changed the performance indicators for other programs. An agency administrator involved in the process described it as "extremely painful."

Citizen participation in agency strategic planning and performance indicator selection usually is limited to stakeholders—those who represent clients or customers and the interested citizens. There are exceptions. If an agency is dealing with high-visibility issues that are the focus of current public concern, "interested citizens" are likely to represent a large part of the populace, and in those cases, citizen input is actively sought through public meetings, surveys, and other tools for reaching a broad audience.

As part of the strategic planning process, the agency selects and collects data to provide a baseline for performance indicators. Performance indicators in the ASP are more numerous and more specific than in the state plan, but their number is controlled to maintain clarity and avoid information overload. The latter has slowed North Carolina's implementation of performance measurement for which state agencies have submitted some 10,000 indicators to the Office of State Planning.

The timeframe for agency strategic plans is usually three to five years with annual updates. The plan horizon reflects the ASP place in the plan hierarchy. It is shorter term than the state plan but longer term than the annual work program. Also, it avoids making the ASP a creature of the typical two–year budget cycle. Staff and programs usually remain stable during a three-to-five year period, allowing managers a chance to be effective.

Strategic plans may require maintenance between annual updates. Performance indicators providing information about the results of strategies are obtained on a regular basis and analyzed. The strategic plan is adjusted when it becomes clear that strategies are not producing the intended results. These adjustments not only reflect results obtained to date, but also other environmental circumstances expected to affect future performance.

Aligning State and Agency Plans

Vertical alignment between the state plan and agency strategic planning means that the goals for agency programs and activities refer back to desired outcomes in the state plan. The link between program and outcome can be as direct as the connection between a program helping students stay in school through graduation and the desired outcome of increasing the percentage of the population with a high school diploma. The link can be through an intermediate outcome; for example, an immunization program contributes to the desired outcome of a healthy population by reducing morbidity and mortality related to a specific disease.

Alignment with the state plan ties agency programs and services to citizens' expressed concerns and visions. Also, connections to the state plan can structure coordination between agencies with shared responsibility for desired outcomes. Clearly, this is a desirable connection, but it is not easy to achieve in a meaningful way. To promote the linkage, Texas agencies begin their strategic plans by listing the relevant goals and benchmarks from the state (governor's) plan. Missouri provides examples of links to help its agencies develop strategic plans. In Oregon, the Progress Board produced a *Bluebook* linking benchmarks for state goals to agency operations.

Where there are multiple levels of strategic plans within an agency, those plans are aligned. For example, the Oregon Division of Motor Vehicles group managers developed a strategic plan (DMV in Motion: Our Strategic Direction, 1998–2001) to guide the division. Group managers and employees in each service delivery area then developed a set of operational initiatives to implement the strategic plan. These initiatives produce two–year service delivery area plans that are updated annually. The plans refer to outcomes in the strategic plan, specify the initiatives that will be used to accomplish outcomes, and assign responsibility for each initiative to a section of the division

Connecting with the Budget

Connection with the budget process ensures relevance for the agency strategic plan and gets program managers' attention. A Florida administrator noted that few agencies took the ASP seriously until 1997 when the agency strategic plan was linked to the budget. The link between performance measurement and the budget process is most effectively made through the agency strategic plan. The strategic planning process imposes an order and discipline that can counter the budget process' incentive to exaggerate links between agency activities and state benchmarks or milestones. Attempts to make a direct connection between outcomes and the budget process have not worked well.

- In 1993, Governor Roberts used the Oregon Benchmarks to modify an across–the–board budget cut. The budgets for agencies that could show a link between their activities and one of the lead benchmarks would be reduced less than budgets for agencies that could not make that connection. Overly creative links undermined the credibility of the benchmarks as a whole.[4]
- Although state agencies helped develop specific indicators and targets for the Minnesota Milestones, the requirement that agencies tie their budgets to the Milestones was dropped after one budget cycle (FY 94–95).

Texas—Setting Performance Targets

Texas provides a good example of how the agency strategic plan connects performance measurement and the budget in a governing–for–results system. Executive agencies organize their budgets according to their strategic plan; that is, all agencies use the goals and strategies listed in their strategic plans as the items of their appropriation request. In the context of appropriation requests, agencies set targets for the performance indicators defined by the goals and objective of the agency strategic plan. If the agency does not come within plus or minus 5 percent of its target, it must explain the discrepancy to the Legislative Budget Board.

While far ahead of what most other states are doing, this is still a work in progress. According to Texas State Auditor Larry Alwin, "There is often a disconnect between an agency and the legislative thinking about what an agency does. We need a better linkage and more appropriate measures."

Only after the ASP has run a full cycle should it be connected to the budget. The initial cycle will uncover planning process and selected indicator problems that are more easily addressed without the pressure of being linked to the budget. (Performance budgeting is discussed in detail in chapter 4.)

Operational Plans

Work plans, business plans, action plans – all are operational plans. Operational plans define the activities that will implement the ASP. While the ASP typically has a three–to–five year horizon, operational plans usually span no more than a year. Operational plans are not strategic plans but they are part of the strategic planning process in the governing-for-results system. Operational plans set goals and define the performance indicators that measure the progress of day–to–day work within an agency. These performance indicators found, at the base of the performance pyramid (figure 2.4), measure the activities and outputs that are expected to lead to the desired outcomes.[5]

The planning and performance measurement cycle is as relevant at the operational level as is it for strategic plans and decisions. Monitoring performance on a regular basis provides information that is used to develop and then adjust operational plans. The Florida DEP experience demonstrates that performance management at the operational level is a powerful tool even during the early stages of implementing a governing-for-results system.

DEP, which produces the mandated agency strategic plan, believes that it needs to develop historic data about environmental quality upon which to build substantive planning. To further that end, DEP is collecting data and monitoring program performance. When an analysis of current quarter results versus prior years or other comparable results for regional programs indicates a problem, DEP asks the program manager to develop an appropriate action plan. DEP is working to link its operational performance management to the agency strategic plan.

Florida DEP–Performance Management

The Florida DEP uses performance indicators to monitor program operation and publishes the results in the Secretary's Quarterly Performance Report (SQPR). Areas where performance lags behind recent trends or for regional programs in other regions are considered for designation by the agency secretary as Watch or Focus areas, depending on the severity of the threat to public health and the environment.

Once an area is designated as Focus, the relevant division or district director(s) have one month to develop an action plan to address the problem. In a (3/26/99) memo to division and district directors, a deputy secretary stressed that a Focus designation should not be viewed as a punishment or demerit but as "an opportunity to address a particular problem with full support and backing of the Secretary."

When the Environmental Focus Area Review process was first implemented, the action plans varied widely, and so DEP prepared a guidance document to help division and district managers prepare appropriate action plans for designated focus areas. The guidance document is just two pages long and lists seven steps for action plan development plus contact information for individuals within DEP who are available to assist.

The Secretary meets with staff from designated focus programs quarterly and hears presentations from the division or district directors regarding areas currently designated as Focus and areas being considered for Watch or Focus designation. The May 7, 1999 meeting results illustrate how the designation decision process works. The board decided not to designate air quality in Escambia and Santa Rosa counties as Focus despite high concentrations of ground level ozone that threaten public health, because the problem (a) had a broader scope statewide, (b) was possibly influenced by emissions from outside Florida, and (c) was being addressed by federal efforts.

A second issue, drinking water violations at transient noncommunity facilities, was designated focus for the low–performing districts, because it (a) raises questions about the safety of public drinking water, and (b) stemmed primarily from failures to report, which the district office could affect.

A third area, manatee deaths due to watercraft, was designated a statewide focus, and two divisions, Marine Resources and Law Enforcement, were assigned responsibility for developing a joint action plan.

Once performance improves, a Focus area is reclassified as Watch or Good. This use of performance management has proven an effective way of focusing agency resources on problem areas and a success in addressing problems as diverse as shellfish processing and underground storage tank compliance. By publishing monitoring results in the Secretary's Quarterly Performance Report, DEP is recognizing the importance of citizen participation in governing for results and using performance indicators to communicate with the public.

In Summary

By integrating performance measurement and strategic planning, the governing–for–results system provides the information that strategic planning requires to be effective and emphasizes the continuous nature of the process. The governing–for–results strategic planning process is a hierarchy of plans linked by the flow of information. Each plan has embedded performance indicators that measure progress toward implementation of the plan goals.

Chapter 4: Performance Budgeting—The Rubber Meets the Road

This report defines *governing–for–results* as *the system of spending and measuring results of spending whereby a government, both the executive and legislative branches, focuses decisions and activities on the benefits, as well as costs and outputs, of government activities and actions.* Implementation of a governing–for–results system in state government involves the executive and legislative branches, program management, and program budgets. Either branch can initiate the move toward results–based management, but both must recognize and reinforce the process to achieve desired improvements in the outcomes of government operations.

For the executive branch, governing-for-results links planning and performance measurement into a cycle of performance management described previously. For the legislative branch, performance–based budgeting forges the link between planned activities and outcomes. More than once, the budget has been described as the plan that really matters because the funding decisions are where the rubber meets the road. Embedding key performance indicators in the budget document promotes horizontal alignment between the budget and the activities it funds.

Performance Indicators

Performance budgeting links appropriations to outcomes through the use of performance information in budget decisionmaking and the inclusion of performance indicators in the budget document. Performance information is one of many factors considered in decision making about allocations. In a governing–for–results system, the performance indicators included in the budget are drawn from those used by agency administrators for internal performance measurement. They are the outcomes that align with the goals of agency and program plans.

Performance budgeting establishes accountability within the governing-for-results system. It creates a framework that provides direct linkages for accountability of executive branch managers who have agreed to achieve stated results in return for flexibility in spending, incentive rewards, or other trade–offs. End outcomes become the primary targets for achievement, and performance indicators become the accepted measures of progress.

The desire for greater program accountability in the context of budget deliberations has been a major impetus for state adoption of results–based practices. Almost all states are using some kind of performance budgeting process, though perhaps not for all agencies, for only certain expenditure categories, or for only some parts of the budgeting process. Still, the tenets of performance budgeting are just emerging. The trend is clear: state budget processes are tending toward using outcomes alongside or in place of outputs. A few states, including Florida, Minnesota, and New Jersey, are linking funding initiatives directly to performance indicators in, for example, higher education or transportation budgets.[6] Many more, such as Texas and Louisiana, are using performance information in their budget deliberations and including selected performance indicators in the budget document.

As in anything evolutionary, there are ups and downs, surges and withdrawals. Understanding events requires knowing when in the cycle they were observed. Performance budgeting is very much a work in progress. Nonetheless, expectations for performance budget reforms are high. States in the forefront of governing-for-results are those demonstrating the contribution of performance budgeting to accountable and responsive government. This chapter draws upon their experiences to describe issues involved in implementing performance budgeting, its benefits, and its costs.

Benefits of Performance Budgeting

What can a state expect to gain with performance–based budgeting? How will it add value at least equal to the direct and indirect costs of conversion and operations? At the broadest level, performance budgeting contributes to results–based government by shifting the focus to outcomes and by getting legislators to consider the intended results of the programs they are funding. The budget process is by nature political, and a governing-for-results system is not going to replace the art of politics with a science of numbers. Performance indicators do not tell legislators everything they need to know to make decisions, however, performance information makes a valuable contribution to the budget debate.

Enhanced Program Evaluation

Performance budgeting provides indicators that help legislators evaluate the programs they are being asked to fund so that they can build on the success of high–performance programs. For a variety of reasons, some programs may achieve success well ahead of schedule or well beyond expectations. Performance budgeting provides indicators and time lines for measuring progress so that managers and policymakers alike can easily spot outstanding performance. Programs judged outstanding may then be candidates for designations of best management practices or models to be copied or emulated by other agencies with similar operations.

In contrast to high–performance programs, those falling behind according to the performance indicators and timetables for outcomes can be examined to determine problems, contradictory policy directions, or any number of other reasons for lack of progress. It is important to note that poor performance should not induce a reflexive response of reduced funding. Poor performance is a flag that signals the need for further investigation.

For all programs, performance information helps policymakers place a monetary value on program operations. This allows them to ask if the end outcome is worth the full program expenditure needed for its achievement. From the executive agency perspective, performance budgeting is a tool for sending a message to the legislature and demonstrating the need for increased funding or new programs in problem areas.

New programs have always been difficult to evaluate in their early years simply because not enough time has elapsed for the expenditures to achieve end outcomes. Some governmental programs have a multiyear lag between expenditure and resulting outcomes. This can be readily observed in education, health, and labor force program areas. For new programs, interim rather than outcome indicators can be used to assess whether expected or promised progress is being made.

Florida and Texas agencies' experiences demonstrate how performance information contributes to budget debates. Agencies in Texas must use performance data in their interactions with the legislature. Whenever an agency proposes a new or enhanced strategy to achieve a strategic plan goal, it must be able to demonstrate the potential effect on outcome and output indicators. A new Texas statute requires that all agencies conduct a customer survey. It is likely that at least one key performance indicator for each agency will use satisfaction data from this survey. This citizen input can provide validity for legislators considering appropriations.

Florida is among the leading states in the implementation of performance budgeting, with its PB-Squared initiative that integrates agency strategic planning and budgeting. In interviews, Florida Departments of Transportation and Law Enforcement managers reported that the inclusion of performance information has made the legislature more receptive to their budget requests.

One of the larger benefits of performance budgeting is the ability for executive branch and legislative budget staffs to develop, and in some cases, test, alternatives for meeting objectives. The Minnesota Department of Revenue has used performance information to evaluate proposed changes within the agency; for example, comparing error rates of electronic tax returns versus hard copy returns before adopting electronic tax payment methods.

Texas' Performance Budgeting System–Moving toward Incentives

Texas' performance budgeting system has probably gained momentum because of the supporting structures of statewide and agency–level strategic planning, agency performance measurement, and state–level performance auditing of agency operations. There is an integrated system of planning, measurement, reporting, and legislative review of performance. Although far advanced in governing-for-results, Texas still has room to grow in terms of actually making appropriations based largely on performance information. Currently, legislators consider performance information as one of many factors in their budget deliberations. Texas has the statutory option to use incentives and disincentives with agencies related to their performance, but to date, incentives have been used only sparingly, and disincentives, not at all.

Identifying Opportunities for Multiagency Coordination

It has long been recognized that many problems to which government programs are directed are multiagency in nature. For many years agencies have been viewed as "stovepipe" or vertical in vision and operations, often working redundantly, unknowingly, or even sometimes at cross–purposes with one another because of the inability to relate program operations to end outcomes. Performance based program budgeting encourages identification of these redundancies through executive and legislative discussions on budget preparation. Benchmarks on similar outcomes are a valuable way to mobilize forces when an agency identifies itself as a partner in pursuing a common goal with other agencies.

The Oregon food banks are a good example of multiagency coordination. The Oregon Housing and Community Services Department has begun to integrate its food bank program with other programs (schools, the department of agriculture, food stamps) that share the common goal of feeding needy people and have the capacity to handle excess food. As a result, the food banks, which previously did not have as much food as needed, now have access to three times the food they are able to handle.

Improved Communication with Citizens

Elected and appointed officials' as well as citizens' eyes glaze over when budget line items are being explained in public hearings or in budget work sessions. Listening to workload indicators, inputs, and expenditure categories does not provide understanding of why programs are being funded and what the end outcomes might be. Governing-for-results solves much of this problem by, for example, explaining that travel time between two cities will be reduced to 40 minutes by the expenditure of $11 million on road repairs as opposed to line–item explanations of cubic yards of concrete, number of bridge widenings, and shoulder resurfacing.

Mid-Course Adjustments by Mid-Level Management

The ability for mid-level managers to make mid-course adjustments for either poor or exceptional performance is widely viewed as one of the premier advantages of performance budgeting. Mid-year measurements or indicators that reveal the impact or effects of program expenditures are frequently nonexistent. Under performance budgeting both are present, and when used quarterly or semi–annually, they can provide ample evidence of both successful and unsuccessful program results. If managers have authority to shift funds according to these findings instead of waiting for the next annual or biannual budget hearings, good results can be spread and attempts made to correct poor results. It is important to recognize that the response to an under–performing program is to look for and then address the reasons behind the poor performance, not to reflexively cut the program budget as punishment.

The Florida Department of Law Enforcement–Problem Solving with PB-Squared

The Florida Department of Law Enforcement (FDLE) has successfully used PB-Squared to address problem areas. PB-Squared showed that the FDLE crime laboratories were not meeting turnaround time standards. When FDLE management looked into the problem, they learned that labs were not meeting the standard because they were losing staff to other labs with higher pay scales, and because of the time it takes to train new people to work efficiently. The short–term solution was shifting workload within the system to labs with unused capacity. The longer–term solution was to seek additional funding for their labs, which FDLE did in the performance budget.

Implementing Performance Budgeting

The problems associated with implementing governing–for–results can seem especially daunting in the context of allocating and spending public dollars. Those states that adopt governing–for–results management systems nearly always have to reform their budgeting processes. "Whether performance measures are legislative or gubernatorial initiatives, the budget office is often responsible for implementation, or at the very least is an integral part of the process." [7]

Establishing the Foundation

A strategic plan for each agency provides the foundation for performance budgeting. It is conceivable but not probable that performance budgeting can be achieved in the absence of an agency vision and strategic plan. It is the strategic plan and the goals or benchmarks that set the end outcomes in a way that telescopes perfectly into performance budgeting. The strategic plan has provided this linkage for Florida and Texas performance budgeting efforts, and Louisiana is making progress in strategic planning on an agency–by–agency basis. Conversely, the absence of agency strategic plans impeded implementation of performance budgeting in Oregon.

Strategic planning both requires and underlies effective use of performance indicators for management. Performance management precedes performance budgeting. Building the system to support performance management and budgeting is an iterative process, but one that has to begin with planning. When Florida mandated annual strategic planning from its executive agencies, it became apparent that many agencies could not differentiate outputs from outcomes and so did not know how to write a useful performance indicator. Therefore, reform had to start with the agency strategic plans, strengthening agency management as well as the planning–budget linkage. Even in the context of Florida's Performance–Based Program Budget legislation, there is more focus on performance management than upon performance budgeting.

Several approaches to the agency strategic plan have proven effective. Texas has a requirement that all agencies engage in a benchmarking process. Agencies must define what they will benchmark and who they will benchmark against. The Governor's Office of Planning and Budget (GOPB) supplies training for this initiative, monitors the overall process, and reviews who agencies will benchmark against (in some cases, benchmarks will be used internally). GOPB considers this an executive management tool that does not involve the legislature.

When the governing–for–results performance management system is fully implemented, the agency strategic plan and the performance indicators derived from it guide development of operational plans. The operational plans produce cost information that supports development of the performance budget. During the budget year, performance monitoring lets managers know when they need to shift resources to address problem areas. For example, the Florida Department of Transportation Maintenance Division builds its budget from the estimated costs of meeting performance goals set by the ASP. The division also monitors performance and gives its regional engineers the authority to shift resources to areas where performance lags behind the goals established in the agency strategic plan.

Florida DOT–Systematic Budget-Building

The Florida Transportation Plan (agency strategic plan) has a three–to–five year timeframe and is updated annually. It guides development of the DOT work program, budget, and performance evaluation reports. The strategic planning process for the Maintenance Division, which has used performance indicators since the first Florida Transportation Plan was developed in 1985, illustrates how the cycle of planning and performance measurement works at the operating level.

The Maintenance Division central office develops and reviews policies and procedures. With regional input, it establishes maintenance goals and objectives for the agency strategic plan. Then, the DOT database of the road system is used to construct an annual maintenance workload consistent with achieving the target for the Maintenance Rating Program (MRP) score.

To develop annual operating plans, regional engineers use a report of the previous years' MRP scores to redirect resources away from areas of roadway exceeding the standard toward areas not meeting the standards. During the year, regional staff monitor outputs (production) to ensure that work is being performed properly. The monitoring reports are compiled into MRP reports three times a year and distributed to the regional engineers, who can shift resources to address low performance areas. This information is also provided to DOT management to allow it to track performance in the districts.

The DOT maintenance budget is developed from the regional plans. This systematic, performance–based approach has enabled DOT to get its requested budget amount fully funded by legislature.

In Minnesota, each department's strategic plan serves as the foundation for business plans developed by each of the department's divisions. These are then used to drive the department's budget process. Some efforts aim at performance funding; that is, defining what can be accomplished for each level of funding being considered in the budget process. The Florida legislature is seeking unit cost information from agencies to use in its budget deliberations.

Agreeing on Clear Definitions

The first hurdle of performance budgeting may well be that of definitions and terms, starting with a shared definition of the term *performance budgeting.* Is the goal to link expenditures directly to performance or to add performance information to the budget debate? Although performance budgeting does not require legal preciseness, it is helpful if common usage of terms is practiced. Such common labels as inputs, outputs, goals, indicators, and other parts of "budget–speak" need clarity – definitions in simple language that can be used by all agencies and legislators. As in nearly all endeavors involving disparate parties, communication can become muddled, especially if ambiguous terms and definitions are used.

Definitions and the meaning of terms used in government programs change frequently. This can be the result of new definitions or categories adopted by Congress; it can be the logical refinement of a previous definition by program experts; or some other legitimate reason beyond the control of the agency. Clarity can greatly ease budgetary discussions. In a related way, performance targets, which often change, must be clearly understood by legislators and executive branch officials.

Providing for Training and Technical Assistance

The second and related hurdle is training and technical assistance. [8] On both the legislative and executive side, those expected to use performance budgeting need to be conversant with its terms and definitions. It is essential that the appropriate legislative committee or executive branch oversight agency for budgets provides a standard report format (a) to ensure all information requirements are met and (b) to facilitate comparisons. Posting indicators of past performance, current performance, and future target performance levels has been adopted in Virginia, and appears to work well for those indicators being used. [9] The first job of a performance report is to be a readable document that legislators and others find useful and informative.

Training and technical assistance resources include national organizations that are stepping forward to help their members learn about and share experiences with performance budgeting. The National Association of State Budget Officers (NASBO) has an inventory of resources, and compilations of practices displayed on their Internet pages, as well as direct links with state budget agency information. [10]Minnesota's page includes the following reflections on performance budgeting.

We learned much from the 1994 performance reports:

- Successfully implementing useful performance reporting and management requires a multi–year time frame;

- The Office of the Legislative Auditor and Department of Finance must work closely together to provide clear and consistent direction to agencies; and
- There are at least three audiences for performance data: agency staff, policy makers, and the public. A successful report must find ways to address the needs of each audience. [11]

Fitting into the Legislative Structure

Performance budgeting must operate within the legislative structure. Alignment of performance categories or groupings of services in the performance budgets with legislative committee structures is imperative. A mismatch between the two has been singled out as an impediment in North Carolina's governing-for-results efforts. A mismatch between budget and legislative categories occurred because although the executive budget has ten program categories, the general assembly divides the same programs into the jurisdiction of six subcommittees in each house. A crosswalk solution is now being tried. Alignment with audit categories also has been important in Florida's efforts.

As performance budgeting integrates planning and appropriations, this raises questions about the appropriate division of responsibilities between the substantive committees and the appropriations committees. This issue must be addressed in the context of the particular state legislature, its history, and its power structure. In Florida, for example, the Performance–Based Program Budget legislation resolved this issue in favor of the appropriations committees.

Developing Consensus on Outcomes

The genuine differences that exist within the political process are not escaped or finessed by implementation of performance budgeting. The strength of the performance budgeting approach is that it focuses the attention of policymakers on end outcomes and policy setting. There are significant issues surrounding the use of performance indicators in the budget process.

The perspective of the executive branch may be significantly different from the legislative branch on outcomes expected.

The executive budget may be closely linked to political platform items. If a legislature is composed of a majority of an opposing party, there will obviously be conflicting goals. While the use of performance budgeting is not prohibited in this event, it cannot be expected to overcome political gridlock. On the other hand, performance budgeting can be used to link a proposed budget agreement to extensive past expenditures in pursuit of a well–established end outcome desired by both parties, essentially de–politicizing a program.

Outcomes that are a result of multi–agency, sometimes multigovernment, and even nongovernment agencies, are difficult to predict and monitor.

Establishing end outcomes that are satisfactory to all parties, all agencies, all interest groups, and all customers is difficult. Sorting out which agencies or expenditures triggered which outcomes is not a valid exercise when indicators are used to show that the end outcome has been achieved at the desired, budgeted level.

Money from various sources may be difficult to trace as it becomes blended to achieve outcomes.

Ascertaining cause-and-affect relationships between expenditures and end outcomes is a necessary part of performance budgeting. This is made more difficult when more than one agency contributes in its own special way toward a shared outcome. Absent that contribution, the outcome might not have been achieved. Therefore, apportioning credit becomes an issue, especially if double counting of results occurs.

Some end outcomes will extend beyond governors', legislators', and fiscal officers' careers.

This is to be expected, and, in fact, is desirable in many cases. Top educational institutions do not achieve their prowess in rhythm with budget cycles; instead, achievement occurs over many years, even decades. With performance budgeting this becomes an expected circumstance that, in effect, can provide a bridge over any conflicting political and personal preferences.

The Expense of Performance Budgeting

In discussions with state officials it has become clear that to undertake performance reforms is to undertake extra costs. Reformatting agency budget requests alone is expensive, given the time needed to develop templates, train agency personnel to use them, and prepare central staff to receive and analyze them. This is a major break from the past. It is expensive in terms of the wear and tear on legislative committees' nerves when they are forced to shift their focus, discussions and decisions from line items to general goals, guiding principles, and measurement indicators. The trade–off must be the value added by performance budgeting.

Actual performance budgeting costs appear to fall more heavily on the budget office than the individual agencies. In Texas, for example, none of the agencies asked for additional funds to comply with the statutorily required task of performance budgeting. Most agencies have a strategic planning coordinator or a performance measurement coordinator, but they have been hired with existing funds or their jobs created from a reallocation of existing positions. Similarly, none of the agencies requested funds for training their employees in performance budgeting within the agency (i.e.,,, on–the–job training). Any formal training that occurs is paid for by the agency.

The burdens associated with implementing performance budgeting extend beyond the costs of reforming the budget process. As noted previously, performance budgeting is very much a work in progress, and several issues surrounding implementation remain difficult.

Budget makers must accept or cobble together agreements on proper outcomes and appropriate indicators in very specialized, sometimes extremely complex fields.

North Carolina claims to have 10,000 indicators in its database. However, there is no information on the quality or validity of those indicators. The state's budget office estimates that only 15 percent of the indicators are outcome indicators. There is a trade–off between continuity and improving the quality of performance indicators. In past years, the State Budget Office required a new performance indicator for each item in the expansion budget, but has since dropped the requirement. Too many indicators can defeat the purposes of performance budgeting.

Budget makers must accept or create indicators that truly track the performance of progress toward outcomes.

Credibility is crucial. Legislators do not trust agency performance indicators that vary from year to year. Linking performance indicators to strategic plans is important if legislators and executives are to trust performance budgeting. Every reasonable effort should be made to ensure accurate data, properly described. If performance indicators are to be trusted by the legislature, the legislature should be given a role in defining them. When there is a change in an indicator, there should be several reporting periods of overlap between the old and new indicator.

Budget makers must seek to understand the cause-and-effect relationships between money about to be appropriated and the outcome sought.

The need to understand relationships between inputs and outputs, and then between outputs and outcomes depends heavily on the extent of independent program evaluations as well as the opinions of experts in functional areas. Most states now have some form of institutionalized evaluation capacity. Evaluation must be linked to the performance budgeting process.

In Summary

Based on the issues described above, the following checklist (figure 4.1) provides a cursory way to assess a states' progress toward building a foundation for performance budgeting.

Figure 4.1
Checklist Of Predictors For Successful Performance Budgeting

- ☐ Statewide strategic planning is undertaken.
- ☐ Strategic planning includes agency and sub-state governments' plans.
- ☐ Goals and strategies are clear, easily defined and communicated.
- ☐ Functional experts (transportation engineers, mental health counselors, etc.) assist in linking cause and effect between spending and outcomes.
- ☐ Accountability is clear.
- ☐ Human resource systems are designed to reward achievement of performance objectives.
- ☐ Fewer indicators rather than more are used.
- ☐ Agency heads are enthusiastic about the process.
- ☐ Governing for results "feels" right and is thought superior to traditional methods.
- ☐ Training of state personnel is provided.
- ☐ There is alignment of legislative substantive committees with performance budget categories.
- ☐ Inspectors general and/or auditors should be assigned to validate tracking data and its handling and reporting.
- ☐ Citizen input is made easy.
- ☐ Agencies coordinate across departments where mutual objectives are apparent.

Successful budget reform does not appear to depend on which branch of government, legislative or executive, promulgates this change. Other factors may predict success or failure. For example, states that have recent positive experiences with program budgeting or strategic planning seem to be able to move more fully and confidently into governing–for–results (Florida, Iowa, Maine, Texas, Oregon, Louisiana). What should really count, however, is whether the partial or full adoption of performance–type reforms leads to improved outcomes, not the degree of comprehensiveness or pervasiveness of those reforms, or which branch initiated the effort.

An irony of performance–based budgeting is that no matter how performance–oriented or mission–oriented the budget appropriations process, the actual expenditures, invoices, and contracts inevitably become line items in some ledger somewhere as the state's tax revenues changes hands. So, one way or the other, expenditures are eventually recorded as line items and can be reviewed via postaudits. Therefore, those wedded to line–item traditions can be comforted by reminders that while performance reforms or systems are being added upfront so that debate focuses on overall objectives, the line–item acquisitions or expenditures in disbursement columns will necessarily be recorded and tracked. Actually, accountability is increased and more effective when, in this case, both the end outcomes and the actual expenditures can be tested for impact and effect.

Chapter 5: Performance Contracting

Citizens and policymakers express dissatisfaction with service quality and cost of provision, while budget constraints create the need to improve resource allocation. Citizens demand more government accountability and efficiency. Critics call for government to be run like a business, which means it should focus on core competencies and contract out the rest. All of these popular viewpoints challenge public managers to determine if government or a contractor would be more efficient and effective in providing a service or implementing a project. State governments are turning to the private and nonprofit sectors for assistance in delivering a growing number of services, and the result is a steep increase in government contracting.

Performance Contracts According to Martin (1999):

"A performance contract is one that focuses on the outputs, quality, and outcomes of service provision and may tie at least a portion of a contractor's payment, as well as any contract extension or renewal, to their achievement."

Traditional government contracts have been known for over–specification of the processes and inputs required of contractors along with burdensome reporting requirements to document that all these specifications were met. That approach has not proven effective against either declining performance or rising costs, and is inconsistent with the governing–for–results focus on outcomes and results. In a governing–for–results system contracts are performance–based.

Performance–based contracting is a direct form of managing–for–results. It extends the governing–for–results focus on performance to nongovernmental service providers who are operating as governmental service delivery arms. . When a service is contracted out, the contracting government retains the ultimate responsibility to measure the performance of the service provider and maintain standards. Performance contracting provides a tool for sharing that accountability with government contractors.

Managers oversee contractors and expect them to produce outcomes, instead of merely providing units of service. The contract describes the outcome to be achieved and includes the performance indicators that will be used to assess whether or not it was achieved. In fully implemented performance contracting, payment is tied to performance by way of financial incentives or disincentives built into the contract. In other cases, contract renewal depends upon satisfactory performance. Some performance contracts set performance targets but do not link performance to pay.

Performance contracts have long been used for transportation and public works projects. A construction contract typically specifies a bonus if the project or specified part of the project is completed before the contracted finish date or per-day penalties for work not completed on time. Services such as collections and internal management also have used performance contracts for many years.

Recent years have seen the trend toward privatization in human services programs, which is a more difficult arena for the application of performance contracting. It is far easier to determine if the trash is being picked up on the days it is supposed to than to determine if the foster care system is placing children appropriately. Although human service outcomes are often long–term and difficult to quantify within the timeframe of a contract, human services programs have begun to use performance contracting with positive results.

Kettner and Martin (1995) cite five benefits of performance contracting: (1) clear contract expectations; (2) increased accountability and simplified contract monitoring; (3) the freedom to experiment with alternative methods; (4) cost and quality comparisons between contractors; and (5) building of a research and evaluation data base from findings on factors that affect client outcomes. They cite as the main drawback of performance contracting the difficulty in defining "valid, reliable, and generally accepted" performance indicators. Enough is not yet known about which factors contribute to positive human service. .

This chapter draws upon the experiences of six human service agencies to describe how performance contracting can work in a governing–for–results system. The examples are: Oklahoma's Community Rehabilitation Services Unit, North Carolina's Division of Social Services, Illinois's Department of Children and Family Services, Florida's Department of Children and Families, Minnesota's Refugee Services Section, and Maine's Department of Human Services.

Implementing Performance Contracting

There is no single path to performance contracting. These agencies arrived at performance contracting by three different routes: Maine and Florida were directed by the state legislature to begin the process; Minnesota was influenced by federal performance measurement requirements; and implementation in Oklahoma, Illinois, and North Carolina began from within the agency as managers sought to improve program results.

Performance–based contracting consists of four major activities:

- preparation of the request–for–proposal and subsequent contracts;
- measurement of service outcomes, including selection of (a) the specific indicators by which the contractors' performance will be judged, (b) the data collection sources and procedures to obtain that data, and (c) the timing and frequency of such measurements;
- establishment of methods for determining payments (or other rewards and penalties) such as the basic price, future price index adjustments (for multi–year contracts); and
- reporting of the findings on each service provider and each facility (or each office).[12]

Preparing Performance Contracts

All contracts are tailored to the transaction they govern and vary by such characteristics as the amount and timing of payments. Performance contracts also vary in the extent to which incentives and disincentives are offered to service providers and the frequency of providers' reports on performance. A very basic difference is whether or not payment, or at least renewal of the contract, is based on demonstrable results.

Implementation of performance contracting may begin with performance contracts that do not contain specific incentives or disincentives for performance. Instead, these performance contracts are designed to encourage and improve performance by including performance specifications and performance targets. This type of performance contract usually involves a collaborative relationship between the contracting agency and the service provider. The performance targets represent shared goals for contractor and agency, and both have a stake in their achievement.

In the states visited and examples studied, where the impetus for performance contracting came from outside the agency—Florida, Maine, and Minnesota—payment for services was not (or not yet) directly linked to performance. However, in the states where the impetus for performance contracting came from within the agency, the link between performance and payment was integral to the process. North Carolina, Oklahoma, and Illinois embedded financial incentives and disincentives in the performance contract itself.

Florida DCF—Conversion to Performance-Based Contracts

In 1996, a working group of district, program, and administrative staff for the Florida Department of Children and Families (DCF) identified sets of the same types of outcomes for similar providers across the state. A 1998 statute required the Florida DCF to make all its contracts with local service providers performance–based. The legislation created district units that monitor contracts and report to district administrators. Today, DCF has about 1,700 contracts with 1,200 providers. Providers' performance targets are negotiated each year by the department and the provider, and performance specifications and targets are now included in each contract.

DCF encountered several challenges in the conversion to performance contracts. The first year required a great deal of training—state personnel traveled to districts to explain the new contracting procedures, and teach district staff how to write the contracts, which include performance specifications. Another issue in Florida is that performance contracts are generally limited to one year because of the state's budget cycle. Therefore, performance data may not be received until after the end date of a contract, too late for evaluation of provider performance. The department uses reported data from past years, where available, to address existing providers' performance.

DCF is still working on standardizing its contracting procedures across provider agencies and has created a Contracted Client Services unit to help integrate contract management and monitoring. It has not yet seen changes in the outcomes of services, but there has been increased attention to outcomes within the agency. The legislature has provided 49 new positions during the past two sessions to support DCF's efforts. Staff report that the conversion to performance contracts has produced a positive change in the agency's culture.

Performance contracting that ties payments to outcomes tends to have a greater impact in terms of results than performance contracting that does not yet make that link. However, there are benefits from phasing in performance contracting with an initial stage not linked to financial consequences. Once this type of performance contracting system is in place and has been tested through use, it can serve as a good foundation for a transition to performance contracts that links payment or contract renewal to performance and achievement of outcomes.

A hold–harmless period allows contractors time to become acquainted with the concept of performance contracting and to develop confidence in the performance contract before it becomes fully operational. For example, the 1994 legislative act requiring Maine's Department of Human Services (DHS) to make all its contracts performance–based also included a hold–harmless clause for first–year contracts. After that, performance data would be used in award decisions. The Oklahoma example also includes a one–year hold-harmless provision, which the agency found helped allay contractors' concerns.

A phase–in period for financial consequences also allows time for agency staff to receive needed training in performance contracting techniques. As with other components of governing–for–results, implementation of performance contracting requires investments of both time and training.

An intermediate approach to performance contracting does not tie payment directly to performance, but uses performance in future contracting decisions. An example is the Minnesota Refugee Services Program, which uses performance contracting for job training and placement. Contractors agree to a two–year work plan with performance to be achieved expressed in quarterly targets. Quarterly reports track progress, and a contractor who does not meet 80 percent of the target submits a corrective plan, and faces sanctions if the plan does not work. This program was rated one of the six top performers in the country in 1997 by the US Department of Health and Human Services.

Minnesota DHS Refugee Services Section—Contracting Success Story

The Refugee Services Section of the Minnesota Department of Human Services (DHS) began performance contracting with its "mutual assistance associations" in 1990. The performance contracts deal specifically with job placement. Funding and performance measurement requirements come from the U.S. Department of Health and Human Services (DHHS).

Each contractor receives a grant based on the number of clients it proposes to serve and the cost of placement per client. Contractors then submit a two–year work plan that identifies performance indicators with targets for all activities leading to job placement. They set quarterly targets for job placements, clients' average hourly wages, termination of clients' cash assistance due to earnings, job retention, and number of full–time placements receiving health benefits.

Contractors regularly report information on job placements, retention, and related activities and receive a quarterly status report from the program. If performance is lower than 80 percent of the target, providers must submit a corrective action plan within 15 days and implement the plan in the following quarter. If performance does not improve in the next quarter, contractors are placed on probation. If there is still no improvement, they remain on probation and must report to the program on a weekly basis. Annual reviews determine each contractor's second–year budget based on the first year's performance.

Contractors are expected to find jobs paying above minimum wage for their clients and to attempt to upgrade the jobs of clients already placed; 90–day follow–up is required for all job placements, including upgrades. The program supervisor reports that contractors are often able to make placements for below their projected costs. After meeting their targets, they are expected to continue to make placements throughout the contract period.

In five fiscal years (1995 to 1999), the program has increased annual job placements from 591 to 1,136 and expects to exceed its year 2000 target of 1,285. Providers also regularly exceed their targets for clients' average hourly wages, jobs with health benefits, and termination of cash assistance because of earnings.

Developing Performance Indicators

Important aspects of the contracting relationship between government and contractors can improve dramatically as contracting moves from a pay–for–service to a pay–for–performance model. Once both parties are oriented toward achieving program outcomes, they are encouraged to work together toward that end rather than having a strictly contractual relationship focused on adherence to contract specifications for service delivery (Behn 1999). The cooperative posture is most likely to be achieved when the state works with the contractor to first develop the performance indicators and then to help them achieve the performance standard.

For example, the Maine effort emphasizes collaboration with contractors in developing performance indicators. Performance contracting has caused the Maine DHS to change from a predominantly internal contracting process to one that relies upon partnerships with providers to determine the right outcomes to measure. As a result, decisions are no longer all made from the top down.

Maine DHS—Growing an Outcome-Oriented Culture

Maine legislation requires the Department of Human Services to make its contracts performance–based. Every contract must include performance goals, performance indicators, and a strategy for reaching the goals. The legislation also includes a provision for collaboration among people inside and outside the organization, including legislators, providers, consumers, and state personnel.

DHS initially asked providers to develop performance indicators, then worked with them to decide which were the most important. Task forces of eight persons—two DHS staff, two providers, two consumers, and two legislators—were established for each of the 43 service areas to develop goals and indicators for the contracts. Contract officers and program staff served as facilitators to the work groups, changing their roles from mostly administrative to partnering.

Originally, providers had to specify which strategies they would use to accomplish the goals set by the state and how they would measure the indicators established by the task forces. However, it became apparent to DHS that data collection for the indicators had to be standardized. Without standardization, contract officers had difficulty monitoring performance, particularly due to the large number of indicators negotiated in the contract process. Further, many of the indicators lacked validity, adding to the difficulties of interpretation.

Standardization of indicators and data collection procedures was accomplished through lengthy negotiations between contractors and the state, including assistance from the University of Southern Maine's Muskie School of Public Service. The school also trains service providers in the development and use of performance indicators.

Maine does not yet have information on program results, but agency staff report that moving to performance contracting has created a new, outcome–oriented culture at DHS. More program and contract staff are thinking in terms of outcomes, and providers are requesting assistance with data collection procedures for information they need to improve local management practices.

The department has focused equally on the development of process and outcome indicators for its service areas. Although the legislation deals with the impact of state programs on individuals, DHS has not yet reached that level of measurement through its contracts. The first set of performance data were due fall 1999; staff at the Muskie School expected that it would take two to three years for the system to become fully operational.

Applying Performance Standards

Credibility is essential to successful implementation of performance contracting, and for performance contracting to be credible, there must be evenhanded application of performance standards. That can be difficult to achieve in human service programs, particularly in those programs in which the baseline for measuring progress should be the individual client's condition on entry. The states addressed this issue in different ways, but a basic tenet for establishing credibility is involving contractors in developing the performance indicators. For example, Maine worked with contractors to standardize indicators and data collection procedures for particular service areas.

The Illinois Department of Children and Family Services demonstrated evenhandedness by applying the same performance requirements to state employees and private contractors working to find permanent placements for children in foster care. (The contract provisions are described below.) This example combined performance contracting with increased funding to produce impressive results. In the first two years of performance contracting, the Relative Home Care caseload declined by 41 percent.

Illinois DCFS—Incentives to Place Children

The Illinois Department of Children and Family Services (DCFS) wanted to improve the rate of placements for children in foster care. In 1997, with its Relative Home Care caseload, it began performance contracting that tied incentives to promoting increased permanency rates and reducing instability rates for children. The state worked closely with providers in implementing the system. At the same time, the department improved the adoption services it provided to children, such as raising the amount available for reunification services from $600 per child to $8,000 per child.

The department increased the number of cases each caseworker (private or public) must serve per year from 25 to 33, but it held payment constant at 25 cases per year. This policy requires caseworkers to successfully place at least eight children annually through adoption, successor guardianship, or reunification with their families. If caseworkers do not place at least eight children successfully, they may find themselves working on 33 cases while being paid for 25. If the number of children per caseworker exceeds 30, the state may cancel a contract. If caseloads fall below 25 per caseworker, the agency continues to receive payments for the full 25 cases. Children coming into the system are not placed with agencies that are not performing.

In the first fiscal year, the number of placements statewide increased from 2,411 to 5,570; placements per caseload rose from about three to six. In the second fiscal year, the number of placements reached 9,503, or about seven placements per caseload. The majority of these placements have come from the performance–based contracts. Based on this initial success, DCFS decided to expand performance contracting to the Traditional Foster Care caseload in 1998. In the first year, Traditional Foster Care also doubled the average number of placements per caseload from about three to six.

With the requirement for caseworkers to increase the number of placements, one might expect that the quality of the placements could suffer, but the disruption rate after placement is no higher now than it was before performance contracting. Due to the large number of placements, the state has been able to expand the amount spent on postadoption services.

Determining Payment

Linking payment to performance is a simple concept that can be complex in its application to human services programs. The Illinois system described above uses a fixed payment for a caseload that varies depending upon performance. The North Carolina and Oklahoma systems use a multistep process that reflects the multiple steps required for a successful outcome. For example, the Division of Social Services in North Carolina's Department of Health and Human Services initiated statewide performance contracts with private adoption in 1995. Private adoption agencies that place children with special needs worked with the state to develop a payment schedule that allows them to bill the state on a monthly basis when they have achieved the following three outcomes:

- placement for the purpose of adoption (60 percent of average placement cost);
- decree of adoption (20 percent of average placement cost); and
- one year of intact placement after the decree of adoption (20 percent of average placement cost).

This approach has proven effective, and North Carolina has seen the number of hard–to–place children who are adopted each year more than double – increasing from 261 to more than 600.

The Community Rehabilitation Services Unit of the Oklahoma Department of Rehabilitation Services (DRS) has designed the six–step Milestone Payment System, which it has been using since 1992 for its job placement program. The performance contracts are calculated based on an expected drop–out rate, and the percent paid for completion of each step increases as the client moves through the process. If the drop–out rate is smaller than expected, the provider receives a higher than expected payment. Conversely, if there is a higher-than-expected drop–out rate, the provider receives less compensation. Implementation of the Milestone Payment System has brought about cost savings for both the state and the service providers.

The Oklahoma DRS Milestone Payment System

The Community Rehabilitation Services Unit of the Oklahoma Department of Rehabilitation Services (DRS) began its performance contracting system, the Milestone Payment System, in 1992. The state now pays contractors at predefined milestones, when increments of predefined outcomes have been completed. Contractors submit bids for the average cost per client of the following accomplishments, the last four of which are client outcomes:

– Determination of consumer needs (10 percent of bid);
– Vocational preparation completion (10 percent of bid);
– Job placement (10 percent of bid);
– Four weeks' job retention (20 percent of bid);
– Job stabilization (10 to 17 weeks of employment with fewer than two support contacts per month, depending on the type of disability) (20 percent of bid); and
– Consumer rehabilitated (stabilization plus 90 days) (30 percent of bid).

Contractors are paid a percentage of the total average cost of closure per client at each of the six milestones. They bill DRS when they achieve individual clients' milestones. Incentives for creaming are reduced by making higher payments to providers for serving difficult–to–place clients. Clients and their families are involved in setting objectives for employment during the assessment phase. Customer and employer satisfaction after the job stabilization milestone is required for the final payment.

The program reports that providers' costs per placement declined 51 percent between 1992, when performance contracting began, and January 1997, when the transition was complete. The last group of contractors to switch to performance contracting showed an additional 12 percent decline. The average number of months clients spent on waiting lists was decreased by 53 percent, from 8.14 months under the hourly system to 3.85 months under Milestones, and the average number of weeks spent in assessment declined from 12.1 to 9.9, a drop of 18 percent. The number of individuals who never got a job fell by 25 percent.

The system faced some challenges, including developing operational definitions of outcomes for making payments and getting contractor staff to adopt a philosophy of working for client outcomes.

Reporting Results for Better Collaboration

A collaborative relationship between contractor and contracting agency is a crucial aspect of successful performance contracting. Good communication and shared information support collaboration. The program supervisor for the Minnesota Refugee Services Program, which requires quarterly performance reports from contractors, attributed the program's effectiveness to open communication between the state and contractors, the state's monitoring efforts, and the willingness of state staff to provide timely technical assistance.

The performance contract specifies which performance indicators are to be reported and how often. A collaborative relationship means that the contracting agency has the responsibility to use those indicators to help its contractors. All of the programs that have tied financial consequences to performance have some form of periodic reporting. Minnesota requires quarterly reports, North Carolina and Oklahoma build in periodic reporting by using interim performance targets, and the Illinois Department of Children and Family Services regularly provides the public and private agencies under performance contracts with comparative data that rank each agency on performance. Agencies are also given the opportunity to first review, then reconcile their numbers if they disagree with the state's account.

Table 5.1 illustrates some "best practices" in performance contracting that program staff who designed the systems described here believe to be important to successful implementation of performance contracting. Four of the six best practices refer to reporting and feedback practices.

Table 5.1 Positive Attributes of Performance Contracting in Six State Agencies

	Oklahoma	North Carolina	Illinois	Florida	Minnesota	Maine
Involves Contractors in Developing Performance Standards and Outcome Targets	X	X	X	X	X	X
Allows a Hold-Harness Clause in First-Year Contracts	X					X
Monitors Performance with Regular Reporting of Performance Data by Providers	X	X	X		X	
Provides Feedback on Performance and/or Requires Corrective Action Plans	X	X	X	X	X	
Provides Comparative Performance Data to Contractors			X		X	

In Summary

Although imperfect and under development, performance contracting has shown positive results for the programs we encountered. Oklahoma, Illinois, and North Carolina are showing impressive gains. Minnesota, which does not tie payment to outcomes, has improved its results by requiring target setting and regular reporting from contractors. Maine and Florida, which initiated performance contracting in response to legislation, are attempting agency–wide implementation, and their results will bear watching.

In figure 5.2, below, data are presented from three of the examples. In each case, the performance of the programs increased significantly after the introduction of performance contracting, although other factors—notably increased funding in Illinois—may also have influenced performance.

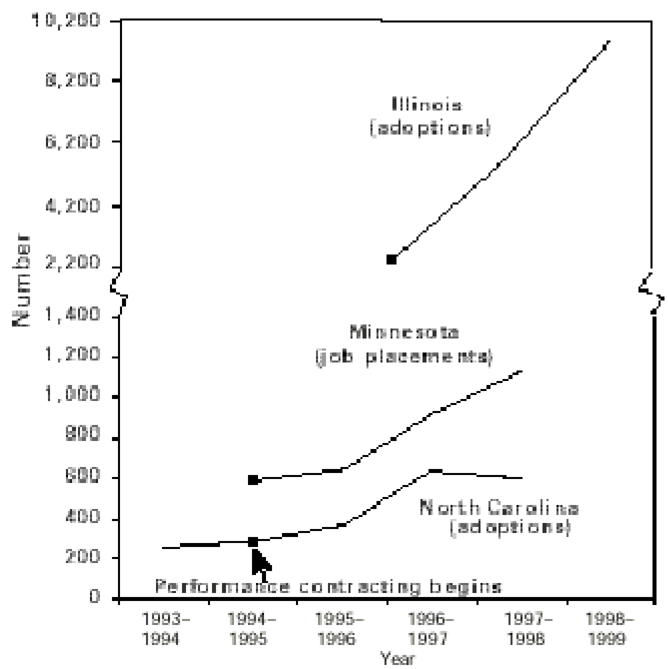
The consistent theme in successful examples of performance contracting is collaboration between agency and contractor, based upon the understanding that both have a stake in successful performance.

- Collaboration begins with involving contractors in development of performance indicators and payment schedules. It may include a hold-harmless period before financial consequences are attached to performance.
- Once the contract or grant is made, the agency works closely with service providers to monitor progress, identify difficulties in service provision, and learn about changes in the client population that will affect performance.
- Consistent communication and feedback on performance, including comparisons where appropriate, help to promote accountability and maintain contractor motivation.

The benefits of performance contracting can extend beyond immediate program impacts. Each implementation of a new governing–for–results system component strengthens the system and can identify planning or programmatic issues. For example, when the Florida Department of Children and Families began using performance contracting, the department encountered some difficulty in matching the collective targets of the local contractors to overall agency targets, because some local contractors were serving populations not represented in state DCF agency goals.

Figure 5.2

Performance Contracting Experiences in Two Service Areas, 1993 to 1999



Note: For Illinois, adoptions include placements made through adoption, successor guardianship, and reunification with families. North Carolina's placements include adoptions only. Further work is needed to establish cause and effect.

Chapter 6: Promoting Local Governing–for–Results

A state's implementation of governing–for–results extends to its interface with local government. In fact, much of the new ground in governing–for–results has been broken by local governments. Charlotte, Austin, Portland, Phoenix, and Jacksonville, for example, have implemented sophisticated governing–for–results systems—particularly in the area of citizen participation. Citizens participate more actively at the local level, and local governments are proportionately more involved in providing direct services to citizens. However, many local governments lag in the application of governing–for–results techniques.

States have a role and a strong interest in promoting more widespread application of governing–for–results at the local level. In program areas where local government often acts as the service delivery arm for the state—K–12 education, environmental programs, health and human services—governing–for–results practices strengthen accountability and focus efforts on results. On a more general level, governing–for–results performance measurement provides a common language for local government, the level of government closest to the citizens, to communicate with citizens and enhance citizen participation.

Local Involvement in Statewide Measures

According to Melaville (1997), localities are where priorities must be set and solutions owned and implemented. State–initiated efforts need to consciously encourage localities to adopt or adapt statewide measures and to incorporate these measures in their own strategic planning. States have the resources and bear the full burden of accountability; they also have the capacity to resolve policy barriers that may impede progress. Wherever they are initiated, results–and–indicators frameworks can provide the glue to create—not mandate—equitable state and local partnerships.

This chapter looks at the state role in encouraging implementation of governing–for–results by local government to improve operations and to communicate with citizens. It describes the tools and techniques that states are using to promote the use of performance measurement at the local level. We have attempted to obtain feedback from local government and state government people as to the advantages and disadvantages, pros and cons, of various approaches.

Encouraging Results–Based Local Government Practices

States with advanced governing–for–results efforts lead by example in the implementation of results-focused governance. States also make conscious efforts to promote local government application of governing–for–results practices—to focus on results, not just on activities. These state efforts use four types or categories of intergovernmental tools—mandates, incentives, technical assistance, and public information. Table 6.1 lists the categories of tools and the most frequently used techniques for each.

Table 6.1
Tools and Techniques for Encouraging Local Implementation of Governing-for-results

TOOL	TECHNIQUES
Mandates	• Regulations • Performance Contracts
Incentives	• Financial Awards • Increased Flexibility/Management Autonomy • Recognition/Praise
Technical Assistance	• Best Practices Information • Consultant Services • Training
Public Information	• Comparative Performance Reports • Required Reporting to Citizens

Mandates—Shifting Focus to Outcomes

Local governments may not like them, but mandates are widely used to require a given activity or a minimum level of service. Local governments—counties, in particular—act as service delivery arms of the state in, for example, health, human service, and education programs. State regulations govern a great deal of service provision and increasingly, require performance measurement. Similarly, environmental concerns have led to state (and federal) regulations that can restrict local autonomy in land–use decisions and require certain activities, such as land-use planning to protect water resources.

Governing–for–results shifts the focus of mandates from activities to the outcomes of activities and in doing so, can make the mandate more palatable. Mandates that focus on outcomes can ensure accountability while allowing local initiative to meet the standards in a manner compatible with local conditions. Local governments generally consider this approach less onerous, and it appears to be more effective. Mandates that speak to outcomes include results–focused regulations, performance contracts, and citizen charters—now called Service First—as used in the United Kingdom. These techniques are described in table 6.2.

Incentives and Assistance

When asked how state government should encourage a results focus among local governments, local officials are likely to suggest incentives—primarily financial incentives. In Minnesota, the state has tied a portion of state revenue sharing funds to local use of performance measurement. However, there has been little follow–up, and it appears that this effort has served mainly to introduce the performance measurement concept to local governments. More often, incentives are specific to a program, and states reward service providers that are the "most improved" or "top performers" on key indicators.

Nonfinancial incentives include allowing a local government with consistently good performance greater latitude in deciding how to accomplish a desired outcome. This is consistent with the trend toward an outcome focus for mandates, but in this case, only the better performers are allowed flexibility. Finally, recognition of outstanding performance is an effective incentive in the public sector, where few people are "in it for the money" and regulations can inhibit the use of financial rewards.

The flip side of incentives is penalties. Fear of penalties underlies much opposition to performance measurement among program managers. The more constructive response to poor performance is analysis of the causes followed by assistance to help the poor performer address those causes. For example, the North Carolina ABC Program, which provides financial incentives to teachers at the most improved schools, sends in teams of educators to help teachers at consistently low–performing schools.

Table 6.2.
Outcome-Focused Mandates

TECHNIQUE	APPROACH
Results-focused regulation	Specify what the local government is to achieve rather than detailing how it is to proceed. For example, Oregon transportation planning rules for local governments include performance indicators and allow the local government either to (1) adopt the rules developed by the State or (2) do something else that is likely to get a similar or better result.
Performance contract	Specify what outcomes must be achieved in order to receive payment, thus extending the results focus of a state program to the local government that is actually providing the services. (Performance contracting is described in detail in Chapter V.)
Citizen charter	Combine aspects of performance contracting and what in the United States is called a customers' bill of rights. The charter denotes the service quality and outcome indicators that the agency tracks, and identifies the agency's obligations to the citizens relating to these indicators (such as response times for responding to requests for services or complaints). The charter is prominently displayed in a public location.

The Technical Assistance Difference

Governing–for–results, especially performance measurement, is new to many local jurisdictions. Probably the most common reason for a local government to not use governing–for–results techniques is lack of knowledge or capacity. The second most common reason is fear of consequences when the results are negative or less positive than expected. The state can address both concerns with technical assistance that includes training and best-practice examples from localities that have had success.

Minnesota has been active in helping local governments learn how to implement performance measurement. The state provides matching funds for local governments' membership in the International City/County Management Association (ICMA) comparative performance measurement project. The Minnesota Legislative Audit Committee has published reports of local government best practices in arenas as disparate as snow removal and 911 response, which were uniformly praised by local government officials we interviewed. The Minnesota Department of Human Services hired a highly respected consultant to work with counties on performance measurement in human service programs.

Technical assistance to counties, cities, and towns on performance measurement helps them first interpret what performance measurement is all about, and then to get started and do a good job. By providing technical assistance, the state becomes a partner in the local effort. Conversely, inadequate or nonexistent technical assistance undermines local government compliance with state mandates and maximizes resistance. State regulators can find themselves in the position of "pushing on a string," and local resistance alone or in combination with political backlash eventually erodes mandates' effectiveness.

Florida DCA–Technical Assistance Upfront

Florida's experiences with land–use programs illustrates the importance of providing technical assistance to support mandates. 1985 Florida legislation mandated that local governments produce local comprehensive plans (LCPs) designating land uses consistent with the State Comprehensive Plan and regional policy plans by 1988 . The Department of Community Affairs (DCA) was given responsibility for reviewing the LCPs but not given additional staff to do the job. When local governments requested assistance in LCP development, DCA could not spare the staff to help them.

The LCP results have been widely criticized. Numerous inconsistent and inappropriate land uses slipped through due in part to work overloads. Also, the review process was centralized in the Tallahassee office, and few reviewers were familiar with the areas covered by the plans they reviewed. Finally, the lack of technical assistance hindered local efforts to comply with the mandate and created frustration among local governments.

DCA learned from the LCP experience and has initiated a Sustainable Communities Demonstration Project as an alternative and a successor. Sustainable Communities will *provide technical assistance upfront to avoid some compliance problems that otherwise would have to be dealt with in the review process.* The Sustainable Communities project also adds incentives to the LCP mandates and has monitoring and evaluation built in. Local governments get a software program that enables them to use indicators to measure progress toward LCP goals—plus state–funded technical assistance from the software vendor.

The Sustainable Communities demonstration program is proving successful. DCA sees the next step as expanding that approach in order to develop a system of local plans that focus on issues important to the state.

States that offer technical assistance find that local governments are anxious to learn and apply governing–for–results practices. A key finding from site visits is that once local governments integrated citizen participation into governing–for–results in one arena, they applied that strategy elsewhere. This occurred in Minnesota after the Department of Human Services provided technical assistance to county human service offices. One of the participating local governments, Dakota County, has applied the lessons learned about performance measurement systemwide. This "spread effect" demonstrates that local governments have found these governing–for–results techniques beneficial and points to an important state role in introducing local governments to performance measurement.

A similar spread effect occurred in North Carolina as a result of the Performance Measurement and Benchmarking Project (PMBP). The North Carolina Institute of Government staffed the PMBP, helping cities and counties assess their service provision in selected areas. The PMBP has helped participating cities and counties understand performance measurement and applicability to local government service provision. It also has produced workshops to guide nonparticipant local governments through the process, because best practice information is more powerful when coupled with training and technical assistance for those who want to implement the model.[13]

Public Information Empowering Citizens

Reporting performance to citizens puts pressure on local governments to perform well on the indicators being reported. Thus, when a state has used public information to promote a local focus on results, the choice of indicators deserves careful thought. A performance report should present information that is fair, accurate, and complete. For example, information on local property tax rates tells only half the story; that is, what citizens pay. The other half of the story is what taxpayers get for their money, and the number and quality of services can vary widely from one jurisdiction to the next.

It is difficult to judge performance without the context provided by comparisons with other programs or jurisdictions. Comparison makes performance measurement information more meaningful, but to be valid, comparisons across jurisdictions must be based on common definitions. Developing common definitions has proven to be a complex job and one best done with extensive local government participation. (The state may choose to fund that activity by local government or professional associations.)

The North Carolina Institute of Government spent a full year working with cities to develop common definitions for the PMBP. This upfront investment was necessary to produce high–quality best practice and cost information, including unit cost figures, for comparisons across jurisdictions in just three municipal service areas—police, solid waste collection, and street maintenance. When the project staff repeated the process for a set of county services, it took less time, and the third phase—mid–sized cities and counties—went quickly. Lessons learned in North Carolina and by the ICMA, which has a national comparative performance project, can help others develop common definitions.

Comparative performance reports put pressure upon lower–performing jurisdictions. In Minnesota, there have been complaints from metropolitan counties, which tend to offer the most extensive services, that state rankings of service costs were not valid because there were no common definitions of services or performance indicators. Still, Minnesota local governments have become more active in performance measurement—if only, as one official explained, to tell their side of the story.

States may require local governments to report performance directly to the public. This is a less popular approach, probably because the state loses control over data quality. If this approach is taken, the state should establish minimum quality criteria for indicators. Required performance reporting is also a tool for encouraging local government to use performance measurement to communicate with citizens, which is discussed later in this chapter.

Whether the state analyzes and reports local data or requires the local government to report the data, the contribution to communication with citizens depends on performance data that is readily accessible. Accessible means not only available and widely publicized, but also clear and easily understood.

Multi–Tool Approaches

The most effective state efforts to promote results–focused local government combine a variety of tools. A state–local government measurement, reporting, and action approach appears applicable to any service or program for which a state agency provides significant funding support to local governments—health and social service agencies, education agencies, environmental protection agencies, and employment and training services. It combines (1) mandates in the form of regulations and possibly performance contracting, (2) technical assistance through training and best practices reports, (3) incentives for superior performance and assistance for weak performers, and (4) public information via comparative performance reports.

Figure 6.1 presents a model approach used by the North Carolina Division of Women's and Children's Health, and in numerous states' education departments.]

Figure 6.1
A State-Local Government Measurement, Reporting, and Action Approach

- The state agency and representatives of local agencies jointly select a set of outcome indicators for the program; e.g., low-weight birth rates, employment rates six months after completing training programs, students' scores on national tests, water quality, industry pollutant emissions, etc.
- Local agencies provide the state agency with periodic (monthly or quarterly) information on each indicator.
- The state agency tabulates the periodic data and provides local agencies with summary data for each outcome indicator and with comparisons with comparable local agencies.
- The state agency provides technical assistance to low-performing local agencies -- perhaps through consultation with high-performing agencies.
- Annual comparative performance reports are made available to service providers, citizens, citizen groups, and the media.
- The state agency and representatives of local agencies sponsor an effort to identify best practices and disseminate them to all local agencies. Technical assistance is offered to help others adopt the best practices.

The multi–tool approach is also the strongest model for regulatory programs. The regulate, assist, monitor, publish model helps local governments RAMP up to meet state mandates. Oregon, for example, has found this an effective approach in its state–mandated land–use planning program, and the Florida Department of Environmental Protection uses the first three steps, while remaining cautious about publicizing environmental information that might be misinterpreted by laymen. Figure 6.2 describes this model.

Figure 6.2
The Regulate, Assist, Monitor, Publish (RAMP) Approach

- State regulations require local actions consistent with state goals or standards.
- Technical assistance explains exactly what is required and how it can be done; financial incentives promote compliance, if the effort will be costly.
- The state gathers data and helps local government monitor progress toward desired outcomes.
- The state publishes comparative reports, which put additional pressure on local government to comply in a manner that moves toward desired outcomes.

The Oregon DCLD–Putting the Carrot before the Stick

DLCD takes a results–based approach to regulation and supports it with technical assistance, persuasion, and financial incentives in the form of grants to local governments. The last tool used is the regulatory stick. Experience has shown that technical assistance is the most effective tool, followed by the regulatory stick lurking in the background, and then financial incentives. DLCD technical assistance is extensive. It has developed a model zoning code for small cities, and a handbook for city recorders (clerks) to use in zoning situations. It contracts with consultants to provide local government with technical assistance in complying with planning requirements. The community outreach program has developed slide shows and will provide consultants with the required expertise to speak at community meetings.

DLCD publishes annual reports of building permits by unit type and density for each county for the current and several preceding years. However, the reports do not include analysis that would make the information more meaningful to citizens. How that can and should be done is illustrated by the report of the Willamette Valley, which was produced in response to legislative inquiry and is an excellent example of performance reporting (Oregon Department of Land Conservation and Development 1999).

Encouraging Local Governments to Use Performance Measurement to Communicate with Citizens

States encourage citizen participation by (a) reporting directly to their citizens and citizens groups and encouraging their involvement at the state level, and (b) in encouraging local governments to report to citizens and involve them in local governmental affairs. Examples of states encouraging local governments to communicate with citizens using performance measurement are harder to find than are examples of states promoting local accountability through performance measurement. Still, the examples found on our site visits suggest that while the state role is not large, it is pivotal. The state gets the ball rolling.

States encourage local governments to use performance measurement to communicate with citizens in three ways: (1) leading by example, (2) providing technical assistance, and/or (3) mandating performance reports.

Leading by Example

A good state example can inspire local efforts to improve communication with citizens, using performance measurement. Few citizens are interested in traditional financial reports or reports that only identify outputs and discuss agency activities. To reach an audience outside government, some state agencies have begun to experiment with livelier formats for reporting performance data. Examples include statewide quality of life reports— Minnesota Milestones, Florida's GAP Reports, and Oregon Benchmarks—as well as individual agencies' short, eye–catching publications for citizen consumption such as the Minnesota Pollution Control Agency Performance Report.

Local governments are most likely to emulate a state performance report when the performance indicators included are relevant to local issues and available for individual jurisdictions as well as for the state as a whole. *The Oregon Benchmarks* has inspired more than a dozen Oregon communities to initiate their own benchmark projects. Local jurisdictions also are choosing to emulate the state of the nation and state of the state reports by issuing annual "state of the city" or "state of the county" reports to their citizens—frequently as a tabloid insert to the local newspaper.

Providing Technical Assistance

The value of the local benchmark or state of the city/county reports in communicating government performance to the public depends upon the choice of indicators and the quality of the underlying data. This points to a state role in providing technical assistance. Discussions with local officials revealed that local governments want state help in providing accurate data, and some states are doing this. The Oregon Progress Board, which is responsible for maintaining the benchmarks, has helped local governments with their benchmark projects, and some benchmark data are presented at the county level.

States can encourage local performance reporting through technical assistance with data collection and analysis—even when communities want performance indicators or best practices information not included in state reports. The NC Institute of Government staff helped identify best practices for a Winston–Salem citizens committee that was assessing municipal service provision. By responding to local priorities in data collection, the Institute staff provided technical assistance that the city staff described as invaluable.

Winston–Salem, NC—Citizens Efficiency Review Committee

Winston–Salem property tax rates are relatively low, and the city is one of only two US municipalities with a triple-A bond rating from all three national rating services. Still, citizens soundly defeated two referendums backed by local government—infrastructure bonds in 1997 and a stadium proposal in 1998. The mayor and several incumbent aldermen lost in the next election. Clearly, the citizens were not satisfied with the performance of their local government.

The new Board of Aldermen established a Citizens Efficiency Review Committee (CERC) to assess city services, identify the basis for each city function, and recommend continued city operation, in–house changes, or privatization.[10] At its first meeting, the CERC steering committee requested benchmarking and best–practice data. The City provided information from the NC Performance Management and Budget Project plus the Annual Performance Reports (APRs), which each department prepares for the City Manager. The NC Institute of Government provided best practices information.
The CERC members also wanted to know how citizens felt about city services, and so in addition to public meetings, Winston–Salem conducted its first general survey of citizen satisfaction in twenty years. The results were generally positive, and city officials described the information as valuable.
(See City of Winston-Salem Citizen Satisfaction Survey Final Report http://www.ci.winston-salem.nc.us/ooe/final/sld001.htm)

The CERC process has involved and educated 140 citizens, including some who had been extremely critical of city government. Learning more about the operation of their municipal government has led to a more positive perspective.
CERC information requests have pushed the City to improve its performance management and to survey its citizens. Winston–Salem has publicized the survey results, put them on the city web site, and plans to conduct regular surveys.

Citizen surveys are another valuable source of information about local government performance. Citizen surveys provide valuable information at a reasonable cost and are a good starting point for local governments seeking to improve communication with citizens. They help produce trend lines of opinions when questions are repeated over time. Although we found no examples of state efforts to promote more citizen surveys by local governments, it appears to be a reasonable option.

Mandating Performance Reports

State legislation or agency policies can require, or encourage through incentives, that local government agencies report outcome data to their citizens. State and federal governments have long required citizen participation in specified planning processes that use outcome data. Mandated citizen participation is most effective for promoting governing–for–results when the mandate goes beyond requiring, for example, public hearings, to also require provision of relevant information in an easily understood format.

This approach is described under the "Public Information Empowering Citizens" heading on page 67 and is incorporated in the models for promoting local governing–for–results approaches to program implementation presented in figures 6.1 and 6.2.

As in other applications, mandates requiring public reporting of performance are more effective when combined with technical assistance to help achieve compliance. For example, local concerns about mandated public reporting can be alleviated if there is internal monitoring with reports at more frequent intervals to identify low performers and technical assistance to help them improve.

In Summary

States lead by example in implementation of governing–for–results. States also use mandates, technical assistance, incentives and public information to promote governing–for–results by local governments and to encourage local government to communicate with citizens about performance. Technical assistance appears to be the most effective tool. By providing technical assistance, the state takes a partnership approach to promoting local government activities consistent with state goals. This is particularly desirable when the state wishes to encourage local performance relative to subjective goals, such as reducing urban sprawl.

Even more powerful is a combined approach with technical assistance as the centerpiece. The tools can be combined into a State–Local Government Measurement, Reporting, and Action model for service delivery programs. A good model for regulatory programs combines carrot and stick—regulation, assistance, monitoring, and public information. An effective approach for promoting the use of performance measures to communicate with citizens combines required reporting with technical assistance to help low performers.

Where states provided technical assistance for local governments' use of performance measurement, the experience and expertise gained provided the foundation for broader performance measurement projects and for involving citizens in governing-for-results. When asked about a state role, local staff consistently referred to technical assistance in performance measurement that had been provided through the state.

There is neither one right way nor one sufficient way to involve citizens in governing for results. Large jurisdictions need more structured approaches; for example, working through neighborhood organizations rather than directly with citizens. Localities that actively seek citizen participation use multiple avenues to seek citizen input, and the effort to increase citizen involvement is waged on several fronts. The Jacksonville (Florida) Community Council Inc. and the Minnesota Citizen’s League demonstrate that nongovernmental organizations can play a key role in providing performance information to citizens.

Chapter 7: Unresolved and Evolving Issues and Trends

The movement toward governing–for–results has evolved in fits and starts over the last several decades. Today, it is reaching all the way from the nation's capitol to city hall — and to many nongovernmental organizations that provide public services directly or under contract to governmental agencies. Expanded application of results–based practices is supported by ongoing advances in information technology, with an emerging consensus on how governing–for–results can be implemented. Still, even in those states that are well ahead of the pack, the practice of governing–for–results is a work in progress.

Governing–for–results appears to be a culture shift within public administration and management. This does not mean that all parties are rushing to embrace results–based practices. Change is not always welcome, especially among those who have mastered the status quo. Moreover, important technical and political issues related to governing–for–results remain unresolved. At the most basic level are political issues arising from the impact of widely available performance information upon interactions between citizens and government, among the three levels of government, and between the legislature and executive branches. How best to communicate performance results to varied stakeholders is a related issue.

Technical issues surround application of governing–for–results practices. In every state, there is undoubtedly some manager in some agency who is applying results–based practices in an effort to improve program performance. Our investigation of state practices found that a systematic approach is more effective and produces a more robust result, but we did not find a completely implemented system in any of the states we visited.

Governments must find the resources to pay for developing, implementing and monitoring a results–based system. In complex arenas, it is difficult to develop performance indicators that measure progress fairly . It is perhaps equally difficult to keep the number of all the systems' performance indicators under control. It is also a challenge to introduce the concept of performance awards into the public sector, where past efforts have been geared toward removing subjectivity in dealing with personnel.

As noted at the beginning of this report, the early development of governing–for–results techniques and practices evolved mostly from independent invention. Governments learned from their own experience and the experiences of others. The shared learning continues. This concluding chapter describes areas where more learning is most needed—the unresolved issues and the trends that face governments seeking to become more responsive and more effective through the implementation of governing–for–results.

Aligning Federal, State, and Local Performance Measurement

Programs that involve more than one level of government in funding or administration may face multiple requirements for performance information. Federal agencies have begun requesting or requiring feedback from grantees concerning outcomes. It is a continuation of the long–standing practice of federal agencies to set out requirements and conditions for states and localities that receive federal funding for programs and projects. But it is a big change for states to report on progress toward results, not merely inputs and outputs back to funding agencies.

In 1999, the National Conference of State Legislatures reviewed the federal agencies requiring feedback in the form of performance indicators. Ten were highlighted in a report to the Urban Institute (Snell 2000). They were

- Maternal and Child Health Bureau, Title V Performance and Health Outcome Measures
- State Children's Health Insurance Program
- US EPA National Environment Performance Partnership Program (NEPPS)
- Adoption and Safe Families Act of 1997—State Performance Measurement
- Temporary Assistance to Need Families Act of 1996 (TANF)—Performance Bonuses
- Welfare–to–Work Bonuses for State Performance
- Workforce Development Performance Measures Initiative
- Workforce Investment Act of 1998 Requirements for State Performance Reporting
- National Highway Traffic Safety Administration—State and Community Highway Safety Grant Program
- Office of Post–Secondary Education—State Reports on the Quality of Teacher Preparation

This trend toward using performance indicators that reflect end outcomes appears to be a direct result of the Government Performance Results Act of 1993. Federal agencies need performance information from grant recipients in order to report the agency's performance to Congress. As a result, federal agencies increasingly are requiring regular reporting using performance indicators, often accompanied by minimum performance standards for various activities. In some instances, states are adding their own performance indicators to federal requirements in the grants they administer and pass through to local governments as well as to government contractors. Unless the various performance measurement systems are coordinated, which requires agreement from the different interests, multiple requirements for performance reporting will place a needlessly heavy burden on program administration.

Coordinating performance measurement systems not only helps avoid performance indicator overload, but also produces positive impacts. Federal grant programs have introduced performance indicators that state agencies find valuable in assessing progress toward end outcomes. Performance partnerships have been formed between federal and state agencies, notably between the United States Environmental Protection Agency and its state counterparts. Other federal agencies have entered into agreements that, while not formal performance partnerships, actually provide the same kinds of information to all interested parties. These partnerships are far from trouble-free, but they suggest the future path for governing–for–results in intergovernmental programs.

Adjusting Performance Targets for Degree of Difficulty

The difficulty of achieving a goal usually is reflected by the distance between the starting point and that goal, or the sheer complexity of some program objectives, such as assisting a multiproblem family. A performance measurement system is challenged to accommodate these difficulties.

When measuring performance, adjustments are sometimes made for difficulty, whether through statistical techniques or by grouping service units with similar difficulty levels. The latter procedure has been used by the North Carolina Department of Public Health's Division of Women's and Children's Health. Service providers are grouped according to demographic characteristics of clients served to promote a fair comparison within the groupings. Each is ranked within the groupings according to their performance on a set of four indicators.

Other agencies such as the N.C. Department of Public Instruction have chosen not to group according to demographics because they don't want to suggest that one group of students has less potential than another Professionally endorsed performance standards are sometimes adopted to add authority or veracity to performance targets for individuals or groups. In recent years this has been a primary vehicle for elected officials concerned with student performance, but the issues surrounding national or professional standards have been abundant and remain unresolved.

Providing Incentives and Rewards to Individuals and Agencies

The connection between performance and finances is among the most difficult links in the governing–for–results system, but it is crucial. It occurs between executive and legislative branches in the context of performance budgeting, and at the individual level between supervisors and employees.

Monetary rewards and penalties can be used by states to get agency personnel to (a) take the performance information seriously and (b) use performance information to monitor and improve programs. The use of performance incentives for public agencies and public employees, particularly monetary incentives, appears to be very attractive to many elected officials, especially those coming from the business sector. From a business perspective, providing financial rewards or sanctions to agencies or individual employees for good or poor outcomes, respectively, seems a natural means to help motivate public personnel.

State and other levels of government face numerous difficulties in applying monetary incentives to their agencies and employees. Public employee organizations are rarely supportive. Other difficulties include: (a) finding adequate funds to provide the awards; (b) identifying meaningful, measurable indicators to use as an objective basis for determining who should get the awards, and (c) the limited influence public employees often have over important outcomes. State personnel evaluations that focus on results, not solely on activity, represent a sea change. Civil service systems were set up to counter abuses in public employment, and efforts to introduce "subjective" judgements raise suspicions among employees, particularly where they cannot see themselves as having control over the desired outcomes.

A frequently cited concern about incentives and penalties centers on fear of sanctions for program failures. If program outcomes do not reach expectations, managers fear that fund reductions could occur automatically. In reality, many factors and circumstances could call for substantially different actions, such as adding, rather than withdrawing, funds if investigation reveals that a program has faltered due to inadequate resources. Previously cited examples from Florida's departments of Law Enforcement and Environmental Protection show that this concern can be addressed.

Despite difficulties, states are moving ahead with rewards and sanctions. Florida legislation provides for monetary rewards for outstanding performance. Four agencies have qualified, but so far, only one has chosen to participate. The Florida Department of Revenue earned one–half of one percent of its annual salaries by performing above the expected target on two out of three selected indicators. The extra funds may be used for employee bonuses.

Texas legislation provides state agencies a wide, quite comprehensive, range of incentives, including both monetary and nonmonetary incentives, such as

- increased funding,
- exemption from reporting requirements,
- increased funding transferability,
- formal recognition or accolades,
- awards or bonuses,
- expanded responsibility, and
- expanded contracting authority.

Sanctions for performance failures include the reverse of the above items and "recommendation for placement in conservatorship, and direction that a management audit be conducted or other remedial or corrective actions be implemented." (Texas General Appropriations Act, sec. 9-6.39 (c) (2). In Louisiana, legislation permits agencies to retain unspent balances at the end of the fiscal year if they have performed well.

The introduction of incentives to state contractors, grantees, and authorities or boards such as those of school systems, has achieved broader success. Particularly in higher education, states are testing performance funding; that is, paying for results. Experience gained in these programs and in performance contracting can help governments learn how to apply performance standards to a broader array of programs and to their own employees.

As the implementation of rewards and penalties moves forward, those involved must recognize the danger of unintended consequences, akin to "teaching to the test."

This places an additional burden to develop performance indicators that can determine when rewards are appropriate for outstanding service, and at what level.

Investing in Governing-for-Results

Implementation of governing–for–results requires an investment of public resources at the outset that may not pay off for several years. The more successful governing–for–results efforts have been supported with early and continuing investment in training and technical assistance. Consultants, academics and agency personnel with previous experience in governing–for–results are valuable resources who can be enlisted to provide basic and refresher training for each agency as it moves into the results–based practices. Some form of ongoing technical assistance helps agencies as they become significantly involved in the new practices and procedures.

In North Carolina, the Institute of Government at the University of North Carolina at Chapel Hill has been instrumental in training state agency personnel as well as local government representatives in the basic methods and processes of governing–for–results and performance management. The Lyndon B. Johnson (LBJ) School at the University of Texas in Austin provided similar assistance to Texas agencies. Qualified consultants in Florida and Minnesota were closely involved in designing performance measurement and reporting processes as well as in training agency personnel in their use.

A key part of the initial investment in training and technical assistance is developing consistent definitions for use by all agencies in communicating with the state's appropriations and budget committees, among others. Elected officials may appropriately object if varying definitions are used among state agencies. A central agency, such as the state budget or management office, the state auditor, or the legislative budget office is well positioned to work with legislative and executive branch officials to develop consistent definitions. This is especially useful when more than one agency is involved in bringing about a desired end outcome.

Investment in governing–for–results is ongoing because the performance measurement system, like any other database, requires maintenance to ensure that data quality and timeliness do not deteriorate. There are likely to be natural cycles for reporting performance information in many agencies. It is generally accepted that one year is a minimum period for reports, and that for most program areas a quarterly report produced within about 30 days of the end of the quarter may be appropriate. Some program staff may find that even more frequent reports are easily produced and helpful to agency managers.

In many states there are time–honored, entrenched procedures and routines that have been designed to meet professional standards for accounting practices. Performance budgeting and contracting, for example, may require substantial revisions in the state's accounting methods, some of which may be subject to major debate between branches of government or within branches. Budget reform is costly to implement.

Communicating Performance Results

Reporting the appropriate level of performance data to both the public and agency officials is an ongoing balancing act. Aggregating data into ever–broader categories as one moves up the chain of command is normal, but aggregating to the state level rather than providing local data can greatly reduce relevance to most citizens. Matching citizen and interest group objectives with the most appropriate outcomes and their supporting performance indicators is usually easily accomplished. Unfortunately, it is also easy to provide too much detail or irrelevant data. A performance report's first job is to be read.

North Carolina has been so thorough in its performance effort that 10,000 indicators are being used to measure agency progress, although some of the state's officials acknowledged that probably no more than 1,500 these were actually performance indicators. Even the smaller number may seem mind–boggling to officials and citizens alike, defeating the purpose of managing–for–results. Oregon, by contrast, expended substantial effort to reduce its benchmarks, which had grown to more than 300, to 92, realizing that the smaller number would be more effective and useful.

The manner of presentation can be just as important as the frequency or level of detail. Attractive graphics and explanatory breakouts of data by region, sub–topic, or demographic groups usually help both in conveying information and in understanding aspects of service impacts. The Minnesota Pollution Control Agency performance report illustrates how even complicated issues can be presented clearly and concisely.

A famous author is reputed to have apologized for the length of a letter, noting that he did not have the time to make it shorter. The same principle applies to governing–for–results. States are finding that it requires a time investment to produce a short list of performance indicators. There is no magic right number, but information overload is a constant threat. The challenge is to produce the information that users need with as few indicators as possible. Managers must develop their own ways to arrive at the comfortable number (and frequency) of reporting performance indicators. Neither science nor art nor other states provide pathways to the correct decision.

Interactions between Citizens and Government

Citizen participation is the third key component of a governing–for–results model, the piece that elevates it from a system for efficient management into a system for responsive government. Adoption of governing–for–results can affect the balance of decision–making power between the representative democracy and citizen participation. Blue–ribbon panels, goals, benchmarks, milestones, progress boards, and so forth may become irrelevant or, if relevant, may infringe on the purview of legislators, even governors, when setting future scenarios, visions, or desirable outcomes. Oregon, Minnesota, and North Carolina used blue–ribbon citizen panels to shape statewide goals, objectives, and strategies. Sometimes referred to as benchmarks or milestones, these efforts were not closely tied to state government budgets and programs. Oregon is now attempting to provide such a linkage through the use of its "blue book" that indexes the state benchmarks with state agency programs. Some legislative staff and some legislators who, though not involved in the blue–ribbon have developed expertise in functional areas, may not be in agreement with the citizen panels. A related issue is the use of citizen panels to address the most difficult and contentious issues facing government—effectively providing cover for elected officials.

The Internet is emerging as a powerful tool for not only informing citizens about government, but also involving citizens in planning and decision making. It appears that most governments are using the Internet to deliver information inexpensively—to residents, visitors, potential investors, and so forth. The structure of web pages with "drill-down" capacity is well-suited to providing general information of broad interest, while allowing those who are interested in a particular topic to follow the links to detailed reports. This model works especially well for reporting performance. A summary performance report is accessed first, which can be "drilled down" to get ever more specific and detailed information on topics of interest.

Using the Internet to survey citizens and involve them in planning and decision making is a newer and less common application. The examples of Austin, Texas and other "wired" cities, which are using their web pages to gather as well as dispense information, suggest the enormous potential of this approach. For example, Austin has used the Internet to solicit input from citizens about the design of their new city hall.

The drawback to using the Internet for communication with citizens, is, of course, that Internet access is not universal. This is an especially pressing issue when the Internet is used as a channel for citizen participation. Although the percent of households accessing the Internet is large and growing, there appear to be economic and racial divides between the "wired" and the not-wired households. Performance budgets provide information in a format much more readily understood by citizens and citizens' groups than the traditional line-item budget, which often is effectively impenetrable. Specific projects have long attracted supporters and opposition, but the only broad outcome that has been really clear to citizens is the tax rate. A performance–based program budget reveals how much the government is investing to achieve various outcomes. Thus, performance budgets encourage broader citizen participation in the budget process, which constitutionally is the purview of the legislature and a primary source of legislative power—as a body and for individual legislators.

Even fully–implemented, the evolving governing–for–results model does not replace the political process, but it has significant potential to broaden access to decision making. We found examples of local governments benefiting from increased citizen participation, but how this will play out at the state level remains to be seen.

Despite the possible obstacles and issues that arise with any evolutionary and complex undertaking, governing-for-results is a management system that holds great promise for improving the effectiveness of government programs. Our field visits found managers being called upon to do both strategic planning and performance measurement. In those states and agencies demonstrating the greatest success, we found managers integrating those activities. Where the planning process defines not just goals, strategies, or objectives but also the performance that will track progress toward goals and demonstrate the success or lack thereof for the strategies, both the planning and the performance measurement processes are strengthened.

While this report refers to a governing-for-results system, it is not calling for systemic change or implementation of a new system. Rather, it suggests a systematic approach that integrates processes and activities common to most governments. It is a governing for results system with a small “s” and a systematic approach that can work in the context of Total Quality Management, Balanced Scorecard, Performance-Based Program Budgeting or other management systems. It is a system that promotes more efficient government and greater responsiveness to citizens, who are the ultimate boss.

Appendix:
Governing–for–Results Web Sites of Note

Oregon

- Oregon Progress Board — *http://www.econ.state.or.us/opb/*
- Oregon Shines II: Updating Oregon's Strategic Plan (1997) — *http://www.econ.state.or.us/opb/orsh2.htm*
- Oregon Shines: 1999 Update Report — *http://www.econ.state.or.us/opb/fullrep.pdf*

Texas

- Office of the Governor, with link to instructions for agencies, "Preparing and Submitting Agency Strategic Plans" — *http://www.governor.state.tx.us/Budget/budget_guidelines.html* — and a link to "Legislative Appropriations Requests Instructions for the Biennium Beginning September 1, 1999"
- The Statewide Strategic Planning Elements for Texas State Government — *http://www.governor.state.tx.us/Budget/vision76.html*

North Carolina

- Office of State Budget, Planning, and Management — *http://osbpm.state.nc.us/* — with links to "Planning and Budgeting Information System" — *http://pbis.state.nc.us/pbispub/webdb.dyn_pbis_home.show* — and "Instructions for Preparation of the 2001–2003 Recommended State Budget and the Biennial State Plan" — *http://osbpm.state.nc.us/inst0103.html*
- State Budget Manual — *http://osbm4.osbm.state.nc.us/osbm/pdf_files/complete.pdf*

Florida

- Statutes relevant to Performance–based Program Budgeting — *http://www.leg.state.fl.us/citizen/documents/statutes/1997/ch0216/tit10216.htm*
- Statute requiring state agency strategic plans (more than one site — one section of Chapter 186 per site) — *http://www.leg.state.fl.us/citizen/documents/statutes/1998/ch0186/SEC021__.HTM#0186.021* and *http://www.leg.state.fl.us/citizen/documents/statutes/1998/ch0186/SEC022__.HTM#0186.022*
- State Comprehensive Plan — *http://www.leg.state.fl.us/citizen/documents/statutes/1998/ch0187/SEC201__.HTM#0187.201*
- Office of Program Policy Analysis and Government Accountability (OPPAGA) — *http://www.oppaga.state.fl.us/about.html*
- Florida Government Accountability Report (FGAR) ("a free Internet service for legislators and the public to monitor the activities and performance of about 400 state government agencies and programs") — *http://www.oppaga.state.fl.us/government/*

Minnesota

- Minnesota Planning (responsible for *Minnesota Milestones*) — *http://www.mnplan.state.mn.us/*
- Minnesota Milestones (1998) — *http://www.mnplan.state.mn.us/press/mm98final.html*
- Instructions for and links to agency performance reports, with state auditor's reports attached to each one evaluating the quality of the performance report itself (not the quality of agency performance) — *http://www.finance.state.mn.us/pr/*

Louisiana

- Performance–based Budgeting Law — *http://www.legis.state.la.us/housefiscal/pbb/perform.htm*
- Louisiana Office of Planning and Budget (provides links to sites that discuss strategic planning, operational planning, and performance accountability) — *http://www.state.la.us/opb/pbb*
- Louisiana Performance Accountability System (tracks agency–by–agency performance indicators and quarterly performance reports) — *http://www.state.la.us/opb/lapas.html*

Endnotes

---

[1]The US Census reports that between 1960 and 1993, the percent of U.S. adults with a high school diploma almost doubled, rising from 41 to 80 percent.

[2] May 17, 1999 memo from DEP Secretary David Struhs to Division, directors, District Directors, EPS Consultants.

[3] *Technical Review of the State Comprehensive Plan* (July 1999): 9/21/99 letter from Governor Jeb Bush to Senate President Toni Jennings and House Speaker John Thrasher.

[4] Harvard University, John F. Kennedy School of Government Case Program, 1999. www.ksg.harvard.edu/caseweb

[5] Performance measurement does not take the place of periodic, in-depth program assessments that investigate the factors behind changes in outcomes and attempt to assign causality.

[6] Nelson A Rockefeller Institute of Government, "Performance Funding and Budgeting for Public Higher Education: Current Status and Future Prospects", 1997.

[7] National Association of State Budget Officers, "Performance Measures Resources" http://www.nasbo.org/process/perform/perform.htm

[8] Training and technical assistance are important to all aspects of governing-for-results.

[9] Virginia Department of Planning and Budget. http://www.dpb.state.va.us/forms/pm/meas00.doc

[10] NASBO. 2000. http://www.nasbo.org/process/perform/perform.htm

[11] Minnesota Department of Finance. 2000 http://www.finance.state.mn.us/bis/Perf/index.html

[12] Adapted from Minnesota Department of Human Services: Continuing Care for the Elderly (1999, pp. i–ii).

[13] For more information, see Few and Vogt (1997).

References

Behn, Robert D., and Peter A. Kant. 1999. "Strategies for Avoiding the Pitfalls of Performance Contracting." *Public Productivity in Management Review* 22 (4): 470–89.

Council for Excellence in Government. 2000. *E-Government :The Next American Revolution*. Prepared by Hart-Teeter. Washington, D.C.

Else, John F., et al. 1992. "Performance-Based Contracting: The Case of Residential Foster Care." Child Welfare League of America, 71 (6): 513–26.

Few, Paula, and Jack Vogt. 1997. "Measuring the Performance of Local Governments," *Popular Government* 62 (2): 41–54.

Garrity, Lee. "Citizens Redesign Winston-Salem Government." *The New Public Innovator*, Spring/Summer 1999: 30–32.

Gordon, Stephen B. 1998. "Performance Incentive Contracting: Using the Purchasing Process to Find Money Rather than Spend It." *Government Finance Review* 14 (4): 33–36.

Kettner, Peter M., and Lawrence L. Martin. 1995. "Performance Contracting in the Human Services: An Initial Assessment." *Administration in Social Work* 19 (2): 47–61.

Kissler, Gerald, Karmen N. Fore, and Willow S. Jacobson. 1998. "State Strategic Planning Suggestions from the Oregon Experience," *Public Administration Review* 58 (4): 358.

Martin, Lawrence L. 1999. "Performance Contracting: Extending Performance Measurement to Another Level." *PA Times* 22 (1): 1, 8.

Melaville, Atelia I. 1997. *A Guide to Selecting Results and Indicators: Implementing Results-Based Budgeting.* Washington, D.C.: The Finance Project.

Minnesota Department of Human Services: Continuing Care for the Elderly. 1999. "Nursing Facility Performance-Based Contracting and Sunset of Rule 50." Author.

www.welfareinfor.org/contractperf.htm. The *Welfare Information Network* provides resources related to performance contracting in human services.

Nelson A. Rockefeller Institute of Government. 1997. "Performance Funding and Budgeting for Public Higher Education: Current Status and Future Prospects." New York: Author

North Carolina Institute of Government. 1998. *A Review of Structural and Operational Alternatives for Enhancing the Effectiveness of the North Carolina Progress Board*. University of North Carolina at Chapel Hill: Author.

Oregon Department of Land Conservation and Development. 1999. *Oregon's Verdant Willamette Valley: Growing Crops while Growing Cities.* Portland, Ore.: Author.

Snell, Ronald. 2000. *Performance and Outcome Measures and Performance Bonus Programs Attached to Federal Grants-in-Aid to State Governments*. Denver, Colo.: National Conference of State Legislatures.

Snell, Ronald K., and Jennifer Grooters. 2000. *Lessons Learned: A Report on Legislative Interviews of Governing for Results*. Denver, Colo.: National Conference of State Legislatures.