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Performance Measurement: The Link to Effective Government

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State and local governments' ability to produce balanced budgets has become increasingly difficult. Pressures stemming from voter opposition to tax increases, demand for more and higher quality services, burgeoning service costs, and sluggish revenue growth have contributed to financial stress in many jurisdictions. This economic environment has demanded that finance officers adopt new approaches to budgeting and service planning. In January 1993, the Government Finance Officers Association (GFOA) sponsored a symposium to initiate a debate about problems with current budgetary practices, and to identify steps to improve the way budgets are prepared and implemented. One of the central themes articulated by symposium participants was the integral role of performance measurement in the budget process. This concern was reiterated in the final report issued by the National Task Force on State and Local Budgeting, an interorganizational taskforce set up by the GFOA to identify ways to improve state and local budgeting practices. The GFOA's Committee on Budgeting and Management and its Executive Board have also recognized the importance of performance measurement as a part of the budget process. In May 1993, the GFOA Executive Board adopted a policy that was approved by the membership advocating the use of performance measurement in budgeting, planning, and management.

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Introduction

A renewed interest in performance measurement has become evident at all levels of government – state, local, and federal. Spurred in part by difficult economic conditions as well as public skepticism about service quality, public officials have become increasingly committed to demonstrating what is being accomplished with tax dollars. This research bulletin is intended to (1) provide an overview of the use of performance measures, (2) identify how governments can improve planning, budgeting, and management decisions through the establishment of performance objectives and measures; (3) examine the obstacles to implementing a performance measurement system; and (4) describe the conditions that must exist if performance measurement is to lead to organizational change.

Performance Measurement and Effective Public Administration

Establishing and monitoring performance objectives is critical to the ability of state and local governments to carry out their responsibilities effectively. Governments perform three primary administrative functions: planning, management, and budgeting. ***Planning*** involves formulating program goals and objectives, estimating long-range revenues and expenditures, and prioritizing goals to stay within expected funding levels. Comprehensive land use planning, program or service planning, strategic planning and financial planning are all elements of the planning function. ***Management*** is concerned with the implementation of programs. Good management practices ensure both that resources are used as intended to achieve program objectives, and that they are used efficiently and effectively. ***Budgeting*** is the process of allocating financial resources among competing programs and services. Performance measures play an integral role in each of these areas.

Performance and Planning. The planning process provides an opportunity for program administrators and policy makers to think strategically about what types, level, and mix of services should be provides. Citizen surveys, statistical data on community conditions, and other indicators of service demand or need provide vital information that can be used to design programs, establish program goals, and identify specific, measurable objectives to be accomplished over the planning period. Performance indicators are then developed to measure whether or not objectives have been met.

The planning process also entails a review of how service delivery and program execution can be improved. Performance measures relating resources to government activities or program results serve as a guide in assessing service delivery alternatives. These indicators provide insight into the total costs associated with various alternatives, both capital and operating, and the degree to which each alternative is successful in meeting the objectives of the program. Consequently, the quality of decision making is enhanced when selecting a preferred alternative.

Long-term financial planning is also facilitated through the establishment of performance goals and appropriate measures. Measures relating financial resources to program accomplishments assist policy makers and administrators in evaluating the long-term financial implications of setting various program goals and priorities. Conversely, these same measures can be used to assess the degree to which a program will be able to achieve its goals given funding constraints. For example, if a program's financial needs exceed projected revenues, the implications for service delivery can be determined by focusing on how program results change with reduced funding. The government will also be in a better position to prepare for difficult economic conditions by conducting "what if" analyses to determine how service delivery may need to be altered or curtailed if revenues fall below expectations.

Performance and Management. The focus of the management phase is program implementation and accountability. An important responsibility of managers is to ensure that resources are used efficiently and effectively. In this regard, performance goals and measures improve managers' abilities to communicate priorities; direct staff, financial, and other resources; and devise appropriate incentives. Performance measures also assist managers in determining where improvements should be made to provide better or lower-cost service. Through the consistent use of performance measures, program managers are alerted to potential problem areas, and can respond to improve performance.

Performance measures are critical to maintaining accountability to the public. At a time when the public is increasingly skeptical about the quality and cost-effectiveness of government services, performance measures are a valuable tool in demonstrating what is being accomplished with tax dollars. Monitoring trends in performance, comparing these measures to established policy targets or other relevant benchmarks, and taking actions to alter unfavorable results should routinely be performed by state and local governments.

Performance and Budgeting. The budget process provides the authority to raise and spend financial resources. Increasingly, budget practitioners have recognized that in order to ensure that goals and objectives established in the planning process are translated into results, the resource allocation process must explicitly be tied to performance. Specifically, this requires budgetary choices to be framed in terms of performance goals and objectives, and resources distributed in a manner to achieve these goals. Managers also need to be given flexibility to shift resources between line items, but must in turn be held accountable for meeting program objectives. This approach differs from the practices of many jurisdictions in which budgets are modified incrementally by increasing (or decreasing) line item expenditures from one year to the next.

An advantage of allocating resources on the basis of performance goals and objectives is that it permits policy makers to make more informed decisions on service tradeoffs which are often necessary to operate within existing funding levels. For example, performance measures relating resources used to program outcomes show how outcomes change with respect to each additional dollar of funding. Using these indicators, policy makers are better able to evaluate the merits of increasing spending on one program relative to another, both in the current year and over the long term.

To summarize, performance measures are an essential tool in public administration. Performance measures are established in the planning phase after consensus has been reached on goals and objectives. In management, they are used by department heads to direct resources and to ensure that programs are producing intended results. Performance measures are also important in the budget process, where financial resources are allocated to programs and services. When used as an integral part of all three functions, performance measures can improve the ability of governments to achieve the results that are intended for programs and services.

Types of Performance Measures

In planning, management, and budgeting, policy makers and administration will want to evaluate various aspects of performance. Different measures can be used to provide specific information about the programs and activities undertaken by the government. Among the types of measures most frequently employed by state and local governments are input, output, outcome, and efficiency measures. Each of these types of measures is designed to answer different questions about a publicly provided service or activity.

Input Measures. Input measures address the question of what amounts of resources are needed to provide a particular program or service. Examples of input measures are:

- Number of full-time equivalent personnel
- Total employee-hours worked
- Total operating expenditures
- Total capital expenditures

Nonpersonnel inputs such as vehicles, equipment, or property can also be measured. Input measures are useful in showing the total cost of providing a service, the mix of resources used to provide the service, and the amount of resources used for one service in relation to other services.

Output Measures. Output measures focus on the level of activity in providing a particular program or service. Workload measures, which are designed to show how staff time will be allocated to respond to service demand, are most commonly reported. Examples of such measures include the following:

- Number of fire alarms answered (Fire Suppression Program)
- Number of patrol hours (Police Services)
- Number of water pipe leaks repaired (Water/Wastewater Treatment Services)
- Number of public assistance applications reviewed (Public Assistance Programs)
- Number of pavement miles resurfaced (Road Repair Program)

Other types of output measures are concerned with the processes used in providing the activity. An example of this type of indicator is the amount of time required to review an application for financial assistance (Economic Development Program).

Output measures are useful in defining the activities or units of service provided by the government. A significant drawback, however, is that they provide no indication of whether the goals established for the service are being met, nor can they be used to assess the quality of a program or service. A city's police department may point to an increase in the number of patrol hours as one of its accomplishments for the year. However, the public is more likely to be interested in the number of crimes committed. If patrol hours have increased and there has been no corresponding reduction in crime, an important objective of police services has not been achieved. Thus, output measures may be of limited interest to elected officials and citizens.

Outcome Measures. Outcome measures focus on the question of whether or not the service is meeting its proposed goals. They are used to evaluate the quality or effectiveness of public programs. Examples of outcome measures include the following:

- Number of fires (Fire Prevention Program)
- Number of crimes committed per 100,000 population (Police Services)
- Number of calls about interrupted service (Water/Wastewater Treatment Services)
- Percentage of grants reduced due to employment (Public Assistance Program)
- Percentage of lane miles in satisfactory condition (Road Repair Services)

Outcomes can be evaluated using both intermediate and long-term measures. Intermediate outcome measures are designed to assess the early results of a program, and are particularly useful when the primary objectives of the program will not be achieved until years into the future. For example, economic development programs may have a long-term objective of increasing the dollar volume of export sales of their clients. An intermediate outcome measures for this program would be number of firms that have increased their interest in exporting as a result of assistance. [Hatry et al., 1990, p. 93]

While outcome indicators are of the most interest among policy makers and citizens, they also tend to be the least utilized. This is due in part to the cost of collecting the information needed to produce the measures and to the difficulty of ascertaining the relationship between the government program and the intended outcome. These problems are discussed more fully in the section below describing obstacles to performance measurement.

Efficiency Measures. Efficiency indicators measure the cost (either in terms of dollars or personnel hours) per unit of output or outcome. Examples include the following:

- Expenditures per $100,000 of property protected (Fire Services)
- Employee hours per crime solved (Police Services)
- Number of accurate case actions processed per worker (Public Assistance)
- Required subsidy per passenger (Mass Transit)

These measures are used to determine productivity trends in the provision of public programs and services. They are also used to provide an indication of the cost-effectiveness of a program.

Obstacles to Measuring Performance

Developing meaningful performance measures in the public sector is a complex task. Government must devise solutions to problems related to data organization, resistance by managers and staff, and measuring program outcomes. Some of these issues can potentially be addressed over time as jurisdictions gain more experience with setting performance goals and measuring results; others are likely to be more intractable.

Data Organization. Monitoring and reporting performance requires that the resources needed to provide a program or service be linked with its outputs or outcomes; hence, data must be collected, organized, and analyzed by "cost center." Many jurisdictions lack reliable cost and program data, or do not have budgeting and accounting systems set up to keep track of data in this manner. Agencies that administer several programs may have difficulty in deciding how to allocate commonly used resources (e.g. administrative overhead) to single programs. Technological advances have made it easier to organize programs based on cost accounting principles; nevertheless, initial attempts to do this by governments can still be very time-consuming and costly. In instituting a performance measurement system, governments will need to strike an appropriate balance between the benefits of a high-q quality performance measurement system and the costs of data collection and organization so that performance measurement does not become drain on organizational resources.

Resistance by Managers and Staff. Performance measurement may also be resisted by program managers and staff. In agencies where policy or management decisions are not tied directly to program goals and results, significant costs – both in time and financial resources – may be involved in changing the way agencies operate. Moreover, the use of performance measures may be perceived negatively by agencies who worry about being held to performance standards that, in the case of outcome measures, may not be within their direct control.

Managers' resistance can be overcome to a large extent by encouraging their participation in setting goals and performance measures, and ensuring that performance measures are used in agency decisions. Including qualitative information along with performance data can help to alleviate resistance by providing departments with an opportunity to explain deviations from program or service output or outcome targets. Finally, ongoing refinement of measures is necessary to instill confidence that appropriate measures will be used in policy and decision making activities. [Glaser, 1991]

Outcome Measurement Issues. If resources are to be allocated based on program results, reliable outcome data must be collected. Identifying, establishing, and evaluating indicators on program outcomes has been particularly difficult for state and local governments. Often, there is no agreement among various stakeholders as to what a program is trying to achieve. For example, in providing a city bus service, operating a reliable, on-time service may be perceived as an important objective. In order to preserve sufficient capital funding to replace older, less reliable buses, the program administrator may propose as a goal maintaining the growth in operating expenses at or below the rate of inflation. This cost objective, however, can be at odds with other desirable goals, e.g., to provide comprehensive service to assure that low-income, elderly, or other key constituents are adequately served. Unless consensus can be achieved on the primary goals of a program, there is likely to be ambiguity in interpreting performance outcome data.

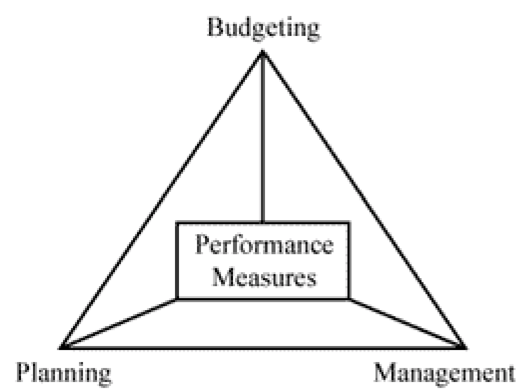
A second problem with outcome measures is that governments are often unable to establish conclusive links between a particular set of benefits and program activities. An important objective of a police department is to prevent crime, and policy makers may decide to allocate resources to increase the number of patrol hours. However, they may also provide resources to increase the effectiveness of drug education programs, which also affects crime. If fewer criminal activities are reported to the community, policy makers may find it difficult to determine which program is contributing to the desired outcome.

A final problem is that measuring outcomes entails more of a jurisdiction's resources. Governments find it easier to measure inputs and outputs, since they control how resources are used and the level of activities undertaken. Whether or not desired outcomes have been achieved, however, is often determined by public perceptions or changes in public behavior. For some programs, the impact may not be seen until years into the future. As an example, one of the goals of secondary education is to prepare graduates to enter the workforce or go on to higher levels of education; hence, an appropriate outcome measure is the percentage of graduates gainfully employed or continuing their education within two years of graduation. To determine whether this objective has been successfully met, program administrators would need to track graduates' progress after they have left the secondary education system. Measuring outcomes may therefore require more time-consuming and costly processes such as survey analysis, and could also involve efforts to follow program beneficiaries long after they have left the program.

Despite these obstacles, state and local governments are increasingly recognizing the importance of making greater use of performance measures in all aspects of public administration: planning, management, and budgeting. Performance measures are routinely reported (often as part of budget requests) or used in program management in a growing number of jurisdictions. A survey undertaken by the International City Management Association (ICMA) in 1988, to which 451 jurisdictions responded (42 percent of those receiving the survey), found a dramatic increase in the use of performance measures between 1976 and 1988. In 1988, 70 percent of respondents indicated they were using some type of performance measures, up from approximately 30 percent in 1976. [Streib, 1989] A 1991 survey conducted by the National Association of State Budget Officers (NASBO) found that 34 states reported performance measures as part of their budget requests, and most states required agencies proposing new programs to submit productivity and effectiveness measures. [Lee, 1991] Clearly, governments understand the value of measuring performance, and are striving to overcome impediments in order to make greater use of these measures in decision making.

Linking Planning, Management, and Budgeting

As noted earlier, performance objectives are more likely to be achieved if the planning, management, and budgeting functions are closely tied. In this way, all administrative functions are working toward common purposes. The budget process is the key to creating this linkage. In their book, *Reinventing Government*, David Osborne and Ted Gaebler argue, "…in government, the most important lever – the system that drives behavior most powerfully – is the budget." [Osborne and Gaebler, 1992] The most effective way to ensure that policy goals are translated into results is to allocate budgetary resources to achieve specific objectives defined in the strategic planning stages. The budget process is also connected to the management function in that, by appropriating funding, managers are given authority to implement programs and are held accountable for results.



It is important that an explicit effort be made to integrate performance measures into all three administrative functions, and not be the focus of only one administrative activity. For example, proposals to develop and regularly report performance measures in government financial statements will fail to lead to any meaningful change in the provision of public services unless planning and budgeting processes also support the achievement of service objectives. Using performance measures only in financial reporting directs managers' attention to a narrow range of issues – that is, indicators and trends – without considering whether or not agreement on goals has been reached and sufficient resources allocated. The budget provides the necessary linkages to ensure that performance is integrated into all government activities. In the planning phase, this linkage helps to ensure that programs are prioritized and realistic goals and objectives are established in a manner consistent with expected funding. The budget can also supply appropriate incentives and sanctions to ensure that programs are carried out as intended in the management phase.

Experiences in Allocating Resources Based on Performance. The pivotal role played by the budget process in meeting performance objectives has long been recognized. Unfortunately, major budgetary reform initiatives over the past century attempting to create stronger ties between program objectives and the budget process have failed to lead to a significant overhaul of budgetary practices. In particular, efforts such as Planning-Programming-Budgeting (PPB) and zero base budgeting collapsed in part because they were overly complex and time consuming, and also because they were not adaptable to political realities.

More recently, studies issued by such organizations as the U.S. General Accounting Office (GAO), the Congressional Budget Office (CBO), and the National Conference of State Legislatures (NCSL) have been critical of the experiences of state and local governments in tying performance to resource allocation decisions, finding little progress made to date in implementing comprehensive or "true" performance budgeting systems. While acknowledging certain success stories such as Sunnyvale, California, these studies have concluded that most state and local governments continue to use performance measures primarily for reporting or internal management purposes.

Realities of the Budget Environment. The shortcomings of past budgetary reforms and evidence of minimal success currently suggest that not enough is known about how the budget process can, in practice operate to more comprehensively allocate resources based on performance. One lesson which has become apparent is that governments trying to integrate performance into the budget process can be limited by the political nature of the budget process. The budget environment has a strong impact on how issues are considered, and hence, budgetary outcomes. [Rubin, 1993, p. 131] While performance data may be requested in an effort to shape decisions, other components of the environment may play an equally important or more dominant role in determining how programs are funded, particularly for governments facing fiscal constraints.

One of these factors relates to the accessibility of the process to various stakeholders. The primary purpose of the budget process is to allocate scarce resources among competing programs and services. In fulfilling this role, the budget process must reconcile various interests, including government officials, interest groups, and the community as a whole, while at the same time ensuring that community residents are generally satisfied with spending decisions. To the extent that the budget process had many access points, beneficiaries of programs which do not perform well may resort to other strategies in an effort to improve the chances of funding. [Rubin, 1993, see Chapter 4] Examples of such tactics include:

- Framing issues in terms of lives lost or other unacceptable consequences if the program is not funded;
- Tying the program to high-priority policy goals or important community values;
- Mobilizing constituents to lobby on behalf of the program; and
- Changing the nature of a program by making it an entitlement, government enterprise, or legal mandate.

In an effort to broaden support for programs that have a limited number of beneficiaries, elected officials may also decide to allocate resources for similar programs in diverse geographical areas, or fund programs benefiting constituents who might otherwise oppose those programs. The effect of these actions is to reduce the amount of financial resources that can be allocated based on performance goals and outcomes.

Equity considerations may also impede the ability of governments to make extensive use of performance in the budget process. Governments, particularly at the local level, provide a number of direct services which enjoy broad public support, such as police, fire, and education. Because they benefit the community as a whole and performance goals are generally easier to define and measure, these services are perhaps best suited to performance-based resource allocation decisions. Yet the fact that these services are broadly supported hinders the ability of elected officials to make more than incremental budgetary revisions if the service is not accomplishing its intended results. Efforts to either reduce the unsuccessful service's budget or increase its budget by taking funding away from another service are likely to encounter resistance from program constituent groups.

The implication of budgetary politics is that performance-based resource allocation decisions can, in certain budget environments, be reduced to a narrow range of budgetary choices. Budget preparation often involves compromise in order to accommodate a diverse range of interests. This requirement has effectively placed a significant number of decisions outside the realm of where performance results can influence budgetary outcomes in many jurisdictions. As a result, governments have not achieved widespread success in implementing comprehensive performance budgeting.

Nevertheless, performance measurement is a powerful tool that can improve the ability of state and local governments to provide services efficiently and effectively. Policy makers should be encouraged to consider performance in making resource allocation decisions, even if performance is ultimately not the determining factor in why programs are funded. At a minimum, collecting and reporting performance data raises the quality of the debate on programs and services. Budgetary issues are more likely to be discussed in the context of strategic or service planning objectives. With performance measurement data, elected officials' understanding of programs, outcomes, and costs is enhanced, as is their ability to recognize the consequences of their decisions. Moreover, programs managers have a clearer understanding of the results that are expected, and can direct financial resources and staff activities in a manner to best achieve desired outcomes.

National Task Force on State and Local Budgeting

State and local governments continue to experiment with performance measures in the budget process. Several jurisdictions have launched initiatives intended to expand the use of performance measures in the budget process. Meanwhile, work continues to identify and disseminate information about effective budget practices. In 1993, the GFOA created an interorganizational task force, known as the Taskforce on State and Local Budgeting, to examine ways to improve state and local budgeting practices. The Task Force urged that a set of recommended budgetary practices be developed. The purpose of these recommended practices would be to:

- Provide guidance on what constitutes sound budgetary practices and procedures;
- Assist governments in evaluating the quality of their own budget practices; and
- Educate budget participants on the benefits and limitations of alternative budget systems, and about their roles and responsibilities in the process.

The Task Force also recommended that a national advisory council be created, consisting of representatives of various state and local groups, to oversee the development of recommended practices and to encourage their adoption and use.

Recognizing that governments have different needs, levels of expertise, and budgetary environments, three practice levels have been proposed:

- *Acceptable Practice:* Level of practice required to do a proper job of budgeting.
- *Current Best Practice:* Practices that consistently produce successful budget results.
- *Developing Practices*: Practices at the cutting edge that seem to offer potential for success.

Illustrations and examples would also be provided to assist governments in applying these practices to their own budget systems. They would include a variety of techniques used by governments of different sizes and types.

The Task Force has identified the link between budgeting and performance as one of the top priorities in which effective budgetary practices need to be developed. Recommended practices related to performance and budgeting will be developed in each of the three categories. Governments at the beginning stages of integrating performance into budgeting will benefit from an understanding of what has been known to work in other jurisdictions. Governments at the forefront of linking budgeting and performance will also benefit in being able to share experiences in areas where knowledge is less certain.

Summary and Conclusion

Performance measures play a critical role in planning, management, and budgeting activities of state and local governments. For these measures to lead to improvements in decision making and service delivery, they must be an integral part of all three activities. The budget process serves as the primary mechanism to link the planning process, in which goals and objectives are defined, to the management process, through which results are achieved. While budgeting is a critical element in achieving performance objectives, state and local governments have had only limited success in allocating resources based on performance. The work that will be undertaken on recommended budgetary practices will provide guidance and encourage more governments to make greater use of performance measures in the budgetary process.

State and local governments in the early stages of integrating performance measures into the budget process are likely to encounter obstacles, including deciding on appropriate measures, instituting the necessary budgeting and accounting systems, organizing data by cost center, and collecting and reporting the data. Program managers are likely to resist adopting performance measures unless they are convinced that measures will be useful, and that they will be given the necessary flexibility to achieve program objectives. Addressing these issues is likely to involve high costs initially, both in terms of time and money, but will become more manageable over time.

A greater challenge, however, will be to move beyond simply reporting measures, or using them in program management, to budgeting based on performance goals and measures. Convincing policy makers to use these measures in resource allocation decisions will take time. The budget environment in many jurisdictions, and the difficulty of defining goals and measuring outcomes in the public sector are likely to continue to be obstacles to performance budgeting. At a minimum, elected officials need to have a better understanding of the benefits of performance measures before they are likely to increase their commitment to adopting budgets and financial plans based on performance. Finance officers and other public managers can take a leading role. By integrating performance measures into the budgeting, management, and planning systems, and reporting regularly on program and service performance, they will be able to improve the quality of information provided to policy makers, and stimulate demand for this vital information both by policy makers and the public.

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