

# Results-Oriented Government

A Guide to Strategic Planning  
and Performance Measurement  
in the Public Sector



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# Preface

The Alberta Government, in establishing a strategic planning process in 1994, developed core government measures which are the basis of tracking the government's performance in its three core business areas of:

- *People – helping Albertans to be self-reliant, capable and caring,*
- *Prosperity – promoting prosperity for Albertans,*
- *Preservation – preserving the Alberta tradition.*

Each measure reflects the government's priorities and provides information upon which the public can judge the government's performance.

As the focus in the Alberta Government has shifted in recent years, the need for a strategic planning program became evident. In October 1996 the Alberta Treasury, Office of Budget and Management, stated that, "In 1993, the stark reality of a \$3.8 billion deficit (the eighth consecutive deficit) and \$11.8 billion net debt called for change." A panel of nine key Alberta executives and financial experts, the Alberta Financial Review Commission, reviewed the government's financial position and identified actions that needed to be taken to improve the province's management and reporting systems so that they more clearly communicated the province's financial situation to its citizens. The Commission's Report, echoing recommendations similar to those of the province's Auditor General, became the impetus and focal point for change."

The Alberta Government's Vision Statement, "an open and accountable government", requires that improved accountability as a necessary step in government planning processes. In Alberta, many complicated accountability relationships exist among the Government, the Legislative Assembly, and the various operating entities owned or controlled by the Government, including departments, boards and agencies. The challenge facing the Government is to incorporate an effective accountability framework into this complex structure.

The major components of such a accountability framework are outlined in the Government Accountability Act. It requires that the Government and each ministry create 3 year business plans including goals for each core business and the measurements to be used to assess their performance. It further requires annual reporting comparing actual and desired results.

The training materials presented in the pages that follow are designed to serve as a guide towards more open, accountable and results-oriented government.

## Acknowledgements

These materials were originally developed by the Southern Growth Policies Board in the US. They have been adapted with their permission.



# Introduction

Twenty years ago, as inexpensive, superior-quality consumer goods became readily available from abroad, North American industry faced a crisis in customer confidence.

Today, governments face a similar crisis as their customers—taxpaying citizens—express growing concern with the quality and cost of public services.

Can anything be done to improve government's performance?

In fact, many jurisdictions are finding value in the same tools that are helping industry meet the challenge of foreign competition, including strategic planning, benchmarking, performance measurement and results-oriented management.

These tools can help elected officials and managers make better-informed policy decisions, determine the best uses of limited resources, enhance service quality and improve communication with citizens.

Across the board, the emphasis is upon accountability for results—measuring whether or not public programs are successfully addressing the real needs of the individuals, families and companies they seek to serve.

As David Osborne and Ted Gaebler note in their popular book, *Reinventing Government*:

- ☞ What gets measured gets done.
- ☞ If you don't measure results, you can't tell success from failure.
- ☞ If you can't see success, you can't reward it.
- ☞ If you can't reward success, you're probably rewarding failure.
- ☞ If you can't recognize failure, you can't learn from it.
- ☞ If you can demonstrate results, you can win public support.

Since 1994, the government has focused on three questions: Are we doing the right thing? Are we doing it well? And, how do we know? Many changes have occurred over the last 4 years reflecting the government's focus on openness and

accountability, and the priority given to fiscal management by the government. Alberta's Treasurer of the day, Jim Dinning summarized the rationale for these changes when he said; "We want proof that our strategies are working and producing the results we want...spending money is no guarantee of results. Albertans expect that government resources will be directed to programs that work, that achieve the results we set out to achieve. And they deserve to have information so they can judge our actions and hold us accountable for the results."

Accountability is reporting to the people and the organizations or services involved. The basic ingredients of successful accountability as described by the Auditor General, and legislated in the Government Accountability Act are: setting of measurable goals and responsibilities, planning what needs to be done, doing the work, monitoring the progress, reporting on the results, then evaluating results and providing feedback. The existing accountability framework has undergone significant change as the Government focuses on results.

Effective accountability means that those managing public resources depend on sound information, not speculation, in determining the effectiveness of government programs.

Managers and elected officials realize the benefits in communication between services and the public. They are increasingly accepting of accountability, strategic planning and development of performance measures. And yet, it is still possible that managing for results could become just another exercise, part of the latest trend, an example of what one US Southern governor has called a "pet rock of governance."

As expected, some resistance to change can occur, especially when it comes to adopting complex new ideas that must be painstakingly implemented over time, across departments. Without clear ties to planning, budgets too often reflect the fleeting priorities of the moment, rather than leading toward a vision of the future. Without performance measurement, program shortfalls may not be revealed nor strategies adjusted in subsequent

planning. And unless plans are carefully linked to budgets, they are merely pipedreams.

Among the major stumbling blocks to implementing effective planning and performance measurement has been a lack of widespread familiarity with techniques that have proven effective in public and private sector applications. Quite simply, many government officials have not known how to proceed. Where might they turn for guidance, customized training, technical support and encouragement?

Alberta Treasury has adapted these materials for use by the Alberta Government Ministries and Departments. The original materials, covering training in goal-setting and performance measurement, were jointly developed by the **Southern Growth Policies Board (SGPB)**, a public, interstate organization focused on economic development, and the **Southern Consortium of University Public Service Organizations (SCUPSO)**, a university-based network of Institutes of Government and other centers for leadership and public administration.

Their comprehensive program has been adapted through the integration of Alberta Government policy and legislation and some other Canadian examples to illustrate the concepts included in the program.

As outlined in the following pages, the training program is designed to provide a comprehensive, yet flexible curriculum. Its seven modules cover the basics of managing for results: 1) strategic planning; 2) benchmarking best practices; 3) performance measurement; 4) using performance results for project management; 5) performance-based budgeting; 6) performance-based contracting; and 7) creating an environment that supports these activities.

It's no small matter to transform a public agency—or an entire government—to offer greater accountability for results. It takes vision, commitment, a willingness to experiment, and time. And, as a matter of fact, there's no better time to begin...than right now.

## 1

# Strategic Planning

As the old saying goes, “If you don’t know where you’re going, any road will get you there.”

The only trouble is, without clearly defined goals to provide a sense of direction, you may not much care for where you end up.

Strategic planning is a powerful tool for setting priorities and making informed decisions about the future. But simply having a strategic plan is not enough. To meet its goals, your organization also needs a mechanism to assess progress and help correct course from time to time. That tool is performance measurement.

The Alberta Government’s Business Plan and those of each ministry are the primary components of strategic planning. The Government Accountability Act (1995) outlines the business/strategic planning process. Beginning with the June 1995 report, an annual performance report, “*Measuring Up*”, has been published by the Government of Alberta.

A successful, results-driven strategic plan includes four essential steps:

- 1) Developing a common vision about where you want to go;
- 2) Assessing where your organization is right now;
- 3) Determining how you will get to your desired destination; and
- 4) Measuring your progress.

Performance measures that document the actual results, or outcomes, of government programs provide the means for keeping everything on track.

## Key Steps

Strategic planning is often depicted as a linear process, with one step flowing logically to the next. In actual practice, however, successful strategic

planning demands continuous learning from both successes and failures. Key steps include:

1. **Prepare to plan.** A public organization must assess its readiness to engage in strategic planning and design a process that matches its purpose, resources, and political environment.
2. **Gain and sustain commitment.** Identifying and involving key stakeholders, whether legislators, government employees, or citizens, is essential to strategic planning. Finding common ground and sustaining their commitment are equally important.
3. **Analyze customer needs and desires.** Just as successful businesses pay close attention to the needs of their customers, governments are also adopting a customer orientation. This means seeking the advice of customers and other stakeholders early on in the planning process.
4. **Assess organizational strengths, weaknesses, opportunities, and threats.** In order to develop realistic plans, an organization needs to take a hard look at its internal strengths and weaknesses, as well as scan the external environment for potential opportunities and threats that it may face in the future.
5. **Set a strategic direction.** Strategic planning allows an organization to step back from its everyday tasks and ponder the “bigger picture”—to set its overall strategic direction by articulating its vision, mission, and values.
6. **Identify strategic issues.** An organization must identify the broad concerns that are critical to its future and decide which to tackle first.
7. **Develop goals, objectives, and performance measures.** An organization must ask itself, “Where do we really want to be?” This involves identifying general end-results toward which effort is directed (goals); specific, measurable targets along the way (objectives); and

performance measures that assess progress toward these goals and objectives.

- 8. Devise strategies.** Once an organization knows where it is headed, the next step is to determine how to get there. Strategies are activities that an organization will use to accomplish its goals and objectives.
- 9. Implement the plan.** This step involves assigning responsibilities, allocating resources, linking the plan to operational plans and budgets, and establishing a timetable—as well as communicating and marketing the plan.
- 10. Evaluate results.** Monitoring the extent to which an organization is achieving its vision and

fulfilling its mission should be done on a regular basis.

### **Implementation Tips**

- ☞ Obtain the support and active participation of key stakeholders.
- ☞ Keep the overall process as simple as possible, while tailoring it to the particular organization and political environment.
- ☞ Provide the participants with training about the planning process, terminology, group decision making skills, and teamwork.
- ☞ Build accountability into the plan from the beginning.



## 2

# Benchmarking Best Practices

Innovation ought not to depend upon reinventing the wheel.

If somebody, somewhere has already discovered a better way, then why not apply the lessons learned from their experiences?

The practice of benchmarking is based on this principle. In simple terms, it has been described as “learning from the pros.”

Benchmarking is a performance measure that provides the driving force to establish goals of high performance and the means to accomplish these goals. The greatest impetus for benchmarking occurred in the 1980’s with the advent of worldwide competition between companies in key industries. Foremost among these were companies such as Xerox, Motorola, At&T, Du Pont and Ford who found benchmarking invaluable in helping improve their competitiveness and effectiveness.

As worldwide competition spread with increased globalization, it has driven companies to adopt benchmarking and other quality improvement tools. Furthermore, it has also become the prerequisite for quality certification in countries such as Japan (the Deming Award), European countries (the ISO 9000 Standard) and Canada (the Award for Business Excellence).

Xerox Corporation improved its own mail-order and shipping department by comparing its practices with L.L. Bean, a clothing retailer and mail order house. The New York City Transit Authority upgraded its services by studying Federal Express and Delta Airlines.

Benchmarking may have its roots in the private sector, but it clearly offers tangible benefits for public management. Through benchmarking, Milwaukee, Wisconsin’s fire department reduced by one-third the

rate of fire-related deaths within a particularly troubled district.

In fact, governments have long compared various aspects of their operations with other jurisdictions. But benchmarking is not about report cards or rankings. It is about finding and adapting outstanding practices that can produce better results in your own organization. It focuses more on the future than on the past, identifying practical methods for solving problems, improving performance, and reaching goals.

Integrated into strategic planning, benchmarking can provide external reference points that illuminate and validate proposed strategies, plans, and goals. Without it, one administrator notes, management is simply flying in the dark.

### Key Steps

One of the basic challenges to implementing benchmarking in the public sector is that not everyone is speaking the same language. Some of the early leaders in strategic planning and performance measurement, such as Oregon, use the term “benchmarks” to refer to statewide goals and outcome measures linked to a strategic plan or vision. In this guide, however, the term is used in the same sense as in the private sector, where “benchmarking” involves identifying and emulating best practices for specific operations. The following steps are essential:

- 1. Decide what to benchmark.** A benchmarking project should be narrowly focused and limited in scope, targeting specific customer needs as opposed to general data-gathering. Arlington, Texas used benchmarking to resolve a problem with slow play at its municipal golf course, rather than trying to overhaul its entire parks and recreation program at one fell swoop.

2. **Study internal processes.** Before focusing on outside organizations, it is wise to invest the time to become thoroughly familiar with your own operations and to develop a clear sense of your external information needs.
3. **Identify benchmarking partners.** These might include other public agencies or perhaps private sector firms with outstanding reputations in the particular activity being benchmarked. As the word “partner” suggests, an emphasis should be placed on information sharing and mutual benefit.
4. **Gather information.** Information about best practices is typically gathered through a combination of phone interviews, questionnaires, document review, and site visits.
5. **Analyze information.** A key to successful benchmarking is the identification of factors that account for the superior performance of the organizations being studied. The thrust then shifts to finding ways to make appropriate improvements in your own organization, recognizing that differences in organizational culture and operations require creative adaptation rather than simple substitution of one procedure for another.
6. **Implement for results.** Failure to implement improvements is a common pitfall in the benchmarking process. Success will be enhanced by thorough planning, early involvement of those with a stake in the process being benchmarked, and strong support from top management.
7. **Monitor results and take appropriate action.** Benchmarking is an ongoing process, not a one-time event. As changes are implemented, the results should be carefully monitored against established performance measures and used to fine-tune the process. Furthermore, the search for best practices is a continuous pursuit. Dynamic changes in the social and economic environment mean that government, like business, cannot be content to rest on its laurels.

### **Implementation Tips**

- ☞ Understand the entire benchmarking process and resist taking shortcuts.
- ☞ Involve the right people early on.
- ☞ Commit adequate resources to the project.

## 3

## Performance Measurement

Albertans have become increasingly concerned about the value they are receiving for their tax dollars. They expect the services provided by government to be of top quality and to enhance their quality of life. In the past, government performance has generally been defined in terms of what it has done, example; number of kilometers of road paved, rather than what it has achieved in terms of improving Albertans' quality of life. Tracking the amount of money spent on a service does not indicate progress in solving problems.

Measures serve a variety of purposes: as a vehicle to be accountable, communicate results to the public, to signal the things the government considers important, and as a motivational tool.

Adopted from a traditional business planning model, performance measurement studies the early results of an initiative or service, compares the results against the target and determines whether to stay on course, make changes or abandon the particular strategy. The goal of performance management shifts focus to the results achieved with the resources from a focus only on the resources allocated.

Alberta's performance measurement system is structured in a tiered format, with different categories of measures used to report on performance: core government measures which report on high level outcomes that are priorities of Albertans; key measures within each Ministry; and internal management measures which provide program-specific information. Alberta is in the early stages of performance management development. Considerable effort is still required in the development of performance measures as we move from "doing the right thing" to "doing the right thing well" and reporting progress along the way.

Other jurisdictions with more experience and significant outcomes, are cited throughout the program and can be used as models for further developments here; for example, the US states of Oregon, Texas, Louisiana, and Florida.

In 1995, *Financial World* magazine declared Phoenix, Arizona to be the best managed city in the United States. The secret to its success? According to City Manager Frank Fairbanks, performance measures and measurement systems play a vital role. "I don't think you can effectively manage an organization without them," he says.

An increasing number of public officials appear to agree. In a recent *Financial World* survey, the majority of US states and large cities report that they are using performance measures more extensively than they did five years ago.

The power and appeal of performance measurement is that it tells you how you are doing. This "bottom-line" information helps both policymakers and public managers to stay focused on and assess progress towards meeting long-range goals. It identifies problem areas and provides motivation for continuous program improvement. And it can help build public support by documenting the results that taxpayer dollars are purchasing.

A key challenge is determining precisely what to measure. Priority should be placed on measuring the actual results—the *outcomes*—of government programs. Involving service providers, customers, and employees in this planning process will enhance the likelihood of devising meaningful measures. For the past five years, the US city of Portland, Oregon has published an annual report on its performance, providing information about expenditures, workload, and results of the city's six largest programs. It not only summarizes important performance trends, but also points to problem areas that need attention. The

city uses this information to communicate with its citizens, for policymaking and oversight, and to make program improvements.

Performance measures, however, are not in themselves a magic bullet. They will not help to improve program results unless integrated with other organizational change strategies.

### Key Steps

Key steps in the development and administration of a performance measurement and monitoring system include:

- 1. Secure leadership commitment.** Management commitment not only sends a signal that performance measurement is a high priority, but helps ensure that necessary staff and financial resources will be devoted to the effort.
- 2. Determine the scope of the effort.** Performance measurement activities can be undertaken across an entire jurisdiction but can also provide benefit to a single program or agency.
- 3. Assign responsibilities for coordination.** A coordinator can be critical in keeping efforts moving along. Coordination both within and among programs/agencies is an important consideration in developing a performance measurement system.
- 4. Review/identify mission, goals, and objectives.** The measurement of performance is often most relevant in the context of a strategic plan. Organizations that have already undertaken a strategic planning process will be ready to build upon those efforts—developing performance measures to assess progress toward identified goals and objectives. Those that have not yet engaged in planning efforts will find it helpful to do so prior to moving into performance measurement.
- 5. Design measures.** Performance measures should reflect an organization’s mission, goals, and objectives. The challenge for public agencies is to develop meaningful measures that are focused on performance efficiency, quality, and especially on program results—that is, the actual impact of a program or service on the people it is designed to serve.
- 6. Establish measurable performance targets.** Without a basis of comparison, it is difficult to distinguish “good” from “bad” performance. As

a starting point, most governments identify their current performance on a particular measure, using this as a baseline with which to compare future performance. Benchmarking can also be useful in setting targets that are based on the exemplary performance of other organizations.

- 7. Measure performance.** While existing data collection systems can be economical sources of performance data, governments should examine a wide array of collection techniques, including focus groups, surveys, and trained observer ratings.
- 8. Audit performance data.** Provisions should be made to verify the accuracy of performance data.
- 9. Analyze performance information.** Periodic analysis of performance information is needed to determine whether or not program activities are on track.
- 10. Report performance.** Determining the audience and frequency of performance reporting deserves careful consideration. Various audiences have differing information needs; reporting formats can be tailored accordingly.
- 11. Use performance information.** It is important to ensure an ongoing, meaningful connection between the performance measurement system and important decision making processes.
- 12. Refine performance measures.** It is doubtful that an agency can ever develop a perfect set of measures, so it must be open to making adjustments from time to time. Of course, such changes must be balanced against the need for consistency in examining trends.

### Implementation Tips

- ☞ Build on your strategic plan.
- ☞ Focus on results.
- ☞ Choose a limited number of meaningful measures.
- ☞ Minimize data collection costs—both in terms of money and time.
- ☞ Involve those who will be expected to use performance data—as well as those who will collect it—in the development of appropriate measures and the design of the performance measurement system.
- ☞ Train staff in the development and use of measures.

# 4

## Using Performance Results

Creating good performance measures ought not to be an end in itself.

Their true value lies in their use to improve decision making, service performance, and public accountability. That use, however, is far from automatic. It must be planned for and encouraged.

The major beneficiaries ought to be public managers, who can use performance data to identify problem areas that need improvement, highlight best practices that might be replicated, and assess the progress made once new strategies have been implemented.

The state of Oregon's Department of Transportation relies on performance measurement as a management tool. It has been used to reevaluate project selection and to merge one district's maintenance function with a county. Linkages to the personnel appraisal system require managers to use performance information to demonstrate their ability to manage effectively and produce results. The director calls upon managers on a periodic basis to assess how they are using performance measures to make decisions—and then shares this information with employees at forums throughout the state.

In Alberta, performance measures provide valuable information to assist managers, politicians and the public. The information they convey is important in determining whether programs are under performing due to inadequate resources or perhaps if allocation to other programs may produce the desired results.

Experience has shown that it is a good idea to gain experience in using performance measurement as a management tool *before* using it for budgeting or resource allocation. This approach can help to overcome any managerial reluctance to use performance data by positioning it as a tool for improvement, not punishment.

Elected officials have much to gain from timely performance data. Some mayors and city managers meet weekly or monthly with department heads to monitor actual performance against objectives. A government that reports its own performance to citizens, rather than relinquishing that task to the media, has far more control over the manner in which information is disclosed and greater opportunity to describe its response to particular problems.

Although reporting and using performance results may appear relatively straightforward, it is in practice a complex and difficult process. Performance measures do not describe what *caused* a particular outcome. What they do is provide a “score.” As in a hockey or football game, however, the score by itself does not reveal why the game turned out a particular way, nor does it tell a manager how to go about improving the team's play. Explanatory information can provide a context for interpreting performance results, especially when outcomes fall short of goals.

In short, effective communication is the critical link between performance and accountability. The regular, thoughtful presentation of performance data can assure all concerned that such information will not be used inappropriately or prematurely in either performance appraisals or budget decisions.

### Key Steps

Key steps in planning and encouraging the use of performance measurement information in the management process include:

- 1. Design the system to encourage use.** The quality and appropriateness of the performance measures themselves have a great deal of effect on the overall credibility of the performance measurement system.

**2. Demonstrate leadership commitment.**

Performance measurement efforts may initially be viewed with skepticism. Demonstrated leadership commitment—including the ongoing use of performance information—can send the message that performance measurement isn't just a "waste of time."

**3. Provide training.** Regular performance reports will not automatically improve performance.

Policy makers, managers, and staff all need training in using measures in order to improve decision making and performance.

**4. Establish incentives for using performance information.**

Granting public managers operational flexibility in exchange for accountability can provide motivation for embracing the process.

**5. Integrate performance information into management information systems.**

An integrated database approach to maintaining, analyzing, and reporting performance information will alleviate redundancies and expedite success.

**6. Tailor reports to meet decision makers' needs.**

Various audiences will have differing performance information needs, as well as differing styles for receiving and processing such data. Report formats can be adjusted to fit those individual preferences. In each case, information should be reported on a timely basis to coincide with important decision making processes.

**7. Integrate performance information into the personnel management system.**

Such information can be used to strengthen the link between individual performance and agency goals and objectives. Experience suggests that pay should be linked to performance only after

the performance measurement system has become well-established in an organization.

**8. Review and refine measures to ensure their ongoing utility.**

Agencies should periodically evaluate the validity and reliability of performance data. Over time, agencies can fine-tune measures to upgrade their utility or to respond to changes in the environment. While reviews ought to take place on an annual basis—and should include discussions with program management and staff, agency executive and financial management, customers, and other stakeholders—organizations should resist the temptation to tinker incessantly with their measures.

**9. Review the agency's ongoing use of performance information.**

Periodic review of the ways in which performance information is actually being used within an organization may uncover bottlenecks that need to be addressed.

### Implementation Tips

- ☞ Provide performance data to stakeholders on a regular, timely basis.
- ☞ Provide policy makers, management, and staff with the training, information, and incentives needed to act on available information and incorporate it into their day-to-day operations.
- ☞ Use performance information for internal management decision making prior to using it for budgeting and resource allocation.
- ☞ Be selective in presenting performance results. Don't swamp elected officials and managers with more data than they have time to understand.







## 5

## Performance-Based Budgeting

In the current era of fiscal restraints and escalating demands for more efficient public services, a performance-based budget offers a lot more than a way to control expenses.

A principal advantage is that a mission-driven, performance-based budget promotes both managerial improvement and better program results. It encourages elected officials to focus on setting policy direction and establishing performance expectations while giving public managers the flexibility to adjust spending in response to changing conditions.

*The Alberta approach to performance-based budgeting is one of evidence-based decision making rather than a reward and punishment system based on a level of performance. By focusing on results, the discussion can address whether the current allocation of resources is the most efficient way to achieve goals.*

The need for greater accountability and budget reform in the US recently led Texas, which operates under a highly decentralized state government, to implement both statewide and agency strategic planning efforts that are closely tied to a performance-based budgeting system.

Rather than focusing on detailed line item budgets, Texas' budget now allocates bundles of dollars to accomplish desired results (as specified in the strategic plan). The result is an increased emphasis on "services provided" rather than "dollars spent."

Performance-based budgeting builds upon earlier fiscal practices. Its use of strategic planning and program structure draws upon the Planning-Programming-Budgeting System (PPBS) that became popular in the 1960s. It derives the setting of objectives and performance targets from the Management by Objectives (MBO) approach of the 1970's. And its designation of expected levels of

performance for each level of expenditure was first introduced with Zero-Based Budgeting, also in the 1970's.

In a departure from those previous approaches, however, performance-based budgeting emphasizes more broadly based involvement in planning efforts, the use of performance measures to make allocation decisions, and greater management flexibility in making spending decisions. At the same time, it de-emphasizes the generation of volumes of data solely for reporting purposes.

Still, adopting this newest approach is more evolutionary than revolutionary. The city of Charlotte, North Carolina began measuring the effectiveness of its public services in the 1970's, when it established a management-by-objectives initiative that was tied to the budget process. Those initial efforts, however, lacked a strategic mission or focus. Today the city has implemented and is refining a performance results system that progressively links strategic goals to department planning to budget objectives to performance goals for individual employees.

### Key Steps

For provincial and municipal governments, performance-based budgeting represents a fundamental shift away from traditional budgetary processes. Yet, successful implementation must necessarily build upon the past. Experience suggests the following important steps:

- 1. Gain consensus and commitment from key players.** Public managers have primary responsibility for strategic planning, developing performance measures, and monitoring, while legislators approve budgets and allocate resources. Identifying shared expectations and goals early on will ensure that performance measures will be useful and used by all parties.

Interviews with legislators, budget personnel, agency managers, and others involved in the budget process can help identify their specific interests and concerns.

2. **Develop an implementation plan and timetable.** Implementing performance-based budgeting may take anywhere from six months to six years. An implementation plan should include a timetable for accomplishing key activities. The province or locality must decide whether to undertake implementation on a pilot or full-scale basis. While pilot projects allow one to test and refine ideas on a small scale, full-scale implementation reduces the length of time required to fully embrace the new budgeting process.
3. **Provide training in developing and using measures.** In addition to establishing new budget guidelines and instructions, governments must train agency managers, staff, and policy makers in the development and use of performance measures. Experience indicates that in-person training is essential to success.
4. **Review/develop strategic plans.** Strategic planning provides a long-term context for making budget decisions. Organizations that have already undertaken a strategic planning process and developed related performance measures will be ready to build upon those efforts. Those that have not yet engaged in planning efforts will find it helpful to do so prior to moving into performance-based budgeting.
5. **Develop the budget and allocate resources.** Various approaches to constructing the budget may be considered, but a program budget appears to be the one most adaptable to performance-based budgeting. Some method of allocating costs among objectives and tasks—such as activity-based costing—will need to be

applied in order to link expenditures to performance goals.

6. **Develop supportive accounting and data systems.** Most governments will need to reconcile existing accounting and data systems with new performance systems. While performance systems are typically program-based, accounting structures often are not.
7. **Establish tracking and monitoring systems.** Governments must establish clear responsibilities for reporting and verifying performance information.
8. **Evaluate, report, and act on results.** Governments must evaluate agency progress and act on results. This may involve “rewards” for agencies with good performance, such as allowing the agencies greater operational flexibility or permission to retain costs savings. Alternatively, acting on results may involve heightened supervision, such as increased oversight and control, for agencies that fall short of their goals.

### Implementation Tips

- ☞ Obtain commitment from and consensus between executive and legislative leaders.
- ☞ Establish a realistic time frame for implementation.
- ☞ Involve agency managers in the development of performance measures and budgets.
- ☞ In return for greater accountability for results, allow department managers greater flexibility in making spending decisions.
- ☞ Develop an accounting system that is not just an “overlay” to the traditional line-item budget.
- ☞ In order to allay fears or misconceptions, encourage communication among all stakeholders throughout the implementation process.

## 6

## Contracting for Performance

Under pressure to accomplish more with less, provincial and municipal governments are increasingly contracting out the provision of many services to private sector and nonprofit vendors.

In Alberta, the government has transferred delivery of some services to a variety of third party service delivery agents. The government prescribes policies and standards to be followed and contracts with organizations to deliver certain services. The government is still ultimately accountable to the public for ensuring that the services are properly delivered.

In the US, a 1995 survey indicated that the majority of 120 local governments contacted had contracted out janitorial services, street maintenance, park maintenance, printing and food service, and sections of health services, and transportation. Those surveyed report considerable cost savings, flexibility and competition. Governments, they report, have the ability to purchase specialized skills on a short-term basis for performance improvements. On the other hand, reports of service interruptions and fraud have been reported by the press.

In Alberta, contracting out has included the operation of provincial campgrounds and various social services. Contracting out garbage management is common in Canadian cities. Less successful endeavors to date are contracting services for city park maintenance. Effectiveness of outcomes in terms of quality and cost and the human elements, are emerging.

Incorporating performance measurement into contract bidding and monitoring procedures allows governments to control the risks and help assure the quality of services to their citizens. The US city of Phoenix, for example, sets forth withholding clauses in its public works contracts; contractors who do not

perform adequately are not paid until the problem is resolved.

### Key Steps

Performance-based contracting works best when public agencies specify precisely what they want accomplished, assure competitive bidding for the task, evaluate a contractor's performance, and replace or penalize contractors who do not achieve expected results. Success also depends on developing a good partnership with vendors in order to work through the problems that inevitably arise. Key steps include:

1. **Identify appropriate services for competitive contracting.** Services best suited to outside contracting are those with easily identifiable goals, numerous potential bidders, in-house monitoring expertise, and the potential for significant cost savings. Anticipated political resistance and concerns about potential negative impacts on current employees must also be considered.
2. **Determine the full cost of in-house service.** Governments rarely calculate the full cost of delivering a product or public service, including direct costs, indirect costs, and overhead. Implementing activity-based costing allows a government to know how much it really costs to send out a water bill, fill a pothole, or do a building inspection. At the same time, it is important to recognize that contracting out involves costs beyond those fees directly charged by the service provider, such as the expense of monitoring performance outcomes.
3. **Prepare solicitation documents that define performance expectations.** Government must specify precisely what needs to be accomplished through the contractual arrangement. This means focusing on desired outcomes rather than merely describing what the government currently

does. Allowing vendors some flexibility to propose alternative ways of accomplishing those outcomes permits government to capitalize on the creativity of the competing parties.

4. **Identify potential contractors and solicit bids or proposals.** To make best advantage of market efficiencies, genuine competition must exist. Governments typically use an invitation to bid or a request for proposals to solicit potential contractors. It is important to consider other units of government, nonprofit organizations, and even the government's own employees as potential contractors. Some support or assistance might be necessary to prepare employees to bid on the service they currently provide, but doing so can help assure that the goal of true competition is achieved.
5. **Evaluate bids or proposals and award contract.** Factors to consider in evaluating bids or proposals may include cost, qualifications and experience, adherence to proposal requirements, and the extent to which the bid or proposal meets your organization's priorities and objectives.
6. **Implement ongoing performance monitoring.** A monitoring plan should be

developed and agreed upon before the contract is signed. At a minimum, it should provide for periodic reports from the contractor, a verification process, inspection procedures, and a process for surveying customer satisfaction and responding to complaints. However, contract administrators often find it preferable to blend this "enforcement" approach with a "partnership" approach in which they work with vendors on an ongoing basis to respond to problems, enhance services, or in other ways go beyond the precise terms of the contractual arrangement.

### Implementation Tips

- ☞ Define the contracted service in terms of desired results.
- ☞ Take steps throughout the process to involve employees and minimize displacement.
- ☞ Maximize competition, soliciting bids from the private sector, other units of government, and nonprofit organizations *as well as* providing appropriate training to support in-house bids.

## 7

## Creating and Sustaining a Supportive Environment

Performance measurement has been described as a patient process which must be implemented in an impatient world.

Strategic planning and performance measurement systems may, in fact, require years to show improvements, while elected officials are more likely to focus on what can be accomplished before the next election. And with the onset of a new administration, even the most promising initiatives may be relegated to the shelf.

Furthermore, it is difficult to order a bureaucracy to change. Financial incentives to motivate public employees are seldom available, and the bureaucracy may resist changes initiated by top leaders who are typically viewed as simply passing through. Some may be concerned that they will be held accountable for results over which they have little or no control. Others may fear that performance information will be used against them.

Nonetheless, a number of city governments in the US (Phoenix, Charlotte, Sunnyvale) are showing remarkable success in managing for results over the long-term.

The Alberta structure for performance management compares well to other jurisdictions. A supportive environment is reflected in the government business plan identifying the core businesses as *People, Prosperity, and Preservation*. The basic questions in focusing on results of the core businesses are “Did the program/service make things better for Albertans?” , and “ Did the government’s activities help achieve the desired results?” The overarching lesson is that a strategic planning and performance measurement system cannot simply be imposed on top of the existing bureaucracy. Changes in attitude,

work roles, management techniques, and organizational structures are essential to creating and sustaining an environment that supports results-oriented management.

Changes in organizational culture do not come quickly or easily. Unfortunately, all too often, little attention is given to managerial and employee training, to the exploration of alternative delivery systems, or other organizational changes. And, as noted earlier, effective communication among all stakeholders must be an ongoing priority.

### Key Steps

Governments can create an internal environment that supports results-oriented management. Key steps include:

1. **Diagnose the organization.** Understanding the culture and disposition of your organization is vital in gauging its readiness, or ability, to develop and sustain a performance measurement system. Factors to consider include the overall relationship between management and employees, as well as between management and its overseers. Is there a system in place that rewards risk-taking? Are there adequate financial resources to take on the process of implementing change?
2. **Obtain and maintain visible commitment from top management,** then build an awareness of the need for change throughout the organization. If managers and employees fail to perceive and endorse a need for change, planning and performance measurement will amount to little more than a paper exercise. Benchmarking specific best practices can be a powerful tool, not only in building an awareness

of the need for change but also in illustrating tangible benefits to be gained.

3. **Provide adequate training and support.** Training in the mechanics of measuring performance and the positive uses of performance data can help build support for performance measurement efforts.
4. **Develop a communications plan.** Over time, increase communication among all those involved in the measurement program, transferring ownership from an initial small group to all public officials, employees, and elected officials. It is also important to communicate effectively with citizen stakeholders.
5. **Address personnel issues.** Talk with employees to allay any fears about changing over to a performance measurement system. Encourage their active participation in designing measures, and phase in the actual use of measures in making budgetary and personnel decisions.
6. **Consider enacting legislation to establish rules and guidelines.** While many governments prefer to build interest and support informally, others opt to launch strategic planning and performance measurement activities with the support of formal mandates from governing boards and legislatures.
7. **Establish an institutional base.** An institutional base—whether the budget office, the auditor’s office, or as in Alberta, the Auditor General, or as in some US jurisdictions, a quasi-independent agency, or other institution—can serve as a focal point for measurement activities

and help to ensure consistency and sustainability of performance measurement systems.

8. **Adopt a supportive organizational structure and management style.** Moving from an authoritative to more openly participative management style helps to reinforce a broad-based commitment to results.
9. **Integrate strategic planning and performance measurement with other management reforms.** The challenge is to integrate efforts such as performance measurement, quality management, business process reengineering, and strategic planning so that they complement one another and are not treated as stand-alone activities.
10. **Form alliances with other sectors.** Government cannot hope to accomplish all its goals by working alone. Forming alliances across sectors and organizations can greatly enhance the likelihood of achieving lasting results. The active, ongoing participation of outside organizations can also help sustain the improvement process across changing political administrations.

### Implementation Tips

- ☞ Address the structural barriers to managing for results.
- ☞ Over time, increase communication among all those involved in the strategic planning and performance measurement program.
- ☞ Work towards some early successes. Celebrate, publicize, and build upon them.