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Accounting and Information  
Management Division

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The Honorable William V. Roth, Jr.  
Chairman, Committee on Governmental Affairs  
United States Senate

Dear Mr. Chairman:

As you know, there is a growing consensus among the public, the Congress, and the administration that the federal government's performance must improve substantially. But specifically *what* to improve, *by how much*, and *by when* is less clear. To assist the Committee in its oversight role, this letter responds to your February 21, 1995, request for information on goal-setting and performance measurement in leading private and public sector organizations, and current efforts in this regard by federal agencies.

This letter identifies several critical success factors for goal-setting and performance measurement based on our work with leading public and private sector organizations, our general management reviews, and our work on federal performance issues--especially regarding implementation of the Government Performance and Results Act (GPRA) of 1993, which was enacted to improve the effectiveness and efficiency of federal programs by establishing a system to set goals for program performance and to measure results. This work includes reviews of performance improvement techniques used by states and several foreign governments. In addition, we include examples of private sector management practices and results from our work on identifying opportunities to use commercial "best practices" to improve federal performance. We also provide examples of goal-setting and performance improvement based on profiles of winners of the Malcolm Baldrige National Quality Award,<sup>1</sup> details about Federal Quality Institute

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<sup>1</sup>The Baldrige Award is designed to recognize companies that have successfully implemented total quality management systems. The award is managed by the Department of Commerce and is administered by a consortium that includes the American Society for Quality Control and the American Productivity Center for Improvement.

awardees,<sup>2</sup> and other published sources; however, we have not independently verified the information from these sources. Though limited in number, the examples provided below illustrate various types of improvements being reported in the public and private sector.

### RESULTS IN BRIEF

For many years now, leading public and private organizations have shifted the focus of management and accountability from a preoccupation with inputs, such as budgets and staffing levels, to a broader focus on obtaining substantial and continuing improvements in cost, quality, and speed in the delivery of products and services. These organizations have set ambitious improvement goals based on a thorough understanding of their mission, customer needs, and business processes. The benefits offered by information technology to reengineer business processes, as well as increasing public expectations, have driven these organizations toward attaining substantial performance improvement targets. To meet such targets, these organizations systematically measure their performance; benchmark it against best practices in industry; and use this information to guide goal-setting, managerial decision-making, resource allocations, and day-to-day operations. These accomplishments do not come free, however; they often require up-front investments in people and systems to realize long-term gains.

The experiences of leading organizations provide valuable lessons for the government as federal agencies embark on implementing the strategic planning, goal-setting, and performance measurement requirements of the GPRA, and as they begin to redesign their critical work processes to achieve significant improvements. Although some federal programs are making progress in this regard, most agencies still have a long way to go in establishing well-defined and meaningful goals and sound performance measures that can result in substantial cost savings, better quality, and improved service to the public. As the experiences of leading organizations demonstrate, effective goal-setting and performance improvement efforts--ones that achieve major benefits in cost, quality, and timeliness--usually involve multiyear efforts to measure performance, identify specific problems, and develop and implement new business processes.

The federal government faces many challenges that are not individually unique to the public sector, but in combination tend to make fundamental performance improvements more difficult to achieve. For example, multiple stakeholders may make it difficult to reach consensus on mission, goals, and objectives. Also many federal agencies have not yet developed the processes, systems, and information needed to successfully manage their

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<sup>2</sup>The Federal Quality Institute recognizes organizations in the federal government that have achieved high quality and customer satisfaction at reduced costs by practicing total quality management. Judging for the award is done by examiners from private companies and federal organizations.

operations. Agencies are also faced with the challenge of building the in-house experience and expertise needed to become more results-oriented. Maintaining the momentum for improvement can also be difficult; the federal government has a mixed system of incentives that does not necessarily encourage setting ambitious goals. Resource limitations and legislative requirements for how programs are to be implemented may act as barriers to achieving improvement goals within short time frames. Moreover, sustaining a clear and continuing commitment to improvement within agencies can be extremely difficult due to the short tenure of many top-level political appointees. Even as these challenges are faced and met, private sector experience has shown that many improvement efforts which succeed in reaping substantial benefits have taken several years to plan and implement.

#### CRITICAL SUCCESS FACTORS FOR GOAL-SETTING AND PERFORMANCE MEASUREMENT EFFORTS

There are a number of critical factors that can influence whether goal-setting and performance measurement efforts will be successful. First and foremost, successful organizations establish a foundation for improvement by building consensus among key stakeholders and customers on their mission and lines of business. Among the factors that must be considered initially are customer needs, stakeholder concerns, corporate resources, and external constraints. Once these are understood, leading organizations then typically proceed to

- measure their performance rigorously and benchmark it against other organizations' performance, their own business needs, and customer expectations;
- create ambitious but realistic and measurable "stretch" goals, based on their understanding of mission, customer needs, and current performance levels, that challenge the organization to achieve performance improvements comparable to those achieved by industry leaders in key areas such as cost, quality, and timeliness;
- systematically link improvement goals to the organization's mission objectives and core business processes in order to communicate a clear vision of the outcomes that must be achieved over a defined period of time;
- tie improvement goals to day-to-day decision-making and activities at the operational level supported by focused education and training programs; and
- involve key stakeholders to help manage the improvement program as it moves toward its goals, and to tie the program consistently to resource allocation decisions.

The following sections provide both an overview of each of these critical success factors and examples of improvements achieved in private and public sector organizations. Attachment 1 lists additional improvement examples from several other organizations that have received the

Malcolm Baldrige National Quality Award.

Measure Performance Rigorously and Benchmark  
Against Leading Organizations

Effective performance measurement and benchmarking are basic to any improvement effort. Performance information provides an organization with the means to identify problem areas and to track progress toward achieving goals, while benchmarking helps define specific reference points for setting performance improvement targets.

Companies we studied in our report on quality improvement efforts used a variety of traditional operating indicators, such as inventory costs, production errors, and order processing time, to measure the cost and timeliness of products and services and the satisfaction of customers.<sup>3</sup> Similarly, our work with state governments shows that some also are moving beyond traditional output-oriented performance measures, such as program costs, and are focusing more on customers' satisfaction with the services.<sup>4</sup>

-- *Oregon has developed performance indicators and goals for key initiatives, called the "Oregon Benchmarks." These goals cover a wide array of areas related to quality of life and service to the public. For example, one state goal calls for a 73-percent reduction within 3 years in reported crimes against people or property motivated by prejudice (racial, religious, political, and other specified factors). Another state goal, to increase post high school educational levels, calls for a 50-percent increase within 3 years of the proportion of 25-year-olds holding an Associate Degree or journeyman's card.*

Benchmarking--comparing your organization's performance with world-class performers--is a critical part of an effective improvement program. It can start within the organization by looking for internal pockets of excellence that can be adopted organizationwide. But the most valuable benchmarking is done against external organizations noted for excellence in performing particular processes, such as product development, quality control, inventory management, claims processing, distribution, or customer relations. Benchmarking helps to (1) identify the gaps between the organization's process performance and that of leading organizations and (2) understand how leaders (and competitors) have changed their structures, work processes, and lines of business to improve performance dramatically. Together, performance measurement and benchmarking provide a powerful combination for identifying goals and best practices.

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<sup>3</sup>Management Practices: U.S. Companies Improve Performance Through Quality Efforts (GAO/NSIAD-91-190, May 2, 1991).

<sup>4</sup>Managing for Results: State Experiences Provide Insights for Federal Reforms (GAO/GGD-95-22, Dec. 21, 1994).

- *Faced in the early 1980s with a highly competitive marketplace, Xerox sought to elevate its Business Products and Systems group to world-class status. It devised a benchmarking system to measure business performance in 240 key areas. The ultimate target for each attribute was set at the level of performance achieved by the world leader, regardless of industry. By 1989, when it won the Baldrige Award, Xerox's gains over the previous 5 years included a 78-percent decrease in the number of defects per 100 machines, a 40-percent decrease in unscheduled maintenance, and a 27-percent drop in service response time (nearly 2 hours). Xerox also became the first in the industry to offer a 3-year product warranty.*

### Create "Stretch" Goals to Drive Dramatic Improvement

Successful organizations typically create ambitious performance goals aimed at achieving dramatic improvements in performance, rather than settling for marginal improvements of just a few percentage points. Managers do this both in response to competition or budget pressures and to force their organization to think beyond constraints that may have gone unquestioned for years. The Conference Board, Inc.--a New York business research group--has cited some examples of "stretch" goals from a variety of industries. Meeting goals such as these might well involve multiyear efforts: (1) achieving a \$100 million cost reduction from a \$650 million baseline, (2) reducing a 4-day turnaround time for pricing to same-day pricing, (3) achieving 100 percent on-time delivery, and (4) reducing order entry cycle time by 85 percent.

The goal-setting process requires careful consideration. Performance goals should be realistically achievable to avoid negative consequences, such as employee disillusionment or customer dissatisfaction, if they are not met. At the same time, setting goals that are too modest can also be counterproductive. They may lead the organization to focus on optimizing current work processes that are inherently inefficient, thereby further entrenching the processes and making them even more difficult to change. Stretch goals help challenge and motivate an organization to fundamentally rethink how it does its work.

- *One Fortune 100 manufacturer set aggressive stretch goals for one of its operating divisions, such as 100-percent customer satisfaction, 200-percent return on information systems investments, and 50-percent reduction in delivery time with a tenfold increase in service quality. Between 1989 and 1992, the division accomplished impressive performance results. For example, measurable returns on information technology investments rose from \$2 million to \$20 million per year. Productivity improvements also increased steadily, with \$5 million in savings accomplished in the first year alone.*
- *The Harper Group, an air-freight forwarder based in San Francisco, set stretch goals for on-time cargo delivery despite the fact that it relies on outside vendors--air carriers--to deliver its goods. The company set what to many seemed an unrealistically high goal--*

*97 percent on-time performance--and proceeded to work cooperatively with supplier airlines to meet that standard. In the Harper Group's top 20 markets, on-time deliveries improved from roughly 65 percent to the high 90-percent range within 7 months from the start of the improvement process.*

In addition to establishing realistic, attainable goals at the outset, it is important to recognize that goal-setting is an iterative process and requires some flexibility. Successful organizations regularly reevaluate their performance goals to ensure that they are still practical and appropriate to the evolving business environment, and to challenge themselves to meet even higher levels of performance.

-- *At Motorola, an iterative goal-setting process is part of their aggressive and ongoing commitment to continuous improvement. In 1981, the company set out to achieve a tenfold improvement in quality. Once this was accomplished, however, Motorola realized that achieving a one-time tenfold goal was not ambitious enough. In January 1987, it established its "Six Sigma" challenge, a goal for achieving a standard of near-zero defects. As part of the Six Sigma effort, Motorola's goals now call for a tenfold reduction in defects every 2 years. As such, quality lapses now measured in defects per million will in 6 years be measured in defects per billion, and in 12 years in defects per trillion.*

#### Systematically Link Goals to the Organization's Mission

Successful organizations solicit and consider the expectations, interests, and views of customers, stakeholders, program managers, and staff in defining their mission and establishing a clear vision of what needs to be accomplished. This common understanding of purpose helps the whole organization maintain a strong sense of direction as it works toward achieving its goals. Performance goals become sharply focused on outcomes linked to the defined mission. Obtaining a reasonable degree of consensus on mission (as well as determining how customer satisfaction will be measured) can be a difficult task. In fact, as we discuss later, it may be the single greatest challenge facing government agencies with their diverse mandates, programs, customers, and stakeholders.

#### Tie Goals to Day-to-Day Operational Activities

The top executives of leading organizations are not only active in fostering a shared understanding of their organizations' mission and goals, they also work hard to ensure that daily operations support these goals by establishing an accountability structure that links goals, priorities, and plans to operational activities. Line managers are responsible for developing and implementing policies and procedures to support operational goals, and they are held accountable for achieving programmatic results.

This accountability structure links priorities, goals, and plans to daily operational activities and helps ensure that day-to-day activities contribute to the mission, goals, and objectives defined in the organization's performance improvement strategy. This structure also helps to generate the commitment throughout all levels of the organization needed to sustain improvement efforts over the long haul. Moreover, it leads to clear and measurable performance statements and information about program performance, which is essential for assessing progress and defining additional improvement actions.

Our work in other countries--Canada, the United Kingdom, Australia, and New Zealand--that have been implementing results-oriented management for the past 10 to 15 years shows that governmental organizations in these countries have developed processes to identify and communicate mission and goals, as well as descriptions of activities designed to achieve the mission and goals. The countries supported their strategic plans with operational plans that identified in more detail how the overall goals were to be achieved through everyday activities and how progress was to be measured. Reports on the progress made toward achieving objectives were used to provide feedback to managers at all levels and to point out the need for adjustments in operations or strategy.

For example, a 1991 United Kingdom National Audit Office review of management information systems development in three departments found (1) that each had established a hierarchy of objectives reaching from top management down to line staff and (2) that these departments had made good progress in measuring and monitoring performance. Managers reported that they were receiving more useful performance information for managing resources than ever before.

In addition to linking goals to daily operations, the countries we studied sought to increase the accountability of public organizations for results in three ways. First, the United Kingdom and Canada measured the quality of services provided directly to the public and publicly reported the results. Second, the four countries introduced performance agreements between the different management levels to ensure accountability throughout the management hierarchy for achieving agreed-upon performance targets. Third, departments and agencies in the four countries prepared performance reports for their respective parliaments. These reports were generally made available to the public.

#### Involve Key Stakeholders in Managing the Improvement Program Toward Its Goals

Goal-setting and performance improvement efforts should lead to real results. Stakeholder buy-in and constant involvement over time are important parts of ensuring that the efforts are well-managed, stay focused on desired outcomes, and do not become empty promises.

- *Faced with a budget crisis imposed by their legislature, a senior management team in one state used performance measures to rethink information systems priorities, better direct investments to achieve mission goals, and address legislative concerns. Their comprehensive program focused on (1) specific agency-level and information management goals and processes, (2) workshops to develop quantifiable performance indicators, (3) benchmarking, and (4) integrating performance measures into the planning, budgeting, and evaluation processes. The effort has enhanced the quality of decision-making and priority-setting, improved service quality, and better directed information systems investments. Over the duration of the improvement effort, the legislature remained closely engaged with the agency in assessing the program and funding investments based on demonstrated ability to produce results.<sup>5</sup>*

In the federal arena, major stakeholders include both the legislative and executive branches. Given their responsibilities to oversee agencies' operations and allocate budget and staffing, the Congress and the administration play key roles in helping agencies set targets, monitor performance, and adjust resources based on demonstrated results and progress toward achieving improvement goals.

#### PROGRESS AND CHALLENGES IN THE FEDERAL ENVIRONMENT

The experiences of leading organizations suggest that making the fundamental changes in organizational cultures and management systems to create a results-oriented environment requires a long-term commitment and effort. In our work looking at how private and public sector organizations change their cultures, we found that such change usually takes at least 5 to 10 years to complete, although meaningful results can be achieved in shorter periods of time.<sup>6</sup>

It seems reasonable to assume that federal agencies may take even longer than private sector organizations to fully develop and employ outcome-oriented goals and performance measures because well-established indicators used in the private sector, such as market share, sales per employee, return on assets, and return on sales, may not be appropriate to the federal

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<sup>5</sup>Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology (GAO/AIMD-94-115, May 1994).

<sup>6</sup>Organizational Culture: Techniques Companies Use to Perpetuate or Change Beliefs and Values (GAO/NSIAD-92-105, Feb. 27, 1992). See also, Management Reforms: Examples of Public and Private Innovations to Improve Service Delivery (GAO/AIMD/GGD-94-90BR, Feb. 11, 1994).



environment or may need considerable adjustment to be applicable.<sup>7</sup> Also, in some cases, resource limitations or legislated requirements for how programs are to be implemented may act as barriers to achieving improvement goals within short time frames. The challenges facing federal agencies underscore the need to aggressively implement management changes now and to begin building the experience necessary to make major improvements in effectiveness.

GPRA and the Chief Financial Officers (CFO) Act clearly recognize the need for an ongoing effort to build the management capacity within federal agencies. As a result, the implementation of the requirements of both acts are to be phased in over several years. The more than 70 pilots currently ongoing under GPRA are to give agencies experience in goal-setting and performance measurement. These pilots are also intended to provide lessons for the rest of the federal government before GPRA's strategic planning requirement is implemented governmentwide in fiscal year 1998 and the performance planning requirement in fiscal year 1999. In addition, the Government Management and Reform Act (GMRA) of 1994, which expands the CFO act, establishes a financial management leader in each major department, requires annual audited financial statements for all major departments and agencies for fiscal year 1996, and mandates the development of cost information and the modernization of financial systems. Taken together, these legislative initiatives should lead to more reliable data on program performance and costs, which are necessary for successful improvement efforts.

#### Successful Federal Efforts Suggest Opportunities for Broader Application

Some federal agencies already have had success in using benchmarking and other improvement techniques to set and/or meet ambitious performance goals. The five examples that follow--drawn from our work and other reviews of performance improvement efforts--illustrate key improvements that have been made in cost, quality, and timeliness.

- *The Department of Defense (DOD) has been conducting benchmarks against commercial practices to identify ways to reduce costs and generate efficiencies. For example, in 1992 the Air Force did a benchmark study of its dedicated air transport system. This study resulted in the transport system's elimination. The Air Force found that using commercial modes of shipping would result in an estimated \$80 million in annual savings.*<sup>8</sup>

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<sup>7</sup>See Performance Budgeting: State Experience and Implications for the Federal Government (GAO/AFMD-93-41, Feb. 17, 1993).

<sup>8</sup>Defense Transportation: Commercial Practices Offer Improvement Opportunities (GAO/NSIAD-94-26, Nov. 26, 1993).

- *The Defense Contract Management District (DCMD) Northeast manages over 82,000 defense contracts. In 1989, in order to reduce the number of products that failed to meet contract specifications, DCMD Northeast set out to eliminate all communication barriers between customers and suppliers. As a result, by 1992, rejection rates for several contractors had been reduced by 53 percent, and one contractor was able to reduce rework by 48 percent. In addition, by improving the quality of contract information in its computerized databases, DCMD Northeast was able to reduce the error rate for delivery-schedule records by about 80 percent.<sup>9</sup>*
- *In 1989, managers at the Philadelphia Regional Office of the Department of Veterans Affairs set out to improve the process for granting loans to veterans against their own insurance policies. Prior to its efforts to obtain customer feedback, the Office's Insurance Center, which handles veterans' life insurance loan applications, was exceeding its self-defined check processing standards. After seeking and analyzing customer feedback, the Insurance Center implemented new procedures and streamlined the application and check mailing process from an average of 2.7 days to 1.5 days. In addition, the Center reported that it cut in half the amount of time spent dealing with customer complaints.<sup>10</sup>*
- *During early improvement efforts, investigators at the Department of Labor's Wage and Hour Division in San Francisco increased the number of investigations they conducted to enforce the Migrant and Seasonal Agricultural Worker Protection Act. The investigators realized, however, that increased numbers of investigations did not always serve the best interests of their customers; rather, the best results were attained when serious violations that affected the welfare of farmworkers were not merely cited but also corrected. A team assigned to review computer database files of investigations provided information to the investigators that allowed them to target their agricultural enforcement efforts toward those areas of greatest impact on farmworkers. As a result, the division reported that the number of violations cited and corrected per investigation doubled from approximately 0.6 in 1990 to 1.4 in 1991.*
- *The Public Services and Administration (PSA), an agency of the Patent and Trademark Office (PTO), processes about 195,000 patent and 125,000 trademark applications per year. Up until 1992, processing time averaged about 100 days, causing widespread customer dissatisfaction. PSA formed quality action teams to review each of its*

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<sup>9</sup>Cohen and Brand. Total Quality Management in Governments: A Practical Guide for the Real World, San Francisco: Jossey-Bass, 1993, pp. 190-192.

<sup>10</sup>This example, and the two following ones on the Department of Labor and the Patent and Trademark Office, are from Management Reforms: Examples of Public and Private Innovations to Improve Service Delivery (GAO/AIMD/GGD-94-90BR, Feb. 11, 1994).

*45 processes. For one process, a goal was established to reduce the amount of time a patent applicant had to wait for a filing receipt from an average of 36 days to 22 days. A process review team flowcharted the preexamination process, eliminated non-value-added functions, streamlined tasks, restructured various work units with specialized functions to multifunctional teams with "one-stop processing," and made other improvements. As a result of the changes, PSA reported that filing receipts were, on average, provided to applicants within 18 days, in-process errors were cut in half, and requests for corrections decreased 81 percent. This effort also resulted in a time savings of over 7,500 hours which PTO officials were able to assign to other customer services.*

Although the impact of these examples is confined to specific programs, processes, or geographic locations, they involve areas that are common to many other government programs. It is not uncommon for leading organizations to start many aggressive improvement efforts by setting short-term goals in areas of limited scope before expanding these efforts organizationwide.

Further improvement opportunities within the government involve functions that cut across an entire department or even several departments, such as financial management, logistics, payroll, or data center services. In these cases, the savings and improvements have the potential to be magnified governmentwide. Our work in examining how commercial practices offer improvement opportunities for DOD has highlighted examples where stretch goals for improvement could be set in many areas. For example:

- *Bethlehem Steel Corporation shifted its inventory management function to its suppliers by providing them with a history of the demand for items and key inventory data, and allowing them open access to its facility. Suppliers worked closely with users of the supplies to establish minimum and maximum inventory levels for each item used by Bethlehem Steel. From 1984, when the new inventory practices were adopted, through 1992, the corporation reduced the value of its on-hand inventory from \$22.5 million to \$6.5 million (a reduction of \$16 million or 71 percent).<sup>11</sup>*
- *Beginning in 1987, PPG Industries established long-term contracts with its suppliers for maintenance and repair items (such as valves, pipes, bearings, and other hardware), developed electronic communications systems, and standardized the types of inventory used. As a result, PPG has reduced or eliminated the need to buy, store, and maintain inventory within its facility. As we reported in 1993, one of PPG's industrial plants eliminated \$4.5 million (80 percent) in maintenance and repair supplies and saved*

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<sup>11</sup>Commercial Practices: DOD Could Reduce Electronics Inventories By Using Private Sector Techniques (GAO/NSIAD-94-110, June 29, 1994).

*approximately \$600,000 in annual operating costs by locating 10 suppliers' activities at a supplier park 600 yards away.<sup>12</sup>*

- *Six private sector companies found that they could substantially reduce supply costs by developing alternative purchasing methods. One company reported that it had reduced the amount of inventory held from \$70 million to \$20 million (over 70 percent), while increasing its customer requisition fill rate to 99.9 percent. Another company reported that it was able to reduce inventory from \$40 million to \$23 million (over 40 percent) and increase its service level from 50 to 98.7 percent while expanding its operations and doubling the number of items in its inventory.<sup>13</sup>*

#### NAPA Finds "Lessons to Be Learned" from GPRA Pilots

A special panel of the National Academy of Public Administration (NAPA) recently reviewed the initial pilot performance plans for more than 40 of the 52 GPRA pilot projects that were undertaken in fiscal year 1994.<sup>14</sup> NAPA stressed that the piloting agencies had only 3 months to develop performance plans from the time the pilots were officially designated as GPRA pilots--a period that clearly was insufficient for many of the pilots. Still, NAPA's review of these initial efforts reinforced a number of general lessons about performance measurement that we learned from our work with leading organizations, including the following key points:

- implementation is a long-term process requiring training, experience with the development and use of performance information, and attention to the collection and quality of the performance data,
- successful efforts require the support and active participation of top-level managers, policymakers, and staff throughout federal agencies, and
- performance indicators must be anchored in agencies' missions and general goals.

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<sup>12</sup>Commercial Practices: DOD Could Save Millions by Reducing Maintenance and Repair Inventories (GAO/NSIAD-93-155, June 7, 1993).

<sup>13</sup>Defense Inventory: Applying Commercial Purchasing Practices Should Help Reduce Supply Costs (GAO/NSIAD-93-112, Aug. 6, 1993).

<sup>14</sup>The National Academy of Public Administration, Toward Useful Performance Measurement: Lessons Learned From Initial Pilot Performance Plans Prepared Under the Government Performance and Results Act, Washington, D.C., November 1994. Since NAPA's review, additional GPRA pilots have been designated by the Office of Management and Budget. More than 70 pilots in 27 departments and agencies are now under way.

On the basis of its review of the GPRA pilots' initial set of performance plans, NAPA concluded the following:

"Development of an effective performance measurement system requires systematic work in a number of essential areas: defining agency vision and strategic mission; establishing program missions and objectives; establishing long-term and annual program performance targets/goals; developing performance indicators and collecting performance data; using performance indicators in improving program performance; and communicating results so that they can be used by policymakers, managers, and the public.

"An important first step has been taken in public management improvement, but a great many steps remain to be taken by fiscal year 1999, when governmentwide performance plans are due, and by March 2000 when fiscal year 1999 performance reports are due."

#### Challenges Facing Federal Agencies in Setting and Meeting Improvement Goals

Our work on the experiences of leading public and private sector organizations demonstrates that fundamental improvements in program and service delivery and customer satisfaction are possible when the organizations adopt and execute a cohesive management framework for improvement. However, it is also evident that similar improvements in the effectiveness of federal programs will not come easily or quickly. The many challenges that the federal government faces, while not individually unique to the federal sector, in combination make fundamental performance improvements more difficult to achieve.<sup>15</sup> For example:

- *Multiple stakeholders pose challenges for efforts to reach consensus on mission, goals, and objectives.* A lack of agreement on an agency's basic direction--on what the organization ought to be doing and who should be doing it--represents a critical barrier to using performance information to improve effectiveness. Frequently, many program customers and other stakeholders of federal agencies do not agree on program mission and aims, and these stakeholders can often change. For example, our management work at the Agency for International Development and the Economic Development Administration discussed how competing stakeholders' views of the organizations' missions hampered their effectiveness.<sup>16</sup> In addition, the federal government does not directly control many of the goals it is trying to achieve. For example, a national goal to reduce crime or increase

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<sup>15</sup>See Performance Budgeting: State Experiences and Implications for the Federal Government (GAO/AFMD-93-41, Feb. 17, 1993).

<sup>16</sup>AID Management: Strategic Management Can Help AID Face Current and Future Challenges (GAO/NSIAD-92-100, Mar. 6, 1992) and EDA's Management Challenges (GAO/GGD-95-62R, Feb. 17, 1995).

reading scores may require the coordinated involvement of a variety of federal agencies, states, localities, nonprofit organizations, and profit-making contractors.

- *Many federal agencies will need to develop the processes, systems, and information to successfully manage their operations for results.* Our reviews of 23 large federal agencies and departments done over the last decade consistently show that many agencies lack the fundamental management infrastructure and basic information to operate in a results-oriented environment. Many of these agencies had not created a strategic vision of their futures and lacked good systems to collect and use financial and program information to gauge operational success and accountability.

As we reported earlier this year, widespread weaknesses in agency financial systems are crippling our government's ability to monitor and manage its \$1.3 trillion in annual revenue, \$1.5 trillion in net outlays, and over a trillion dollars of assets.<sup>17</sup> More often than not, the information needed to measure agency performance and costs is either unavailable or unreliable. As our 1995 series of High Risk reports indicated, a lack of fundamental accountability has led to hundreds of management weaknesses throughout the government, many that persist for years.<sup>18</sup> These weaknesses have fostered an environment with inefficient processes that do not provide reliable information and that urgently need to be improved.

Moreover, almost all of the government's major departments and agencies have not been able to pass the test of an independent financial statement audit. This problem extends to management information systems that do not have reliable performance data or that cannot integrate data from other systems, making it hard for managers to analyze complex program problems, develop sound policies, or measure the effectiveness of agency actions.

- *Agencies must build the expertise needed to become more results-oriented.* Our reviews have also found that many agencies did not have people with the necessary skills to accomplish their missions. Many agencies lack critical skills in information technology, financial management, and performance measurement. Unfortunately, the federal government's human resource system is not well-positioned to help agencies respond to their staffing and skills needs. For example, we have reported that federal hiring mechanisms are burdensome and complex and that many managers believe that the time it takes to hire someone is a significant problem.<sup>19</sup> Our review of leading states found that

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<sup>17</sup>Government Reform: Using Reengineering and Technology to Improve Government Performance (GAO/T-OCG-95-2, Feb. 2, 1995).

<sup>18</sup>1995 High-Risk Series, 12 volumes (GAO/HR-95-20SET, Feb. 1995).

<sup>19</sup>The Public Service (GAO/OCG-93-7TR, Dec. 1992).

they recognized the need to change their human resource systems to better support a focus on program outcomes.<sup>20</sup> The focus of such reforms ranged from changes in staff appraisal systems to the reduction and streamlining of staffing rules and procedures. However, the states are finding that it is easier to identify rigidities and problems with civil service systems than it is to find workable solutions that also carry out public sector merit principles. We also noted that training in the development and use of performance measures was a key ingredient in some of the states that are among the leaders in implementing results-oriented management reforms.<sup>21</sup>

- *Federal agencies frequently lack an incentive system to undertake performance improvement initiatives.* The federal government has a mixed system of incentives that does not necessarily encourage setting ambitious, outcome-oriented goals and measuring and reporting performance accurately. In public organizations, performance measurement can result in counter-incentives, such as sharpened criticism and oversight, budget cuts, and staff reductions. Moreover, given the lack of positive incentives, line managers and staff may be reluctant to commit to achieving outcomes that they do not totally control for fear that negative performance information will be used against them.

In our recent report on management reforms in leading states, we noted that some states, such as Minnesota and Oregon, initially had difficulties obtaining buy-in for performance measurement from line managers and staff. To minimize management and staff concerns, the states provided managers and staff with significant opportunities to design their own performance measures and provided training on how they could use the resulting performance information to improve their effectiveness.

NAPA, in its review of early GPRA efforts, also noted that some agencies said that they were avoiding performance indicators over which they had limited control--typically outcome indicators--out of concern that they would be held solely accountable for achieving them.

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<sup>20</sup>Managing for Results: State Experiences Provide Insights for Federal Reforms (GAO/GGD-95-22, Dec. 21, 1994).

<sup>21</sup>A recent report by Donald F. Kettl for the Brookings Institution noted that in 1991 the federal government invested only about 1.3 percent of its personnel budget in training. By way of contrast, Australia, recognized as a leader in implementing public management reforms, spends about 5 percent of its public service personnel budget on training. (Donald F. Kettl, Reinventing Government? Appraising the National Performance Review, The Brookings Institution, Center for Public Management, Washington D.C., Aug. 19, 1994.)

- *Maintaining a clear and continuing commitment to performance improvement can be extremely difficult in the federal government due to turnover among political appointees.* Experience has shown that obtaining and sustaining a commitment to improvements will be a continuing challenge in the federal government because improvement efforts must be maintained well beyond the tenure of the average political appointee. Our work has shown that the average tenure of top political appointees in large agencies is about 2 years, and that some positions are vacant longer than they are filled.<sup>22</sup> Such turnover contributes to an environment where, time and again, promised solutions have not been fully implemented. Top political and career officials must work together to demonstrate a clear and continuing commitment to change. However, career officials cannot assume total leadership for ensuring that performance improvements are implemented. There is no substitute for having top political managers completely committed to change in both words and actions.

### CONCLUDING OBSERVATION

The magnitude of the combined challenges facing the federal government, and the long-term effort that will be needed to make major improvements in effectiveness, suggest the need to reinforce aggressive implementation of GPRA requirements. Agencies and the oversight community need to make concurrent progress on several important factors, including reaching consensus on agencies' mission and goals, defining outcomes, building data systems and staff, sharpening incentives, and achieving and sustaining top-level involvement. Progress on all of these factors will be required--and must be sustained over time--to truly change the culture of federal agencies to better focus on results and improve the national government's efficiency, effectiveness, and responsiveness to the American people.

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<sup>22</sup>Political Appointees: Turnover Rates in Executive Schedule Positions Requiring Senate Confirmation (GAO/GGD-94-115FS, Apr. 21, 1994).



B-260860

We look forward to providing additional assistance to the Committee in this important area. If you have questions about the information in this letter, please contact either Christopher Hoenig at (202) 512-6406 or Charles Patton at (202) 512-3532.

Sincerely yours,



Christopher Hoenig  
Director, Information Resources Management/  
Policies and Issues  
Accounting and Information Management Division



Charles I. Patton  
Associate Director, Federal Management Issues  
General Government Division

Attachment I: Selected Baldrige Award Winners and Their Reported Accomplishments

Company	Cost Reduction	Quality Improvement	Productivity Improvement	Cycle Time/Customer Satisfaction
Ames Rubber Corporation		Defects reduced from over 30,000 parts per million to 11*	Sales per teammate up 48 percent in 3 years*	
AT&T Universal Card Services				Telephone applications processed in 3 days; nearest competitor takes 10
Xerox Corporation Business Products and Systems	In 1 year, \$116 million saved via efficiency- and quality-enhancing measures	In 5 years, 78-percent decrease in defects per 100 machines produced*		27-percent drop (nearly 2 hours) in service-response time*
Globe Metallurgical Inc.				Customer complaints reduced by 91 percent in 2 years*
Milliken & Company	60-percent reduction in costs where process improvement efforts were undertaken*		77-percent increase in ratio of production to management workers*	
Texas Instruments Defense Systems & Electronics Group			Organizational layers reduced 38 percent*	Customer complaints down 62 percent*
Westinghouse Electric Corporation Commercial Nuclear Fuel Division		Production yields up 74 percent in 3 years*		100 percent on-time delivery*
Zytec Corporation	Production costs reduced 30 to 40 percent in 3 years*			On-time product delivery up from 85 to 96 percent in 1 year

Source: Malcolm Baldrige National Quality Award, Profiles of Winners 1988-1993

Note: \* denotes a multiyear effort.

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