PERFORMANCE MANAGEMENT, BENCHMARKING AND REENGINEERING WITHIN GOVERNMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

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PERFORMANCE MANAGEMENT, BENCHMARKING AND REENGINEERING EFFORTS WITHIN GOVERNMENT

TUESDAY, JUNE 20, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 p.m., in room 2154, Rayburn House Office Building, Hon. Charles Bass presiding.

Present: Horn, Fox, Bass, Maloney, and Mascara.

Ex-Officio Present: Clinger.

Staff present: J. Russell George, staff director; Anna Gowans Young, professional staff member; Andrew G. Richardson, clerk; Liz Campbell, minority staff assistant; and Dave McMillen and Matt Pinkus, minority professional staff.

Mr. BASS [presiding]. A quorum being present, the Subcommittee on Government Management, Information, and Technology will come to order. This afternoon we will hold the eighth of nine hearings on making government more responsive at less cost. This subcommittee has been focusing, in recent weeks, on how to improve the Federal Government and fundamentally rethink agencies' missions and goals.

In this hearing, we will address how organizations can measure their performance; that is, the progress they are making toward goals they have set for themselves. We will look at methods used in other countries, State governments and the private sector that enable them to plan strategically, objectively evaluate results, and improve the delivery of goods and services.

Today we will be examining performance measurement, benchmarking, and reengineering. These are techniques that have been successfully used in the private sector to make organizations more responsive to the needs of their clients, while helping to boost quality and lower costs. The Federal Government is already using some of these techniques, and we will be hearing testimony on their implementation.

Today's hearing will help us determine to what degree ongoing efforts have been successful, and what strategies can be used in the future. For many years now, leading organizations have been using measures of performance to articulate goals and objectives; evaluate alternatives; apportion resources; monitor progress; and profit from mistakes. Good performance measures tell what is needed to do a particular task well. They also make it easier for organizations to learn how to continually improve.

We begin with two panels discussing the design and use of performance measures. The first will convey the views of Washington area research and analysis groups, and the second, GAO experts, will give an overview of the performance measurement projects. Then two State planners, Linda Kohl of Minnesota and Sheron Morgan of North Carolina, will describe what their States are doing with their programs for planning and measuring government performance. To conclude, we will hear from representatives of two national consulting firms.

I would like to thank our witnesses in advance today for agreeing to provide us with their perspective, as we continue this process. Their testimony will provide us with invaluable insight, as this Congress downsizes the Federal Government. That concludes my statement.

[The prepared statements of Hon. Stephen Horn and Hon. Jon Fox follow:]

PREPARED STATEMENT OF HON. STEPHEN HORN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

This afternoon we hold the eighth of nine hearings on Making Government Work. Past sessions have focused on how to change the Federal Government and what agencies' missions and goals should be. In this hearing we will concentrate on how to measure progress toward goals once they are set. We will examine an approach being used in industry, state governments, and other countries that helps quantify, evaluate and improve results in the delivery of goods and services.

Pressure to improve Federal Government management has been mounting as fast as the national debt. Last November a mandate was granted, by the majority of those voting, for Congress to move boldly toward making the Government work more effectively, more efficiently and at less cost to the taxpayers. As the national Government's board of directors, Congress must meet those expectations. Other countries, state governments and the corporate world have all found ways to deliver their goods and services better, faster, cheaper and friendlier. They are becoming more efficient and effective. So can the national Government. Today we will look at some of the tools they have used—business process reengineering, activity-based management, and performance measurement.

Successful organizations have long used performance measures to define goals and objectives, evaluate alternatives, allocate resources, track progress and learn from mistakes. Effective measures of performance define and specify what is needed to perform a particular mission well. They also make it easier for organizations to learn, objectively and consistently over time, how to continually do better.

We begin with two panels discussing the design and use of performance measures. The first will convey the views of Washington area research and analysis groups. In the second, General Accounting Office experts will give an overview of performance measurement projects. Then, two state planners, Linda Kohl of Minnesota and Sheron Morgan of North Carolina, will describe their programs for planning and measuring government performance. To conclude, we will hear from representatives of two "Big Six" professional consulting firms. Ladies and gentlemen, we thank you all for joining us, and we look forward to your testimony.

PREPARED STATEMENT OF HON. JON FOX, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. Chairman, I once again commend your leadership as we continue the "Making Government Work" series.

This series would not be complete if we did not address performance measurement, benchmarking, and reengineering and how these management techniques can be implemented. As we consider efforts to improve government functions, it is of vital importance that we explore ways that can improve the quality of organizations' services and programs, while at the same time highlighting activities and costs that could be cut without sacrificing quality.

I look forward to hearing from today's expert witnesses who will offer their strategic plans which incorporate results-oriented performance measures.

Mr. BASS. And at this point, I will introduce the gentlelady from New York, ranking member of this subcommittee, for her opening statement.

Mrs. MALONEY. Thank you very much. This series of hearings on improving government performance is especially timely. There's always room for improvement in government management techniques, and setting goals and priorities, and ensuring satisfaction for the public, the consumers of government services. In some cases, there may be ample reason for dissatisfaction with the way Federal agencies are run. But in other cases, agencies get a bum rap as broad-ranging denunciations of government bureaucracy and seemingly random efforts to cut budgets and eliminate departments and programs threatened to disrupt important services which are needed and work well.

In the last Congress, I managed on the floor the passage of the Government Performance and Results Act by the House. The bill became law, and is in the process of being implemented. It has strong support within Congress and in the administration, as an element of President Clinton's National Performance Review.

Today we'll hear testimony on the concepts underpinning that legislation. Next week, we'll hold an oversight hearing on the early effects of the act. As the time tables set in the act are met, we will hopefully see significant and positive changes in the way government operates.

The Government Performance and Results Act is a major step toward reinventing the way agencies think about themselves and their jobs. It will also change the way business is conducted in the Congress. GPRA will change the way agencies set goals; evaluate results; and the way Congress considers funding needs. We will start telling the American people exactly what kind of success they're getting for their tax dollars by holding agencies and ourselves accountable when goals are not met. This is a change, both in the mechanics and in the culture of government.

Today, Federal managers are impaired in their efforts to improve efficiency and effectiveness because they lack program goals and performance measurements. And as they work to provide public services, they are increasingly expected to perform with fewer resources. The use of performance measures, benchmarking, reengineering and related concepts in government, backed up by law, will provide new incentives for new ways of getting things done. Implementing GPRA will not be easy, but the potential benefits are great.

Mr. Chairman, I hope that our colleagues will take advantage of the information gathered here, as they consider issues of government management and budget policy in the 104th Congress. I would hate to see us rush to abolish programs and whole Cabinet Departments recklessly. We need to consider the improvements in government management, which have already been made, where they may help us resolve some of our fiscal problems, without indiscriminate and misguided approach.

Again, thank you for holding these hearings, and I look forward to hearing from our witnesses. Thank you.

Mr. BASS. Thank you very much, Mrs. Maloney. The chair will now recognize the distinguished gentleman from Pennsylvania, the chairman of the full committee, Mr. Clinger.

Mr. CLINGER. Thank you very much, Mr. Chairman, and I do not have an opening statement. I would like to indicate that I'm very pleased we're holding these hearings. I know one of the things that this committee has tried to focus on over the years is how we can, in fact, improve performance; how we can basically make the government, as we say, work better but cost less.

Clearly, this concept of performance based standards is an important one, and one that I look forward to hearing more about. So I, again, am delighted we're holding these hearings.

Mr. BASS. Thank you very much, Mr. Clinger. The chair now recognizes the gentleman from Pennsylvania, Mr. Mascara. Do you have an opening statement?

Mr. MASCARA. Thank you very much, Mr. Chairman. Good afternoon to all of you. It's good to be back in Washington and to begin the week with a hearing of such an important topic.

I fully concur that Federal agencies and departments, especially in this time of cynicism and tight budgets, must better understand what services they are supposed to be delivering.

They must also have some method of determining whether they are doing so in a cost effective and efficient manner. To paraphrase some of the testimony that will be presented today, the bottom line is the customer; that is, the taxpayer must be satisfied.

Taxpayers want to be shown that their government is printing Social Security checks, training the jobless, or cleaning up toxic waste in a timely and cost effective manner. They want proof that their tax dollars produce concrete, tangible, positive results. If we can show them these results, I think it will go a long way toward restoring respect for government, and the good it can produce throughout our society.

The Government and Performance Results Act, enacted by Congress in 1993, will hopefully begin to lead our government in that direction. But as several of the witnesses will testify today, this whole process of producing performance measurements, benchmarks, and reengineering plans for agencies can get very esoteric and arcane.

I think we must be very careful that departments and agencies do not get so hung up on developing precise measurements that they forget the goal is rather simply to get the job done and show the results.

The notion of focusing on the Federal taxpayer as a customer is a good one, and must be nurtured. In serving in county government, I know it is a lot easier to make taxpayers happy when you can point to filled potholes or newly installed sewer lines or street lights. The Federal Government is not the closest government to the people. Often times, taxpayers are not really sure what the Federal Government does. And anything we can do to help close that gap is certainly desirable.

The only problem I see with all of this is that while we are expecting agencies to corral their resources and channel them toward better developing a goal and producing, at the same time, my friends on the other side of the aisle are drawing up plans to wipe out whole agencies, departments and divisions with one swipe.

It sounds like my favorite term, an oxymoron. How can Federal managers achieve such laudable goals when they don't know whether they will still have a goal to achieve or any workers to achieve it with? Hopefully, my Republican colleagues will begin to see the inconsistency of their position, and not leave us with a shell of a government to achieve a very lofty goal. Thank you very much, Mr. Chairman.

Mr. BASS. Thank you very much, Mr. Mascara. There being no other opening statements to be delivered, we'll at this time recognize our first panel—Dr. Kettl, Mr. Hatry, and Mr. Jasper. If you three could please come forward. Gentlemen, if you could please stand, it's customary to swear in our witnesses, and raise your right hands.

[Witnesses sworn.]

Mr. BASS. Thank you very much. You may be seated. What we will do at this time, if it's OK, gentlemen, is we will declare a 15-minute recess so that the Members here can go vote. We'll reconvene at, say, 2:25 p.m. or so. Thank you; with that, we'll be in recess.

[Recess.]

Mr. BASS. The subcommittee will come to order. Before we begin hearing from our witnesses, I just want to make mention of the fact that I am acting chairman of this subcommittee. Chairman Horn is unfortunately detained on the floor of the House this afternoon. He's advised me that he's going to be reviewing this testimony in great detail, and apologizes for his inability to be here today.

It does not in any way detract from his concern and interest to the issue. With that, we'll begin by hearing testimony from Dr. Kettl.

STATEMENT OF DONALD F. KETTL, CENTER FOR PUBLIC MANAGEMENT, THE BROOKINGS INSTITUTE; ROBERT M. LAFOLLETE, INSTITUTE OF PUBLIC AFFAIRS, UNIVERSITY OF WISCONSIN, MADISON; HARRY P. HATRY, DIRECTOR, STATE AND LOCAL GOVERNMENT RESEARCH PROGRAMS, THE URBAN INSTITUTE; AND HERBERT N. JASPER, SENIOR ASSOCIATE, MCMANIS ASSOCIATES, INC.

Mr. KETTL. Thank you very much, Mr. Chairman. It's a great pleasure to be here this afternoon, and to speak on the issue of government performance and the method to try to improve it. What I'd like to do is first quickly introduce myself. I'm a professor of public affairs and political science at the University of Wisconsin and the LaFollette Institute of Public Affairs. And I'm also a nonresident senior fellow at the Brookings Institution Center for Public Management, where we've been studying the issues of government performance and structure.

What I want to try to do is to focus on the issue of performance, and to try to make several brief points, and then to try to respond as best I might to the questions, any additional questions you might have.

First, to look at the issue of potential of performance. One of the things that we unquestionably need to do is to attack the problem—not only the budget deficit in this country, but also the performance deficit, which, in the minds of many citizens, ranks at least as high if not higher.

Now, the question is how to move from the business of both deficits, to try to attack both deficits, to try to move to the issue of outcomes and outputs, instead of simply measuring success in terms of the money we're spending. The great potential of performance based management and performance based measurement is the opportunity to measure success in terms of the results we produce, instead of simply the money that we spend.

If there's anything that's been the keystone of efforts abroad, it's been the focus on performance. So in conclusion on this point, I believe that performance offers genuine potential.

But I also second want to point out some important cautions. This is an issue on which it's deceptively easy to overpromise. If you look at the experiences of other nations, if you look at the Australians and the New Zealanders and the British, we see two things. First, the good news is that they've been at it for 10 years; the bad news is that after 10 years, they have yet really to be convinced that they've gotten it right.

It is a process that one needs to be in for the long haul, if we're to achieve the potential that it offers. The experiences of the nations abroad offer profound caution about overpromising and about trying to lead this system to someplace where it won't take us. It's very easy to get involved in simply the measures and in the technical side, and forget the broader issues—the reason why we're trying to do this to begin with.

My third point—what is it that we ought to measure? Mrs. Maloney earlier pointed out some of the arcane issues that lie at the bottom of this. And in fact, one of the most important is whether to focus on outputs or outcomes, which quickly produces the MEGO phenomenon—my eyes glaze over—because it becomes so arcane that quickly people begin to tune out. But it turns out to be an issue of profound importance.

What is it that we want to try to measure? On the one hand, government employees naturally are interested in trying to ensure that they're not going to be held accountable for results they can't control. And so their interest is in trying simply to focus on the outputs of their activity.

On the other hand, this committee and, indeed, the whole country, is interested in government performance—how to ensure that programs themselves work, which lead into broader questions of outcome based measurement.

This is a dilemma. We cannot simultaneously ask employees to do what they can do, and hold them accountable for what they can't. The good news, on the other hand, is that this system is in its relative infancy. It's difficult enough that anything we can do to focus on performance and results is an improvement over what we might have had otherwise.

We need, in short, to focus first on the question of outputs; to move the debate, later, to questions of outcomes; to realize the limitations, but also to try to reach for the broader issues that we care most about.

My fourth point—it is deceptively easy to focus on performance measurement as if it were a measurement problem. It is not. Performance measurement is not fundamentally about measurement; it's about communication.

It's about the business of explaining what it is that government does, why it does it, how it does it, and what difference it makes to citizens. That, indeed, I suspect, is the question that citizens really care most about. What that means is that we have to be exceedingly careful at jumping to the conclusion that what this is about is an effort to produce measures; that the measurement process is an end in itself.

What performance measurement is, is a means to a broader end. It's a means toward trying to ask questions about what is it that we want government to do, and how do we know when government has done it? In fact, I find it most useful to think about this issue in terms of performance based management, instead of performance measurement. It is a system of communication and management, not primarily a system of measurement.

And the degree to which we can focus on the broader communication that performance measurement permits, to that degree, I think we can help achieve some of its potential.

My last point is, who's the audience for all this? In a sense, who is the customer for performance systems? On one level, of course, the answer is citizens. Citizens ask, demand, and certainly have the right to hear what it is their tax dollars are delivering.

But most immediately, the most important customer of performance based management is Congress itself. Because performance systems allow far better questions from this committee and others about what it is that Federal programs are producing, and how those goods and services can be produced better and more cheaply.

Congress, on the other hand, has an opportunity to use this in a way to shape the incentives of Federal managers to do what Congress wants done, and to have that done in a better and more effective way. So in short, I end where I began, with the enormous potential of this system, but also with the profound caution about, in part, how hard it is to do it well, and in part, the mess that can be created from doing it poorly.

[The prepared statement of Mr. Kettl follows:]

PREPARED STATEMENT OF DONALD F. KETTL, CENTER FOR PUBLIC MANAGEMENT, THE BROOKINGS INSTITUTE

As organizations everywhere—public and private; federal, state, and local; American and around the world—seek reform, performance measurement is the keystone. The remarkable convergence of managers everywhere on performance shows how useful questions about performance can be. Their experience in struggling with the answers, however, underlines how important it is to think smart about avoiding the pitfalls and improving the odds for success.

I am very pleased to appear before the Subcommittee this afternoon. I am a Professor of Public Affairs and Political Science at the University of Wisconsin-Madison. In addition, I am a Nonresident Senior Fellow at the Brookings Institution's Center for Public Management, where we have been conducting an ongoing review of the management of the federal government.

In my testimony here this afternoon, I would like to concentrate especially on the issues of performance:

1. What does performance measurement offer the federal government?

2. What are the critical features of performance measurement?
3. What should a performance measurement system concentrate on?
4. How should performance measures be developed?
5. What can performance measurement contribute to accountability in the American system?

BACKGROUND

In measuring the results that taxpayers' dollars produce, the federal government is about a decade behind other countries like Great Britain, Australia, and New Zealand. These nations moved aggressively to performance-based systems as part of their effort to shrink the size of government and to improve its results. The performance systems not only have been used to improve program management. They have also been increasingly tied to budgetary decisions. Moreover, some nations, such as Australia, have more recently worked to incorporate program-based performance information into their civil service and human resource systems. As a recent Australian government report pointed out, "More than ever, the strategic and supportive management of people has become the cornerstone of excellent managerial performance and achievement of corporate [organizational] goals."

Performance measurement works by encouraging everyone in the system—managers, elected officials, and citizens—to move from inputs to outputs. Everyone traditionally has focused on solving problems by specifying inputs: How much money is being spent, how many inspections are being conducted, how many checks are being mailed, and so on. The input-based, focus, of course, tells us nothing about how well services are being delivered. The input-based focus, moreover, provides no incentive for anyone to do the job better. There are no rewards for improving quality. In fact, the incentives are often perverse. Agencies that improve their performance can be punished through budget cuts; those whose performance lags can be rewarded by higher budgets to do the same job.

Furthermore, the best performance systems are seamless: They link programs, planning, budgeting and personnel decisions. The best systems are strategic: They help managers to manage better.

The evidence is overwhelming that citizens are unhappy about the quality of government services. They too often feel that they are not getting their tax dollar's worth. Even worse, pervasive problems of performance undercut public trust in governmental institutions.

The experience of governments abroad, state and local governments in the United States and the private sector shows that performance measurement can help improve the way government works. At the same time, however, it is easy to overpromise. Performance measurement is very hard to do at all and even harder to do well. The technical measurement problems are daunting. Incorporating performance measures into the daily work of managers is difficult. The process asks everyone in the political system to take a long-term view, while the system too often encourages short-sighted decisions.

Indeed, the bad news is that other nations have been at the effort for a decade and still, by their own admission, have not gotten the job right. The good news is that, having faced many opportunities to give up, these nations have not only maintained but expanded their performance systems. Performance-based management obviously is of profound value in making government work better. The Government Performance and Results Act (GPRA) will be the keystone of the federal government's effort.

PERFORMANCE MEASUREMENT OR PERFORMANCE MANAGEMENT?

The biggest mistake that we can make in pursuing performance measurement is to conceive of it as primarily a measurement problem. It would be deceptively easy to allow government performance to degenerate into a process-based, numbers-driven exercise. In fact, that is precisely what undermined previous federal experiments with tactics like the Planning-Programming-Budgeting System, Management by Objectives, and Zero-Base Budgeting.

Performance measurement is not really about measurement. It is, rather, about improving the quality of communication in the political system. It is a way to talk better about what results government programs produce and, therefore, to make better decisions about what ought to be done, how much ought to be spent in doing it, and how the work could be done better.

I find it more useful, in fact, to talk about performance-based management than performance measurement. This change in terms underlines the broader purposes that performance measures must serve if they are to be effective. The performance process works best when we can build on the measures to improve management.

Moreover, to allow the performance process to focus narrowly on measurement too often leaves the key decisions to the measurers.

Performance-based management can help everyone in the process think more strategically. It can help government managers focus on how to do their jobs better and explain to elected officials how they are trying to translate legislative goals into results. It can help elected officials weigh competing claims for scarce resources and put the money where it will do the most good. And, most important, it can help citizens understand better what value they receive for the taxes they pay.

Put simply, performance-based management is about political communication. It has value only to the degree to which it improves that communication. This communication occurs on three different levels:

- Within the agency. Agency managers inevitably have a great deal of discretion. They need to chart which problems will get their strongest attention, and how best to go about solving them. The tighter resources (money, people, and technology) are, the more important it is to solve these problems well. Performance-based management at this level builds on the strategic planning process mandated by GPRA.
- Between the Executive Office of the President and the agency. Key agency decisions inevitably percolate up to the EOP. Some decisions are budgetary: How much an agency ought to spend on which programs, and how money ought to be distributed among agencies and programs. Some are programmatic: Which new initiatives ought to be launched? And some are managerial: Which problems ought to be attacked first, and how? Performance-based management can never resolve the questions; no information system or data analysis can ever resolve what are fundamentally political judgments. But it can provide additional useful information that, on the margin, can help lead decision makers to smarter decisions. And it is on the margins—given scarce money and even more scarce time—that the most critical decisions are always made.
- Between the executive branch and Congress. Congress cannot be an uninvolved bystander or an arms-length participant in the performance management process. It cannot look on GPRA as a job for executive branch officials. Many federal managers have confided in me that their biggest fear about GPRA is that Congress either will not pay any attention to the measures they develop or that, having exposed themselves and their operations through the process, members of Congress will use the measures against them. The experiences of other nations shows that successful use of performance measurement systems hinges on careful integration of politics and management. Congress is the ultimate audience for agencies' performance measures. The measures offer great potential for improving legislative oversight (it's easier to ask good questions about results if results-based information is readily available). And they offer great potential for enhancing congressional budgeting (it's easier to target scarce budgetary dollars on important problems if Congress knows which programs are most likely to deliver solid results).

In the end, performance is much more about communication than measurement. And it is Congress's appetite for and use of performance information that will determine the ultimate success of GPRA and similar performance-based management systems.

OUTPUTS OR OUTCOMES?

There is an arcane debate within the performance measurement business that has truly profound implications for how it works: Should managers measure performance according to outputs (the quantity and quality of services provided) or according to outcomes (the quantity and quality of the results the outputs produce)? Should a job training program, for example, be measured by the number of individuals who receive training and the quality of that training? Or should it be measured according to the results of the training, such as the quality of the position, its wage level, and how long an individual keeps the job?

Such debates among policy analysts soon provoke the MEGO (my eyes glaze over) phenomenon. But they have truly profound implications that cut to basic issues of accountability.

The problem is this. Especially at the federal level, most of what managers do is to work with other managers (in other agencies, at other levels of government, in nonprofit organizations, and in the private sector) to produce a program's results. The Department of Labor's job training managers do not actually train workers; they distribute grants to state governments, who in turn contract with job training programs, who then provide the training. The Environmental Protection Agency's Superfund program managers do not actually clean up toxic waste cites; they contract with private companies, who often write subcontracts, and these companies actually do the cleanup. The range of issues where this is the case, in fact, is quite striking. The federal government manages relatively few programs itself (most notably foreign affairs, social security, tax collection, and criminal justice).

On one level, of course, we want to know what results federal programs produce. Put differently, we want to be able to measure outcomes. But the results of most programs are out of the control of the federal managers who manage them. The Department of Labor's mine safety inspectors can inspect mines, but the safety of the mines is of course ultimately in the hands of mine operators and miners. The Department of Health and Human Services provides health care to the elderly through private doctors and hospitals reimbursed by private contractors using federal funds. How well the Medicare program works depends on the skill and honesty of these doctors and hospitals, and the skill of the contractors.

Federal managers naturally a:e nervous about being measured and held accountable for results they cannot control. If we focus instead on outputs, we can measure the direct products of a manager's work. Mine safety inspectors feel much more comfortable about being judged by the quality of their inspections than the safety of the mines. Superfund managers feel much more comfortable about being judged by their ability to get contracts signed and the money out the door than by the effectiveness of contractors' cleanup.

This creates a dilemma: The basic political questions lead us to measure outcomes. The technical and managerial problems lead us to measure outputs. What should we do?

The answer to this puzzle must begin by developing an effective system of assessing outputs. Given the substantial problems that any performance management system presents, moving from input-based assessments (how much money are we spending for, say, job training?) to an output-based assessment (how many people are we training, and what is the quality of the training they receive?) is a major accomplishment. It is one thing for a program official to ask for more job training money because they think it is important; it is a considerable improvement to be able to say that x dollars more in job training funds will result in y more people being trained.

Output measurement is the basic building block of any more sophisticated system. And even if it is rudimentary, measuring outputs is usually far better than judging a program's success by looking at inputs (how much money we spend or how many inspections we conduct).

This answer, of course, is ultimately unsatisfactory. Output measures of job training, for example, do not tell us whether the job training in the end produces anything that is socially useful. Does training actually help workers get and keep better jobs? We scarcely would want to spend money on a program, let alone think about increasing its budget, unless we were convinced this were the case. As we begin to ask such questions, however, two issues develop. First, such questions are much harder, and therefore it is far more difficult and expensive to produce good answers. Second, it is also harder to link the what (what results are we producing?) with the who (who is responsible for the successes—and failures?). Managers naturally much prefer limiting performance measurement to those activities they can control. GPRA requires agencies to measure outputs; it asks them to move toward outcome assessment.

Foreign nations have produced different answers to this dilemma. New Zealand officials are quite explicit in arguing that the system should be limited to output measures. That, they say, keeps the system firmly grounded and allows clear analysis of who does what. The British government, likewise, has focused on outputs. In Canada and Australia, however, the government has broadened the focus to assessing outcomes, although output measurement remained the basic building block.

Outcome measures unquestionably are critical. What decision makers and citizens most need to know is whether programs work. And whether programs work hinges not only on the performance of individual bureaucrats but often even more on the interconnections among the pieces of complex policy systems. We need to know how those interconnections work if Congress is to oversee policy effectively. This makes a compelling case for developing good outcome measures.

At the same time, however, we need to assess how well managers manage. Even if few government managers can directly control the outcomes of their programs, we and they need to understand their contributions to those outcomes. This makes a compelling case for developing good output measures.

And that focuses the dilemma: To concentrate on what government managers can themselves accomplish risks missing the big picture. A narrow output-based system that focuses only on counting activities could be little better than the current input-based system that concentrates on spending money and processing paper. No one involved in the long chain that constitutes most federal programs ought to be allowed to escape careful thought about their own contribution to a program's ultimate results. But to concentrate on these broader policy issues can allow each of the participants in the implementation chain to escape personal responsibility for their own contributions. If a measurement system focuses on outcomes, and if no manager along the way can be assigned clear responsibility for producing those outcomes, it can become deceptively easy for everyone to point the finger at everyone else for problems that develop. That, of course, is precisely the problem with much of the federal government's current management practices.

Performance measurement therefore needs to proceed on two different levels: assessing outputs, for purposes of shaping managers' behavior; and assessing outcomes, for purposes of making policy decisions. These two levels are, of course, interconnected. Outcome measures can help improve managers' strategies, and output measures can provide important clues to the source of outcome problems. But any system of performance-based management needs to be firmly rooted in this understanding: that output and outcome measures provide different clues to different questions; that they involve managers in very different ways; and that they create different incentives for behavior.

The distinctions between output and outcome measures can seem extremely arcane. But to muddy the distinctions or fail to sort out the levels properly (that is, to use the wrong kinds of measures for the wrong kinds of problems) can undermine the system and encourage its players to create new kinds of games.

We do not need, however, to make an either/or choice. The problems involved in creating a performance measurement system are certainly substantial. Putting such a system in place requires substantial time and, in fact, never really is finished. But the value added by moving past a focus on inputs toward even simple measures of outputs are so great that the complexities should not blind us to the good that performance-based management can accomplish.

> Performance measurement is technically difficult. Moving from output to outcome measurement is even harder. Performance measurement ought to assess outcomes wherever possible. But this job is so hard, and the value added by measuring outputs instead of inputs is so great, that developing solid output measures would be an invaluable first step.

DEVELOPING AND USING PERFORMANCE MEASURES

How can performance measures be developed, and how can they be used? Several questions help us sort through these issues.

Approaches

1. Where do the goals come from? The performance management process builds on comparing results with goals. Without a careful definition of goals, it is hard to measure performance. The goals of federal programs come from legislation, and legislative goals typically are multiple and fuzzy. Critics of the performance measurement process argue that it is fruitless even to try to gauge results until Congress writes more specific goals.

The clearer the goals, of course, the easier performance measurement is. But the legislative process is not devoted to easing the job of measurement. To hold performance measurement hostage to a process devoted to compromise is to doom it before it starts. Moreover, this approach to performance management stipulates a neat linear process that does not match the way managers manage or legislators legislate. The process does not proceed according to a neat, linear process of defining problems, developing clear legislative solutions, devising administrative strategies to implement these solutions, and measuring results against goals. It is a far more interactive and reciprocal process in which we tend to decide what we want after we see what we can get. Even in programs whose legislative goals are relatively fuzzy, it is possible to devise general, multiple indicators of success, and then to revise them as experience accumulates.

Moreover, because the performance management process works on different levels, and because any set of legislative goals inevitably gives administrators substantial discretion on how to achieve them, performance management can produce significant advances even in the absence of clear goals. If managers stipulate what they are trying to accomplish and measure how well they succeed, the information can improve both their own strategic management and congressional oversight.

Performance measurement would undoubtedly be easier under conditions of clear goals, conditions which are unlikely ever to exist. Application of performance measurement techniques in a way designed to improve communication about what program managers are trying to accomplish and what results they are producing, however, can offer modest but important improvements to the process.

2. How can managers be encouraged to take the risks that performance management requires? The basic goal of performance management is to measure how effectively managers translate goals into results. Foggy uncertainty typically protects them from close scrutiny. Making both goals and results more explicit is risky for managers.

Solving these problems requires, among other things, two approaches. One is strong and effective leadership by top agency officials, especially political appointees, to help shape goals, analyze results, and protect employees from sniping. Another is to construct incentives that rewards superior performance. This second step, in particular, would require substantial time and a major reform of the civil service system. But such incentives have been the core of reforms in other nations and deserve exploration in the United States as well.

3. How should performance-based measures be managed over time? Experience abroad demonstrates the folly of conceiving of performance measurement as a one-time-only, start-and-be-done process. Both the measures and the processes they support must be evolutionary. Goals change; measures improve; incentives shift; the problems for which programs are designed mutate. Moreover, those involved in a performance management system tend over time to adjust to existing measures. The measures drive managers' behavior (if police officers' performance is gauged by the number of speeding tickets they issue, they will devote far more time to catching speeders). Agency leaders can promote breakthroughs by periodically raising the hurdles that managers must cross.

4. How is performance management linked to reengineering and benchmarking? Performance management is the building block for other administrative reforms. Benchmarking management practice against recognized standards requires at least a fundamental performance measurement system. Reengineering, moreover, focuses on improving performance by redesigning work processes. It is possible to develop performance measurement, benchmarking, and reengineering processes with varying degrees of sophistication. But it is impossible to take any of these steps without focusing on outputs and outcomes instead of inputs.

Pitfalls

1. The Superman fallacy. Textbook descriptions of performance management, coupled with glowing descriptions of successes abroad (often emphasizing the positives without assessing the costs), can lead analysts, managers, and elected officials to overpromise what the process can deliver. Enough evidence has accumulated to suggest performance management's genuine potential. But the evidence also shows just how hard it is to design a good process, to use the results effectively, and to nurture it over time. Performance-based management has to begin with a heavy dose of modesty that must continually be reinforced.

2. Ducking outputs. If managers are confronted with an inescapable imperative to develop performance measures, it is tempting to set the hurdles so low that they can easily be jumped with little change in routine. They can be tempted to retreat back to inputs (how many inspections they conduct or how many tax returns are audited). They can be tempted to choose output measures that make sense only inside the agency and are indecipherable to outside observers. This process, like any process, can be gamed, and its players have incentives to rig it so they win.

3. Irrelevance. Managers can develop full-blown performance measures but fail to integrate the information into the key management decisions of their agencies. If managers approach the performance measurement process as an unfortunate intrusion into their "real" work, as a "have-to" step that must be done but that can then be ignored, it will provide employment for some consultants but have little real impact. Performance measures will improve management only if they evolve into performance management—if output and outcome measures are integrated into the basic information systems and management strategies of government agencies.

4. Exuberance. The reverse can be equally dangerous. In their enthusiasm to improve operations, managers can put excessive trust in the measures. Performance measurement can provide valuable clues about what works and what doesn't, but they cannot explain why. Hard-pressed managers can easily be tempted to hide behind the measures or use the measures to duck tough strategic choices. It is deceptively easy to jump to conclusions beyond what the process would support.

PERFORMANCE MANAGEMENT, ACCOUNTABILITY, AND GOVERNANCE

Performance measures offer genuine potential for improving the management of the federal government. They provide a way of answering the keystone question: what do taxpayers receive for the money they pay? This question, in turn provides managers with an important tool in developing more effective and efficiency strategies. It provides the president and his staff with better information for making critical strategic choices. And it provides members of Congress with a way to improve their oversight of the executive branch.

Nevertheless, the evidence accumulated by other nations, state and local governments, and the federal government's own experience suggests three important conclusions.

- Don't overpromise. Performance-based management has great potential, but it imposes difficult technical requirements and an even more difficult job of integrating the measures into the management process. These jobs are so daunting that, in fact, they are never done; the process is an ongoing, evolutionary one. Yet despite the challenges, no nation that has launched a major performance-based management system, including Great Britain, New Zealand, and Australia, has abandoned it.
- Focus on communication, not measurement. The biggest trap in performance measurement is to get lost in the arcane world of measurement. Performance measures cannot be allowed to become ends in themselves. They are useful only to the degree they improve discussion of critical management issues and shift the incentives of managers to increase the quality their of their work.
- Be clear: Congress is the ultimate audience for measures. Congress is doubly important to performance-based management. First, the measures are most important in helping Congress improve its policy making and oversight process. Second, Congress is most responsible for creating the incentives that will shape the process's ultimate success.

Performance measurement is too important to be considered as simply a measurement process, or as a process that can be left solely to administrators. It is a process whose potential lies in improving management and, even more important, accountability and governance.

Mr. BASS. Thank you very much, Dr. Kettl. Mr. Hatry.

Mr. HATRY. Thank you, Mr. Chairman. I think that it's certainly true that tracking outcomes, service quality and customer satisfaction on a regular basis of Federal programs is just common sense. That's my theme. It's good business; it's good government; it's good legislation; and it's good for the public interest. As Don Kettl has said, it's not easy; and the Federal Government is just beginning, but making decent progress.

I believe that the technology of measurement is far enough along that it's in good shape. We have improved, in recent years, such technology as the ability to do reliable surveys of customers. We have substantial computer technology that provides a great deal of computational power. So there have been major advances over my initial experiences in the 1970's, when those things were really lacking.

Probably a major problem today with performance measurement, if not the major problem, I believe, is the lack of interest by Congress. Congress certainly currently is almost completely focused on the role of the Federal Government and in cutting costs. Both of these are very legitimate roles, of course, for the Federal Government and Congress.

Congress has another role: oversight over Federal programs and how well they're working, in assuring that they're done as well as possible. I was at a 2-hour session yesterday on GPRA, involving about 40 members, which consisted of both Federal executives and some House and Senate staff committee members. The major theme they presented was the lack of interest in Congress in performance measurement.

As Mr. Kettl has suggested, this affects, has major influence on, the leadership of the executive branch, which in turn greatly affects middle management, which in turn affects lower management and all employees of the Federal Government, who should be focused on customer satisfaction and service quality. I might add, because so many Federal programs are being delivered through State and local governments, it also affects the interest of State and local governments in improving their own programs, which are the major delivery systems for the public.

I'd like to point out one example of what can be done. This is from the U.S. Postal Service. In my written testimony—I'm not sure how many of you saw, when it first came out, is a full-page ad in the Washington Post from June 14th, from the Postmaster General, in which he complimented his postal employees for the great improvement in their recent performance. The Postal Service has, for many years, been producing on a quarterly basis a report on delivery times from various destinations in the United States to various other destinations.

They've been reporting, commendably, the bad news. Finally, there came some big news. The Washington Post had an article commending them, as did their own celebration for their own employees. The point here is that data that they reported in both the article that the Post picked up, the media, and in the congratulatory message that the Postmaster General gave to his public. He quoted the various outcome data and the improvements in the destination data.

I can't be sure that what motivated them was the performance measurement process, but I strongly suspect that it had a great deal to do with the focus on that issue; the fact that Republicans and Democrats and public citizens alike were raising that issue, and then the Postal Service was encouraged and pushed very hard to try and improve their performance. I think that's the type of thing that should occur more widely in Federal Government.

I'd like to conclude with three recommendations oriented toward Congress. First, Congress should seek information on program quality and outcomes, and it should use that information. Congress should use it both when it reviews Federal executive branch proposals—whether these are proposals for new legislation or are budget proposals.

And Congress should also seek and use information in reviewing their own legislative activities, both relating to new legislation as well as budget proposals. Second, I would suggest that this subcommittee and the committee itself consider acting as a coordinating body, both to help the other authorizing and appropriations committees to review executive branch performance information and data, such as information that's going to be forthcoming to you from the annual Government Performance and Results Act performance plans and annual performance reports.

The point is that the subcommittee should act as a coordinator, should consider acting as a coordinator for future work, to help the rest of the authorizing and appropriations subcommittees. Finally, as Congress is getting into the various block grants debate, the performance partnerships debate, which is a big piece of business today in both the executive branch and Congress, I think it's very important that, in the process of doing this legislating, that Congress should encourage—and I do say encourage, not mandate—but should encourage State and local governments to themselves start and begin and continue to measure performance on quality and service to the public.

It's very important to the major delivery organizations at that level that they be encouraged to do that. Congress really plays a major role in that. I'll conclude by simply again repeating that tracking program outcomes and quality, I believe, is just common sense; it's good government; and it's in the public interest. Thank you.

[The prepared statement of Mr. Hatry follows:]

PREPARED STATEMENT OF HARRY P. HATRY, DIRECTOR, STATE AND LOCAL GOVERNMENT RESEARCH PROGRAMS, THE URBAN INSTITUTE

INTRODUCTION

I am very pleased to address the subcommittee on a topic dear to my heart. This testimony presents my own views. However, it will draw heavily on work done by The Urban Institute and the National Academy of Public Administration.

Since 1970, The Urban Institute has been in the forefront of attempts to encourage public agencies at all levels of government to track regularly the quality and outcomes of public services—in a way that reflects the concerns of customers and the public at large. The Institute was one of the first, if not the first, organization to encourage the use of such business approaches as customer surveys as key tools for obtaining such information.

The National Academy of Public Administration's 1991 Resolution on "Performance Monitoring and Reporting by Public Organizations" significantly threw its weight behind the effort to encourage agencies at all levels of governments to focus on service quality and outcomes. (The American Society of Public Administration followed the NAPA resolution the next year with its own version.) NAPA's on-going panel on "Improving Government Performance" has for the past two years focused on performance measurement and other elements of the Government Performance and Results Act of 1993.

Importance of Regular Performance Measurement

Tracking the outcomes and quality of public services on a regular basis is just common sense. It is good business practice. It is good government. It is in the public's interest.

For public agencies not to get timely, reliable feedback on the performance of their programs, is a key missing element in managing public programs. For Congress, this gap is a key missing element for developing legislation. Unfortunately, today such information is seldom available to government officials and Congress. Performance data, especially that focused on service quality and outcomes can provide significant help to elected officials in their annual authorizations and appropriations (budget) deliberations.

What is measured and reported gets attention. Today, government agencies primarily measure costs and work activity—with a sprinkling of program-related information on outcomes such as national unemployment and crime rate data. If information on service quality, customer satisfaction, and other desired outcomes are measured and reported, they will get attention. If program managers (and their personnel), federal executives, budget staffs, and legislators focus more on these, this should lead to better public services.

Congress has recognized the importance of performance measurement in its 1993 Government Performance and Results Act (GPRA).

I must also point out that implementing performance measurement successfully in the federal government is very difficult and performance information can only do so much. This is discussed in a later section.

Status of Performance Measurement

The technology and state-of-the-art of performance measurement are currently sufficient to generate major improvements in the measurement of federal program outcomes and quality—much more so than, for example, existed in the 1970s. For the most part, however, comprehensive systems of performance measurement for individual governments are still rare—at all levels of government.

Some states have legislation requiring performance measurement. Some of this legislation preceded GPRA (such as Oregon and Texas). More recent newcomers include Minnesota and North Carolina. Some individual state agencies such as Children, Youth and Family Services of the Florida Department of Health and Rehabilitative Services and the State of Minnesota's Department of Trade and Economic Development have for several years had on-going measurements that focused on the regular measurement of outcomes.

At the local level, New York City (required by Charter) and the City of Sunnyvale (California) are frequently mentioned as in the forefront. Charlotte (North Carolina) and Prince William County (Virginia) have major efforts aimed at measuring service quality. Sunnyvale's focus for many years was on the measurement of "efficiency" with less attention to service quality. In recent years, it is my understanding, this has changed so that now service quality is covered. A major notable characteristic of Sunnyvale is that the process has become institutionalized in a major way. The measurement process has become a significant part of managing city operations. This is quite rare.

The State of Oregon has done a fine job in developing outcome-oriented outcome indicators for the state and for beginning to bring comparable indicators to at least some of the counties and municipalities in Oregon.

At the federal level, some notable measurement activities have been going on for many years. These include:

- The Department of Labor's Job Training Partnership Act (JTPA), under which local programs interview (by telephone) trainees approximately 13 weeks after they have finished their training program—to identify whether they are employed and at what wage or salary level. The Department of Labor accumulates these data into various indicators of outcomes for the whole JTPA program. This is also one of the rare examples of an existing real performance partnership involving local, state, and federal agencies.
- The U.S. Postal Service for many years has been producing quarterly reports on the time to deliver various types of mail from specific locations to other locations within the United States—and as compared to specific targets (standards). This produces such performance indicators as "the percent of first class mail delivered within one day." Whatever you may think about the postal service's service, it has been providing data that Congress and others can use to track actual delivery times. An example of the use of such information is the considerable media publicity in recent months on poor delivery times and, very recently, the better news in the Washington Post of June 14, 1995 with the heading "Postal Service Fulfills Vows to Improve". The story included statistics from the U.S. Postal Service's reporting system on delivery times. (I am attaching a copy of that article and the full page advertisement that the Postmaster General inserted into the Washington Post that same day referring to the data and congratulating the postal employees for this success.) Did the Postal Service's own data, combined with the attention given the data, help motivate the Postal Service to improve its performance? Probably.
- A number of federal agencies collect highly useful national annual outcome data. These data often provide performance information for services primarily delivered by other levels of government. They provide national data of interest to Congress and the Executive Branch but provide only limited performance information for particular federal programs. These data include, for example, crime data, traffic injury counts, information on air and water quality, data on health conditions, and unemployment rates, etc.
- A number of agencies such as the Internal Revenue Services and Social Security Administration have tracked for many year indicators relating to what happens to their cases, in terms of such events as error rates and claims.

A major gap today is the lack of feedback from federal agency customers of specific agency programs on the extent to which they have been helped and their satisfaction with those services. "Customer satisfaction" information is very relevant and important for many government programs.

Another major problem is how to track on a regular, say, annual basis the program results for programs that are delivered through other levels of government. In some instances, the federal government undertakes national samples to obtain outcome information. However, as the federal government moves into performance partnerships or some form of performance measurement connected to block grants to assure accountability, the federal government will have a need for state-specific data.

The federal government sometimes has mandated performance data collection. However, it has seldom provided for data on what happened to program customers after they completed, or left, the particular service (including customer satisfaction information). The JTPA example given earlier is one exception.

The lack in most federal programs of feedback on service quality and outcomes hinders effective decision making by Congress (and the Executive Branch). For example, it is very difficult for Congress today to assess the effects of proposals such as reduced field offices and various other down-sizing efforts. Do, for example, these changes significantly affect the timeliness with which citizens and business receive services? If and when such performance measurement procedures are implemented, Congress and the Executive Branch will then have hard evidence as to what happens after such changes are tried.

I find remarkable the amount of apparent interest and effort that many federal agencies are currently applying to the performance measurement requirements of GPRA. In recent months, I have had the opportunity to look first-hand at the activity of a number of agencies (such as the Administration for Children, Youth and Families, Food and Drug Administration, a number of activities within the Department of Education, efforts being made in the Department of Justice, and some of the effort underway in the Departments of Commerce and Agriculture. I do not know how deeply this effort, and interest, is penetrating into the organization. At this early stage of GPRA, it seems likely that only small segments of each agency have been exposed to GPRA.

My perception is that the agencies are beginning to attempt to reach personnel in field offices and at lower levels of the agencies—to encourage more focus on service outcomes and quality. If, and when, this occurs, many program personnel will have access to, and hopefully be motivated by, regular information on service quality and outcomes, with less emphasis on work activity (output) indicators. This should encourage a greater focus on innovation and customer service.

Limitations and Concerns of Performance Measurement

As with most tools in this world, performance measurement can do some things well. Other things, however, it cannot do, or can only do poorly. Here are some important limitations that members of Congress should know:

1. Probably the most important limitation for members of Congress and their staffs (and for Executive Branch officials, the media, and the public) is that the outcome data that will come from performance measurement will tell what has happened, not why it has happened. Outcome data do not indicate what caused the observed values. They do not indicate the extent to which the program itself caused or affected the values that occur. External factors inevitably are present. It is very seldom that a program and its personnel have complete control over an outcome.

For example, measurements of customer satisfaction with services are likely to be affected by many factors, including the individual's environment and personality. This situation is similar to that of managers of any sports team (football, baseball, hockey, etc.) They need to know the score, but that information does not tell them why the score is the way it is. Many internal and external factors can have affected the score. Similarly, the bottom line of a private business, such as annual profits, sales, and market share, can be affected by many external factors—not only by the chief executive officer and the company's own actions. (Factors such as national economic conditions and international competition, substantially outside the control of the company, can occur.)

2. On-going regular performance measurement (as called for under GPRA) is not equally applicable to all types of programs. Programs whose major, predominant outcomes will not occur for many years are not likely to be able to generate useful annual outcome measurements. This situation applies especially to basic research programs, whose significant outcomes are not likely to be known for years, if not decades. The best that can be done is to track program outputs and a few quality characteristics, such as whether work is completed on time and the number of citations in professional journals. Such data are quite limited in their usefulness to public officials.

3. Federal programs that are primarily delivered through state and local agencies (whether public or private agencies) involve special difficulties in obtaining outcome data. This affects many programs of such agencies as Education, Health and Human Services, Housing and Urban Development, Labor, and Transportation.

This problem becomes even more of concern as Congress and the Executive Branch introduce block grants and performance partnerships.

4. Sometimes numerous programs affect the same performance indicators. For example, many federal programs are aimed at reducing illegal drug use. Many programs are aimed at reducing violence or improving the welfare of children. Such multiple programs exist both within the same Department but also across Departments. At present, the Executive Branch has few mechanisms for coordination and cooperation among programs and agencies.

5. Finally, performance measurement itself does not directly provide information as to what the federal government should be doing. That is not a measurement problem but a public policy problem. It is a major responsibility of Congress. An exception to this is that one reason for deciding that the federal government should

not undertake a particular activity, is that it is not able to do it well and other alternatives are worth trying. In these cases, program performance information can be a major contributor to this determination.

The GPRA focus on outcome-based performance measurement appears to have begun, at least in a small way, to focus the government's attention on such situations—since these programs tend to have similar, if not the same, performance indicators. Efforts such as those of the Departments of Education and Labor to coordinate their activities relating to school-to-work initiatives is an example. The State of Oregon in tackling its performance indicator on teenage pregnancy has begun to assemble working groups of people from several state agencies and local public and private organizations to try and tackle this issue in a comprehensive way. I hope that we will see such efforts greatly expanded in the future.

Benchmarks

The term benchmark has come to have many meanings. In recent years, the business sector has used the term to refer to a business firm comparing its own results to those of the best in the country (or world). This, however, is a narrow definition. Benchmarks are usually defined by dictionary as being a reference point or criteria against which to judge one's own performance. I believe this broader definition is more useful for public sector programs.

A public agency can have many other reference points or benchmarks. These include the performance in past time periods, the performance of the best organizational unit within programs that have many such organizational units, comparisons with the best (or average), outcome of various demographic groups. For example, education and employment programs have sometimes sought to bring all racial/ethnicity groups up to approximately the level of the best performing racial/ethnicity group. Other important benchmarks are the targets established by the program itself (based on a combination of considerations and the program's own estimate based on its budget and staffing compliment and any future events that the program personnel are able to forecast). The GPRA legislation itself calls for such targets to be set on each performance indicator for each program by each federal agency. These targets essentially are benchmarks against which to compare actual performance.

Why is this subject important? It is because "comparisons are the name of the game." Any reader seeing a table of outcome data will usually not know whether that performance is good or bad or whether it is improving or worsening. Users of performance information need some reference point, whether explicit or implicit, against which to assess whether the performance level is adequate or not to help judge whether actions are needed to achieve improvements.

Recommendations

The following are my recommendations for Congress relating to performance measurement, especially measurements focused on results:

1. Congressional Committees and subcommittees should, in their program deliberations, press the Executive Branch for information of on outcomes and service quality. This applies both to reviews of past performance and to proposals from the Executive Branch on budget-related matters and legislative proposals. Once programs have begun to provide their annual performance plans to Congress (as required by GPRA), members of Congress and their staffs should review the performance indicators included in the programs' plan.

Similarly, Congress should itself seek information on the likely effects on outcomes and service quality of legislative proposals coming from its own members.

2. Congress and their staffs should review the performance indicators contained in the early program performance plans. Congress should look for important omissions. (It can always ignore data on indicators that it does not believe are relevant or important.) While political issues can work against early cooperation on the selection of performance indicators, this should be attempted. This will give Congress the opportunity to encourage the Executive Branch to cover outcomes that Congress believe important that otherwise would not be included.

Congress and its staffs should also examine the performance indicators contained in agency Strategic Plans. GPRA requires consultation by federal agencies with Congress in developing agency strategic plans. (The initial agency strategic plans, with relevant performance indicators, are required to be submitted to Congress no later than September 30, 1997. Many agencies, and some of their programs, have been preparing draft plans that should be available for review by Congress before that date.)

3. Congress and its various committees should use the annual information on program outcomes and service quality in their development of legislation and related

actions. At least at this point in time, few legislators (at any level of government) have been pressing its Executive Branch for evidence of past results on specific indicators, nor for estimates of the future effects, relating to Executive Branch proposals. Most legislators' information on service quality and outcomes has been highly qualitative and subjective, without meaningful evidence.

I believe that no action will be as powerful a motivator for the Executive Branch to undertake meaningful performance measurement than clear and continued interest by Congress. (This same recommendation applies to Executive Branch officials: Department executives, OMB, and the Office of the President, should make clear to their program managers that information on service quality and outcomes is important—by asking for, and using, that information in their decision making process.)

4. When using information on service quality and outcomes, Congress (and Executive Branch officials—and the media) should not jump to conclusions and immediately assign blame (or praise). As previously discussed, the information on service outcomes does not tell the extent to which the program was responsible for the outcomes. Too many other outside factors, over which the program has little if any control, usually can affect outcomes.

Instead, Congress when it identifies what appears to be poor performance on some of the indicators should first seek meaningful explanations from the program. My colleagues and I in making recommendations to federal executive agencies emphasize the need for the performance measurement process to include a step in which program managers provide explanations or outcome data that differs significantly from expected values. This explanatory information should include the relevant findings from any in-depth program evaluations that were completed during the year. (In-depth program evaluations, however are costly and rare.)

5. Congress should be extremely cautious in interpreting program outcomes on any performance indicator based only on highly aggregated information. Outcome information is likely to be much more valuable to Congress if "breakout" data are available. This is data that indicate how outcomes varied across different geographical areas of the country, across different categories of customers (such as by gender, age group, race/ethnicity, income category, etc.), and by level of difficulty of the program's incoming workload. (For example, a program may have increased its success over previous years with both difficult-to-help clients and with less-difficult-to-help clients. But if the proportion of difficult-to-help clients who came in for service that year was considerably higher than previous years, the aggregate success rate might be lower—giving an inaccurate picture of what happened. The breakout information will help Congress make more enlightened judgment as to what needs to be done in the future.

6. In the initial years of GPRA implementation, Congress should be cautious in giving too much weight to the target values that programs include for their performance indicators. GPRA requires that target values be included for each performance indicator in each year's performance plan. (Such targets are labeled "annual goals" by GPRA, but they also could be labeled, "benchmarks.")

Establishing targets is very tricky. The Executive Branch has had little experience in most cases with that process. This is particularly so with the many outcome indicators likely to be new to the program. The program may not have historical data on which to help them base future targets. Setting targets is also subject to gaming. In the early years of GPRA implementation with its new thrust on outcomes, both Congress and Executive Branch officials should recognize the uncertainties surrounding these target numbers.

Congress and its staffs should track over the years each program's record in setting reasonable targets. Realization that Congress is keeping track of target setting can encourage programs to make their targets as realistic as possible.

7. Congress should resist the temptation to insert into future legislation specific performance indicators, and specific numerical targets. While on some limited occasions, this may be appropriate because the Executive Branch has failed to cover some important outcomes, the problems of data collection remains significant. Congress and its staff will seldom have the opportunity to explore all the technical and other issues involved with including particular performance indicators.

Congress might, however, want in its legislation to identify certain outcomes (but not the specific indicators for measuring those outcomes) that, at a minimum, it wants covered by performance data.

8. Congress should consider establishing, with the Executive Branch, an annual "Report to the Nation." Because of such a document's potential political implications, I suggest that if this is done, that Congress establish an independent, non-partisan commission to select highlights from the Executive Branch performance reports that would be included in each annual report to the Nation.

Such a report is a way to improve the communications between the federal government and its citizens.

Final Comment

The problems and complexities that the federal government faces in implementing success performance measurement procedures are formidable. Much work remains to be done. The state-of-the-art is such that the federal government should be able over the next several years to vastly improve the information available to Congress, the President, and the public on program quality and outcomes.

I would like to repeat my message in the beginning that tracking service quality and outcomes of federal programs makes good sense. It is common sense. It is good business practice. It is good government practice. And, it is in the public interest.

Thank you for this opportunity to appear before the Subcommittee.

APPENDIX: SOME PERFORMANCE MEASUREMENT BASICS

The term "performance measurement" covers considerable territory. For example, it can include measurements of the following:

- Inputs, i.e., the level of dollars and personnel expended for a particular program; that is, what a program has cost.
- The level of activity, or physical product, of that activity such as the number of reports prepared, the number of inspections made, the number of clients seen by the agency, etc. GPRA uses the term "outputs" for these. These measurements tell how much work the agency did, but not the quality or outcomes of the work.
- The quality of how the service was delivered (not what outcomes resulted after the service was provided.) This covers such service characteristics as timeliness, courteousness with which it is delivered, and the service's convenience and accessability.
- Outcomes, which track events, conditions, occurrences, etc. relating directly to customers and the intended mission of the program.
- Efficiency/productivity—usually measured as the ratio of the amount of input to the amount of product. Traditionally, the amount of work output has been used as the amount of product. More meaningful, however, is the ratio of input to the amount of outcome. For example, the cost per client served is not as meaningful as the cost per client whose condition significantly improved after receiving service. Unfortunately, with the scarcity of outcome information today, input-to-outcome ratios are seldom reported. Another problem is that outcomes expressed as a number to be minimized (such as number of crimes) cannot be used in such ratios.
- Impacts, which indicate how much of the outcome was actually caused by the program itself.

"Impact" indicators are seldom, if ever, possible in the complex world of federal government services (and most state and local services as well). Programs usually only have limited control over outcomes. External factors such as the economic condition in the country (and the world) and unusual weather conditions or other acts of nature can have substantial effects on outcomes. The best shot at measuring impacts are through special studies, usually called program evaluations (sometimes mandated by Congress in legislation).

Indicators of inputs (costs) and outputs are relatively routine. These are not discussed in this testimony. (Expenditures, of course, are a major concern to everyone. Outputs are probably primarily of interest to operating program personnel for tracking work done.) Outputs are useful in developing budgets, since the relationship between cost and outputs is usually relatively clear and can be estimated with a fair degree of accuracy.

Federal programs for performance measurement purposes can be grouped roughly into the following categories:

- Programs that provide direct services to "customers." These include such programs as the U.S. Postal Service, Social Security Administration, Internal Revenue Service, the Federal Aviation Administration, FBI, Customs Service, Immigrations and Naturalization Service, Mint, and a number of federal inspection activity (such as those of the Food and Drug Administration and Department of Agriculture, in which federal employees themselves undertake inspections—it might be useful to make these regulatory activities a separate category.) Obtaining data on service quality and outcomes is relatively easy for this category of federal programs.
- Research, especially basic research, and long-ranging planning activities. In general, the annual measurement, of service outcome and quality cannot be usefully done for these programs. Their outcomes take many years before they

occur. All that can be tracked on a regular basis are indicators of activity and possibly the number of citations of the use of the information by other professionals. Periodic in-depth studies are likely to be needed to try to shed light on the results of these programs.

• Programs in which the service is primarily delivered through state and local agencies. This adds a major extra complexity to performance-data gathering for the federal government since the data need to be collected, at least in part, by these other governments.

• Defense and international relations. The programs of the Department of Defense, related agencies, and State Department pose very special, and difficult problems for outcome-oriented measurement. The major mission of DOD is to act as a deterrent against future wars, and, when wars occur, to win them in the quickest and least costly manner. Clearly, measuring such outcomes is extremely difficult and at best can be undertaken only with special studies. Nevertheless, some annual measurements are certainly appropriate, such as the use of proxy indicators of service quality. These include such indicators as operational availability of forces and major equipment, and response time to various emerging situations, which do seem to come up regularly.

POSTAL SERVICE FULFILLS VOW TO IMPROVE:

DISTRICT RESULTS SOAR; SUBURBAN RECORDS SET

WASHINGTON POST, B-8, 6-14-1995—BY BILL MCALLISTER

Postmaster General Marvin T. Runyon has made good on his promise to improve mail service in the Washington area and celebrated the achievement yesterday by delivering letters to an Anacostia neighborhood.

Shortly after the white-haired postal chief donned a blue-gray letter carrier's uniform to walk a route along 34th street and Alabama Avenue SE, he announced that the agency had set on-time delivery records in the suburbs and had come within one percentage point of the best score ever recorded in the District.

It was a significant victory for area postal workers, who had been tormented with complaints after trailers filled with million of pieces of unprocessed mail were discovered last year at a suburban Maryland mail plant. About the same time that, a national survey showed that the District had the worst on-time delivery record of 95 test areas.

Yesterday, Runyon and postal workers were all smiles as he announced that the agency also had broken its national record by delivering 87 percent of the test letters overnight in the quarter that ended May 26. That was two percentage points better than the previous record and solid evidence that the agency had overcome a crisis that a year ago had some critics calling for Runyon's ouster.

In the District, the Postal Service delivered 81 percent of the test letters overnight in the March-May quarter. That is a 19 -point improvement from the same quarter that previous year and only one percentage point below the record, set in 1990, when the accounting firm of Price Waterhouse began the quarterly test mailings.

"Improved service is more than a trend," Runyon said in a statement, noting that overnight mail deliveries have improved nationally for three quarters. "This shows our employees have come together to provide a sense of urgency when it comes to delivery performance."

Rep. Steny Hoyer (D-Md)., one of Runyon's sharpest critics in Congress, was so impressed by the improvement in the Maryland suburbs that he said would hold a news conference today to proclaim that "the postmaster general is the greatest thing since Green Stamps"—stickers that years ago could be redeemed for merchandise.

The agency delivered a record 87 percent of test letters dropped in the Maryland suburbs overnight, equaling the national average. During the same quarter last year, 73 percent were delivered overnight. The previous record for a quarter in the Maryland suburbs was 82 percent, set in 1992.

Northern Virginia mail deliveries also showed sharp improvement, jumping 12 points to a record 83 percent delivered overnight, up from 71 percent a year ago. The previous record was 79 percent, set three times.

Even a number of the older central cities that long have been trouble spots for mail service showed significant improvement. In Chicago, on-time delivery of mail hit 82 percent, up seven points from the same period last year, and in New York it reached 83 percent, up 21 points.

The results were announced on the eve of a Washington conference sponsored by the Cato Institute, a libertarian think tank that has advocated privatizing the Postal Service. Postal officials hoped that Runyon's announcement would dampen the enthusiasm of congressional Republicans for such a change.

"I don't think statistics have much to do with privatization," Runyon said, expressing concern that private companies would take over "the easy part" of mail delivery and leave large sections of rural and poor America without daily letter service. Privatization advocates "should think twice before they tear it [the agency] into little pieces," Runyon told reporters.

THANKS FOR THE BEST JOB IN POSTAL HISTORY, AND THE BEGINNING OF OUR FUTURE.

AN OPEN LETTER FROM THE POSTMASTER GENERAL

Marvin Runyon
Postmaster General, CEO
United States Postal Service

June 14, 1995

Dear Postal Employees

We pulled together and did it! And you deserve the credit for providing America with its best service record ever.

Price Waterhouse says First-Class Mail arrived on time 87 percent nationwide in the March-May 1995 testing period. That's up four points when compared with 1994. Altogether, 18 metropolitan areas are above 90 percent. Wichita, Kansas, scored 96 percent, the highest achievement in our five years of testing. And Billings, Montana, was right behind with a 94.

In America's major cities, we've also made significant progress. New York City is up 21 points to 83. Washington, D.C., is 81, up 19 points. Philadelphia rose 18 points to 86. Dallas rose 8 points to 87. Chicago stands at 82, up 7 points. San Francisco is at 89, up 6 points.

How did we do it? Your commitment to and the commitment of strong operational leadership. You're making our systems work better than ever before—from automation to meeting dispatch times.

I am convinced that we have reached a new plateau in our commitment to provide quality service for America. I am also convinced that we can raise the quality bar even higher. What it will take is practice, progress and performance.

Congratulations and thanks for the hard work.

Sincerely,

MARVIN RUNYON

Mr. BASS. Thank you very much, Mr. Hatry. I understand that you have some exhibits that are on display at the table over there. I'd just like to assure you that they will be made a part of the record. We'll now hear from Mr. Jasper.

Mr. JASPER. Mr. Chairman, my comments on these management techniques are intended to give a realistic appraisal of their promise and their limitations. Since performance measurement now has a statutory foundation, it might have more staying power than did its ill-fated precursors. Performance measurement is a worthwhile and potentially valuable technique for improving public management and accountability. However, it has been vastly overpromoted and oversold. It is not new at all, having been around for 50 years or more. It's not a panacea for management improvement; and certainly not for resource allocation. Measures will tend to be selected because the data are readily available, not because they will be necessarily valuable for budget review. Past efforts have been very labor-intensive, both in their development and their use during budget reviews.

There will be a problem of gaming through selecting measures or targets that are safe. The stronger the link between performance measures and resource allocation, the greater the incentive for program managers to chose a defensive performance measurement strategy. Although OMB Director Rivlin has placed a high priority on the use of performance measurement, there is a serious risk that GPRA promises or requires too much too soon.

Performance budgeting seeks to make budget decisionmaking more analytical and objective. But basing budget allocations on levels of performance presents a number of challenges. Gaining agreement on outcomes and goals will not be easy. There is the question whether success and achieving goals can fairly be attributed to the operation of the program, especially at the Federal level.

Apparently effective programs can be discounted, with the assertion that it would have happened anyhow. Achievement of goals, or failure to achieve goals, may not actually inform us whether the program deserves more or less money. Data showing the achievement of goals will not help much with the tradeoffs between and among programs, which is the essence of budgeting.

There will be programs which will demonstrate success not through measurements, but through political muscle. Programs deemed marginal by Members of Congress might be on the chopping block, despite measures that show high cost effectiveness. In view of these limitations, performance measurement should be regarded primarily as a tool for improving management, rather than for resource allocation.

Further, except, I think, in a very few cases, outputs, rather than outcomes, will be the more reasonable focus for Federal performance measurement. "Manage to budget" is a more promising budget innovation. Managers would be empowered to spend funds in the most effective way in fulfilling their missions, without separate allocations for such items as salaries, travel, equipment, contracts, supplies, et cetera.

FTE ceilings would have to be abolished. A number of the other restrictions on shifting of funds may be removed through GPRA's limited authority for waivers of administrative controls. I recommend, however, that Congress amend GPRA to add authority to waive congressionally imposed requirements and controls. Unless managers are empowered to make common sense decisions regarding such matters as the size and composition of staff; the number and location of field offices; contracting; and the reassignment or termination of personnel, the benefits of such efforts as reengineering will be severely limited.

Output measures should help to direct the attention of managers to problem areas. If outputs fell short of plans, what were the reasons? Would reallocation of resources be in order? Are personnel in need of training? Should personnel be reassigned? Do we need to reengineer the process, in order to increase effectiveness or productivity?

As with performance measurement, some of those promoting reengineering have mischaracterized it as something totally new and different. While TQM and reengineering have genuinely changed the emphasis on our management improvement efforts, we should be realistic about the opportunities and limitations of these new approaches to management improvement.

Notwithstanding the claims of the gurus of the day, most management improvements can be characterized as systematic application of common sense, with the emphasis on systematic. That means we need persons trained in reengineering to do the work, if we expect it to succeed. Following are a few of the basic steps in reengineering that will show how it ties in with the other subjects of today's hearings.

Define mission; establish vision; and set goals and objectives through a strategic plan. Baseline or describe the core business processes and supporting systems. Identify breakthrough opportunities and redesign processes. Conduct benchmarking against the best in the business, and create measurement and evaluation systems. Pilot test and revise reengineered processes. Implement new processes organization-wide.

I commend this subcommittee for its careful attention to these important issues. I hope Congress will take steps such as I've recommended to make it possible for reengineering to achieve its potential, and for managers to manage. Otherwise, all of the combined efforts of the administration and Congress may fail to improve the management of Federal programs. Thank you.

[The prepared statement of Mr. Jasper follows:]

PREPARED STATEMENT OF HERBERT N. JASPER, SENIOR ASSOCIATE, MCMANIS ASSOCIATES, INC.

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to offer my comments on performance measurement, benchmarking and reengineering. My views are shaped by my experiences as: a career civil servant in the federal executive branch, an employee of the U.S. Congress and two of its staff agencies, a management consultant, and a Fellow of the National Academy of Public Administration (NAPA). Much of my career has focused on management issues such as those being addressed in this week's and next week's hearings. For example, I played a key role in shaping the Congressional Budget and Impoundment Control Act of 1974, including its provisions for program evaluation The views that follow are my own, and do not necessarily correspond with those of NAPA or McManis Associates.

PERFORMANCE MEASUREMENT

Performance measurement seems to be today's watchword for good government. The good government movement probably began in the early part of this century with the founding of the Institute of Public Administration in New York City in 1906. Or, perhaps, we can date it from the creation of the Civil Service Commission by the Pendleton Act in 1883. The two events signaled the introduction of professionalism and objective analysis in the public service. Performance measurement has come to the fore, once again, as a means of introducing objectivity into decision making. But, as we shall see, objectivity has its limitations in public policy making.

After hearing from some of the most avid "salespersons" for performance measurement, one almost gets the idea that they offer it as a panacea. It sounds as if, once it is fully implemented, program effectiveness will be greatly increased, marginal programs will fall by the wayside, and resource allocation will be on auto-pilot.

Another aspect of the "hype" surrounding performance measurement is that it sounds as if it's a recent development. But performance measurement has been part of the public management vernacular and practice for more than 45 years. Performance budgeting was proposed by the first "Hoover Commission" in 1949. Professor "Fritz" Mosher wrote a book on program budgeting in 1953. I, myself, wrote a Master's thesis in 1955, in which "work measurement" was analyzed as a part of the personnel allocation process in the Navy Department. I need not recount the huge investments made in the Planning, Programming and Budgeting System (PPBS) in the Johnson Administration and in Zero Base Budgeting (ZBB) in the Carter Administration, only to see those budgeting methods abandoned by subsequent Administrations.

My purpose, today, is to give a more realistic appraisal of the promise and the limitations of performance measurement. With its statutory foundation, it might have more staying power than did its precursors.

Under the 1993 Government Performance and Results Act (GPRA), about which you will be hearing more next week, agencies are required to have comprehensive, annual performance plans and strategic plans in place by September 30, 1997. Currently, there are more than 70 pilot applications of performance measurement underway. NAPA formed an advisory panel, on which I serve, to evaluate the first round of pilots and to follow developments under GPRA.

In a November 1994 report, "Toward Useful Performance Measurement," the NAPA panel reported on a number of "lessons learned." It warned that "There is risk that shortfalls in meeting the act's requirements could jeopardize continued congressional and executive support for the effort." To state this warning more bluntly, there is a serious risk that GPRA promises (or requires) too much, too soon. Fortunately, the act has provisions for evaluation by both the Office of Management and Budget (OMB) and the General Accounting Office (GAO), so Congress will have an opportunity to revisit the time table for implementation.

The executive branch, under the leadership of OMB Director Rivlin, has placed a high priority on the use of performance measurement as part of the budget examination process. And it has sharply increased the focus on management issues as a part of that process.

Showing how far we have to go (and how little progress we have made), however, performance budgeting is little more than "a gleam in the eye" in GPRA. Under the act, performance budgeting is merely scheduled for pilot testing in at least five agencies for fiscal years 1998 and 1999. So, 50 years after the Hoover Commission recommended it, we will be experimenting with performance budgeting in 1999. Beginning with that year, the President will have to submit "a Federal Government performance plan for the overall budget," derived from the agencies' performance plans.

What is performance measurement and what is performance budgeting?

Inputs, Outputs and Outcomes

Traditional budgeting, in both the public and private sectors, has concerned what we call "inputs," i.e., what resources were authorized to be invested in carrying out a particular program or project. Most often, this involves a number of persons assigned, or a number of dollars to be allocated. The dollar inputs might also be reflected in any number of other items that help to get the work done, such as personal computers to be purchased, travel for conferences or inspections, or office space to be constructed or leased.

Performance measurement, on the other hand, deals with the establishment of quantitative measures that will inform us of what happened as a result of such employment or expenditures. This means that we are interested, at least, in "outputs." Examples are number of cases processed, number of checks written, number of missiles built, number of contracts signed, number of letters delivered.

Every organization, whether public or private, can keep track of the resource inputs, over time. And every organization should, likewise, be able to develop identifiable outputs. This is true for "line" operations delivering products or services, which are the raison d'etre of the organization. For example, in a government agency like the Internal Revenue Service (IRS), the number of tax returns processed is an output directly related to the major purpose of the agency. The IRS personnel office, however, would have an output such as the number of personnel actions processed for "new hires."

While tracking outputs tells us something about what is being accomplished, it does not get to the heart of the matter, viz., what difference did those outputs make. And here's where we find that performance measurement in the federal arena is ever so much more difficult than it is in the private sector or in the state-local public sectors.

Specifically, an outcome for a private company might be sales volume, market share, income or, of special significance in the private sector—profits. An outcome for a state government might be new businesses attracted to the state, or reduction in highway accidents. An outcome for a city might be reduction in violent crimes or, for a school system, achievement scores for students.

For a federal agency, however, the issue is far more complicated. Let's translate the "line" output measure mentioned above for IRS into outcomes. Instead of tax returns processed, we would need to measure what was the number and percentage of non-filers, or what was the amount of unreported income, individually and collectively. Almost by definition, we do not have reliable data on tax-evaders.

Most agencies are not in the business of direct delivery of services. There are a few major exceptions, such as Social Security, the Postal Service, and air traffic control. Many federal programs are administered through state and local governments in ways that obscure what impact the federal contribution might have. Outcomes for defense and foreign affairs programs will often involve imponderable measures, such as whether we prevented a war.

Sometimes, when outcome measures can be established, it is not possible to attribute the outcome solely, or even in major part, to the agency's performance. For example, the Defense Logistics Agency (DLA), one of the agencies in the first round of GPRA pilots, included in its outcome measures the unit cost per barrel of fuel.

It had a target for 1994 and a lower target for 1995. As we all know, gasoline prices have recently risen substantially, reflecting an unexpected increase in market prices for oil. The factors causing changes in world oil prices will typically far outstrip whatever efforts DLA makes to keep prices down.

The Agency for International Development (AID) has similar problems. Creating a viable agriculture industry might be an objective of the AID mission in a given country. And there are, of course, ways of measuring whether that has occurred. But how much of the credit (or blame) can we fairly give to AID, given the number of other influences on the rate of development of agriculture? Even if we use a less ambitious outcome measure, such as the crop yield per hectare, we can not attribute productivity growth solely to the AID contribution. For example, weather, and availability of financing from domestic sources, are significant factors in increasing or curtailing crop productivity.

GPRA recognizes that extraneous factors may impair the agency's ability to achieve its stated goals (or outcomes). The section on strategic plans requires that they contain "an identification of key factors external to the agency and beyond its control that could significantly affect the achievement of the general goals and objectives. . . ."

In consideration of these realities, I believe that Congress and the Administration need to be careful about expecting too much from the desired focus on outcomes, however meritorious is the concept, and however useful the data might prove to be. Outputs may, in fact, be the more reasonable focus for federal programs. That does not mean that we forget about outcomes. In some cases, outcomes may be substantially dependent on the agency's performance. In other cases, one can compare the trends in measurable outputs with the changes in outcome measures and see if there is a "plausible assumption" that the increased outputs contributed to the enhanced outcomes.

Performance Budgeting

Budgeting, especially in the public sector, is a highly political process. Many interests are at stake, including those of Members of Congress, the beneficiaries (or "customers") of programs, the agencies (sometimes federal, state and local) and the employees carrying out the programs, and those who are affected directly or indirectly by the program even though they are not direct customers. These interests, of course, use whatever information, interpretations and influence they can bring to bear on decisions that affect the resources committed to the programs.

Performance budgeting seeks to make budget decision making more analytical and objective. At its fullest, we would have budgets increased or decreased based upon a demonstration that the program achieved the goals or outcomes targeted, or failed to do so. Under the GPRA, there must be at least five pilots for fiscal 1998 and 1999. For programs covered by the pilots, there would have to be set forth "the varying levels of performance, including outcome-related performance, that would result from different budgeted amounts."

Basing budget allocations on levels of performance presents a number of challenges. First, gaining agreement on goals or outcomes will not be easy. GPRA requires that agencies consult with Congress in developing their strategic plans, which must include "general goals and objectives, including outcome-related goals and objectives . . . ." But legislation is not noted for the crispness with which goals and objectives are stated. Indeed, the price of gaining a majority in both Houses is often the deliberate obfuscation or "fuzzing up" of the legislation's purposes. Since it is not possible to involve the whole Congress in such a consultative process, this provision may have the unintended consequence of delegating Congress' right of interpretation of statutory goals to the committees or subcommittees of jurisdiction. Or, it might provoke sharp disagreements between the committees of the two Houses, or between the executive branch and Congress.

Second, there are the problems mentioned earlier as to whether the degree of success in achieving goals can fairly be attributed to the operation of the program. Another issue is presented by the frequent criticism of apparently-effective programs that "it would have happened anyhow."

Third, achievement of goals or failure to achieve goals may not tell us whether the program needs or deserves more or less money. For example, a shortfall may be caused by having insufficient resources so that more are justified. And meeting a target may mean that there were ample funds, or even excessive funds, so that less money might be in order.

Fourth, even the development of goals, together with data that show their achievement, does not address the issue of tradeoffs between and among programs. That is the essence of budgeting as we never have the ability to spend all we would like on all the programs.

Finally, there will be programs which will demonstrate "success" not through measurements but through political power. No one should expect interest groups to desist from program advocacy merely because the data do not show that performance targets were met. The reverse is also true. Programs deemed marginal by congressional decision makers might be on the "chopping block" despite measures that show cost-effectiveness. For example, last week's news reported on pending "major cuts in small preventive care programs," notwithstanding ample measures that demonstrate the high pay off of preventive programs as compared to treatment programs.

These and other limitations on the likely effectiveness of performance measures in the budget allocation process are described in "Using Performance Measures in the Federal Budget Process." That report was published by the Congressional Budget Office (CBO) in July 1993. Based on reviews by both GAO and CBO of performance measurement in local and state government, the report reveals that the state of the art is far more primitive than has been advertised. Accordingly, it might be desirable to emphasize the phrase "performance indicators" (also used in GPRA) as being more accurate than performance measures.

Manage to Budget

There is a more promising innovation in budgeting that does not need several more years to explore. It is known as "manage to budget." Under this approach, managers would be given freedom to manage their budget resources, which would be assigned without compartmentalization among, for example, salaries, travel, equipment, contracts, supplies, etc. They would be empowered to allocate funds in the most effective way in fulfilling their missions. (It is unfortunate that the National Performance Review (NPR) focused on empowering workers, but seemed to regard middle managers either as "surplus" goods, or as virtual enemies of good management.

Under this concept, FTE (full time equivalent) ceilings would be abolished. Any savings sought through FTE reductions would be accomplished through the appropriations process. A number of the other restrictions on shifting of funds may be amenable to removal through GPRA's limited authority for waivers of "administrative procedural requirements and controls. . . ." (It should be noted, however, that this provision adds nothing to the authority of OMB and the operating agencies since it does not permit waivers of statutory impediments to efficiency and effectiveness.)

Managers would have flexibility and authority to use the funds in the most efficient and effective manner. For example, in some cases, fewer personnel at higher grades might be the most effective, while more personnel at lower grades might be better in other cases. More or fewer field offices, or tradeoffs between headquarters and field personnel, might be determined on grounds of efficiency.

Manage to budget authority would also resolve the contracting-out dilemma. As shown by GAO, contracting out is sometimes more costly. Under the manage to budget method, managers might decide to end a contract in favor of in-house performance. In other cases, they would contract out where it will save money, while retaining appropriate oversight capacity. In contrast, under NPR proposals, there would be more contracting out but with reduced oversight.

In order to make manage to budget work effectively, managers should also be given substantially greater personnel authority, for example, over not only appointments, but position classification. Finally, program managers' judgments about the best interests of the government in contracting decisions should no longer be subordinated to those of procurement officers. In order to make procurement reform a reality, we need to assure that both procurement officers and Inspectors General are retrained and reoriented to be more concerned about positive factors, such as achieving agency goals, instead of negative factors like avoiding criticism.

Benchmarking

Benchmarking is one facet of performance measurement. It concerns the establishment of goals, standards or objectives.

One definition of benchmarking is a standard or point of reference in measuring or judging quality. This has led to the approach where a company (or an agency) identifies a performance level at another organization judged to be the "best in the business." Then it sets that performance level as its own goal.

Another approach is to set a standard based on a desired level of performance in terms of customer satisfaction. An example would be Motorola's "six sigma" standard, having to do with the tolerance for an extremely small rate of defects. Government agencies have generally used the term benchmarking to set a goal or performance standard, without regard to the source of the standard.

Management Improvement

I believe that too much emphasis has been placed on the use of performance measures for decision making, especially with regard to resource allocation. In addition to all of the difficulties that I have cited, there is also the problem of "gaming." Without attributing ulterior motives to anyone, it is nonetheless realistic to expect that measures that might lead to a budget reduction (if performance falls short) will tend to be avoided. Or, standards might be set low enough as to be easily achieved and data might be collected and reported selectively.

Most likely to be a problem is that measures will be selected because the data are readily available, regardless of whether they will provide much insight regarding the achievement of the agency's mission and goals. The stronger the link between performance measures and resource allocation, the greater the incentive for program managers to choose a defensive performance measurement strategy.

I think that far too little attention has been given to the role of performance measurement in management improvement, or "managing for results." Output measures should have great potential for directing the attention of managers to problem areas. If outputs fell short of plans, what were the reasons? Would reallocation of resources be in order? Are personnel in need of training? Should personnel be reassigned? Do we need to reengineer the process in order to increase effectiveness or productivity?

REENGINEERING

As in the case of performance measurement, those promoting reengineering have typically characterized it as something dramatically new and different. We last were exposed to this kind of promotional rhetoric in connection with total quality management (TQM). I don't want to suggest that "there is nothing new under the sun," but we should be realistic about the opportunities and limitations of each new approach to management improvement.

When I started work in the government, we had folks who did organization and methods examination, then management analysis, then management engineering, later, TQM, and now reengineering. These latest approaches have genuinely changed the emphasis in our management improvement efforts, but they have not supplanted all the techniques and methods that went before. In fact, a characterization that I have heard applied to TQM would apply, as well, to reengineering. That is "systematic application of common sense."

Does that mean that anyone can do reengineering? Not at all. Brain surgery has also been around for a long time, but we want trained surgeons on our case. So we need persons trained in reengineering to do the work if we expect it to succeed.

TQM enhanced our understanding that, in Deming's phrase, "knowledge is in the worker" and that quality must be built in, not added on. That encouraged acceptance of the ideas of empowerment and team work. Reengineering has helped us focus on the need to "start with a clean slate" and make wholesale redesigns, rather than to assume that we could settle for merely improving existing processes.

In order to reengineer, we start with establishing a vision and setting goals. Thus, performance measurement and goal setting are closely linked with reengineering, as you have recognized in today's hearing agenda. I'd like to outline an approach to reengineering that will illustrate where benchmarking and performance measurement fit. It will also highlight that the time to reduce employment is after reengineering, not before.

1. Establish Vision and Set Goals

GPRA correctly includes strategic planning among its requirements. That is the right place to start. A strategic plan should incorporate or restate the organization's mission, i.e., what the organization is supposed to do. Such a mission statement should be sufficiently detailed to capture all essential elements, but should be as brief as feasible. Second, is to address the development of a fairly concise "vision" describing what the organization would like to become and how it would like to be viewed. A third part of the plan should be organized around the principles and values that the organization would like to observe in carrying out its mission and seeking to achieve its vision.

Having agreed upon the proposed mission, vision and values, the next task would be to develop goals (e.g., for five years) and objectives (e.g., for the next year and the following one). A number of strategic options should be identified and evaluated in this process. The strategic plan, itself, should be a blueprint for accomplishing the foregoing elements. It should also establish a process for periodic updating of the strategic plan.

2. Identify and Baseline Core Business Processes and Supporting Systems

It is necessary to document and evaluate the "as is" work flow for the core business processes. One needs, also, to define the relationships among the core processes with a view toward deciding if they need to be "mixed and matched" in different combinations. Concurrently, we must determine who are the customers (both internal and external) for the processes and identify the customers' requirements. Next, is to identify the costs associated with supporting the way work currently is accomplished. Additional work-flow process characteristics to be identified and evaluated include such items as quality, customer satisfaction, and time to complete the process.

3. Conduct Benchmarking

A valuable input, when an organization is reengineering a process for the future, is information derived from visits to organizations which are world-class leaders in performing similar processes Hearing and seeing, first-hand, about the successes (and sometimes the failures) of other organizations which have been involved in significant process improvement activities helps to stimulate thinking, and may provide the basis for benchmarking or goal setting It is also essential to look inside the organization when identifying best practices, as emulating practices already in use in an organization may present fewer requirements for culture change. Whatever the source, performance goals or targets should be established based upon their relevance to the organization's mission and purposes.

4. Identify Breakthrough Opportunities and Redesign Processes

After analyzing the "as is" processes, one starts to identify and articulate a different way of doing business. We should consistently ask "what if" when identifying different ways of doing business. The breakthrough opportunities form the basis for process redesign. This should include: creating a process vision; developing a detailed redesign for all core processes; and redesigning supporting systems.

5 Create Measurement and Evaluation System

At this point, it is time to identify and develop performance measures related to the goals established in the strategic and five-year plans. Performance measures, alone, will not give us all the information that we need. So it is also necessary to develop an evaluation system in order to determine if the reengineered processes and the supporting systems are satisfying the goals established. For example, the "customers" may not be satisfied even if the performance goals have been met.

6. Pilot Test and Revise Reengineered Processes

Newly designed processes should be pilot tested, as well as the redesigned supporting systems. The pilot test plans should include the resources required, timing, sequence of activities, roles and responsibilities, and test sites selected. An important aspect is the development of a communication plan to serve as the mechanism for informing all employees about what is about to happen, when, why, and how.

A part of a pilot test is to identify and respond to barriers or problems encountered and take such actions as may be required to improve pilot test implementation. The measurement and evaluation system should also be implemented during the pilot testing. Based upon the results of data analyses, any changes needed in the process are identified and the process reengineered; along with any needed changes in supporting systems, performance measurements and evaluation methods, before organization-wide implementation.

7. Formulate Organization-wide Implementation Plans

The reengineered processes will have new staffing complements associated with them. These might include increased or decreased numbers, and reassigned personnel. This is the first point in business process reengineering when cuts in personnel can be made rationally, and without jeopardizing program effectiveness. Cutting personnel first, and reengineering afterward, is a formula for further decreasing the capacity of government and for exacerbating the loss of public confidence.

The new processes will be subjected to the measurement and evaluation systems. Once reengineered is not enough. Continuous improvement, based on continuous evaluation, is what is required.

CONCLUSION

For one who has spent most of his career working on federal management issues, it is refreshing to see both the Administration and Congress focusing so much attention on management. On the other hand, it is discouraging to see so much in the way of a "rush to judgment," as in the case of the 272,900 personnel reduction without the benefit of credible analysis. I strongly recommend the termination of FTE ceilings and reliance on manage to budget to achieve the same purposes.

We should look at performance measurement primarily as a means of enhancing management, or managing for results, rather than as a method of resource allocation. Perhaps we ought to use the term "performance management," instead.

Congress ought to amend GPRA to add authority to waive statutory "procedural requirements and controls." While I fully appreciate that Congress will be reluctant to do so, I note that it has been willing to authorize waiver of substantive requirements for grant applications in order to permit meaningful program coordination. Unless managers are empowered to make common sense decisions regarding such matters as the size and composition of staff, the number and location of field offices, contracting, and the reassignment or termination of personnel, the benefits of reengineering will be severely limited.

I commend this subcommittee for its careful analysis of these important issues.

Mr. BASS. Thank you very much, Mr. Jasper. I have a series of questions here that I'd like to address. First of all, Dr. Kettl, you stressed in your testimony that basic political questions lead us to measure outcomes, while the technical and managerial problems lead us to measure outputs. Should we evaluate the agencies in terms of output only? If we do so, whom do we regard as responsible for these outcomes?

Mr. KETTL. In many ways, Mr. Chairman, that's the most difficult, the most arcane, but also the most important question that the whole focus on performance involves. We're saved a bit in trying to answer it by the fact that the question itself is so difficult, and therefore, that any improvement that we can make and any focus that we put on the business of outcomes or outputs makes us better than we were before.

I think the steps that are called for here are to try to do what we can about outputs. That is, at least to focus on the activities and the quality of the activities that agencies actually perform, and the activities that agencies themselves actually control. But as we've heard earlier this afternoon, when it comes to grant programs, contract programs, and a whole variety of other things, where the Federal Government acts in partnership with State and local governments, with non-profit organizations, with the private sector, the actual outcome of the program is something that is beyond the control of Federal managers.

What we need to do simultaneously is to focus attention, as much as we can, on how the system as a whole works, which means that we need to try to measure, in addition, the outcome questions as well. But even a focus on outputs, and focusing simply on trying to understand what it is that people do and how it's different from the amount of money that they spend—even that more modest step is something that's a huge improvement.

So we need to do what we can do, but to try to push everybody in the system at the same time to be cognizant of the fact that output measurement alone doesn't give a full picture of what everyone does.

Mr. BASS. OK, thank you very much. Mr. Hatry, you state in your written testimony that Congress can ignore data on indicators that it does not believe are relevant or important. Human nature is such that people focus on what they are evaluated on. If the indicators are irrelevant, or do not lead to the goals Congress thinks necessary, shouldn't the agency be asked to stop measuring these irrelevant factors?

Mr. HATRY. Obviously, there's a great deal of differences in viewpoints in people, conservatives and radicals and what have you. So there are going to be differences. My point was only that the Federal Government will come up with a set of indicators. I think that the Congress and your committee probably should help in reviewing the indicators, as they come in from the performance plans, which are now coming out; and to make sure that the indicators that you're interested in are there.

But clearly, I don't think Congress should tell the executive branch not to collect data on items that the executive branch feels may be relevant to some constituency. May I address the issue that Dr. Kettl raised?

Mr. BASS. Certainly.

Mr. HATRY. I find myself somewhat in disagreement with my eminent colleague on both sides of me on the issue of outputs versus outcomes. I think it's very important to highlight what those are. I agree with both of them that when you get to outcome measures, which means the real end results of what you're intending to do, almost inevitably, Federal agencies do not fully control the values of those outcomes. I think we all agree clearly with that.

However, the analogy I'd like to use is the manager of a sports team. The manager has to know the score. However, they don't know why they're winning or losing. It may be the pitching, the fielding, the batting. It may be their own mistakes; it may be some external factor beyond their control and the management of the ball club. But they need to know the score, to keep track of what's happening.

I think it would be a major mistake if the executive branch was not asked to measure outcomes. I think it would be a major mistake if Congress did not consider outcomes, regardless, and try to determine the extent to which they were controlled and why they are the way they are. It's very important to know what the score is.

I would like to see the day when every Federal employee in their offices, there was a little—you know the old community chest thermometers that used to be? I'd like to see, for example, a customer satisfaction thermometer in every office, where a target level was set and the actual level for the last quarter, or last half-year, or whatever, was set.

I think then we really will have arrived. And I think the employees should work toward that, even though they do not fully control customer satisfaction. Thank you.

Mr. JASPER. Could I add just a point to that?

Mr. BASS. Certainly, Mr. Jasper.

Mr. JASPER. Actually, I think Mr. Hatry and I are closer than he suggested. I don't suggest we not look at outcomes. I suggest we look at them as he suggested toward the end of his remarks—with a view toward assessing the degree to which the Federal program might or might not have contributed to the gain or loss, with respect to achieving those outcomes.

In my prepared statement, I discuss the use of plausible assumptions, where you total up your outputs and compare them with the changes in outcomes, and make an informed guess whether those output improvements might have contributed in a significant way to the more favorable outcomes.

Mr. BASS. Thank you. Mr. Jasper, one quick question for you. Can performance measurement provide optimal results in an atmosphere of FTE ceilings and personnel reductions, in your opinion?

Mr. JASPER. I think probably not, as I suggested with respect to the recommendation of the managed budget concept. I think if managers are free to manage, they need to be, in the public sector, more empowered, as they are in the private sector, to command a bag of resources which they can then deploy in the most effective way to achieve their objectives. In the Federal Government, we control the things that are easy to get your hands around.

We control things like travel. We control things like FTEs. And in that way, the controllers stand in the way of effective management. So I think if performance measurement is to be an effective tool to improving management, we need to empower the managers to take the steps that they would be informed about from the use of those performance measures.

Mr. BASS. OK, thank you very much. My time has expired here. I'd like to recognize the gentlelady from New York, Mrs. Maloney.

Mrs. MALONEY. Thank you very much, Mr. Chairman, and I am very pleased that the majority has invited such a distinguished and middle of the road panel to address us today. I appreciate very much your balanced and thoughtful presentation. It is particularly good to see Dr. Kettl, who is becoming somewhat of a regular before the subcommittee. And I'd like to note, in a recent letter from Dick Armey to CEOs in the country—and he wrote to several CEOs, and he criticized corporations which give money to "liberal groups like Brookings Institution."

Are you aware the majority quoted that Brookings Institution received $6 for every $1 given to conservative groups like the American Enterprise Institute, even though, according to Mr. Armey, these corporations are also supporting the expansion of the "welfare state." I'm just curious, does that mean that your testimony is six times better than what we could expect? Were you aware of this letter?

Mr. KETTL. I, to tell you the truth Mrs. Maloney, was not aware of the letter. I would like to think that you're getting high quality.

Mrs. MALONEY. I always thought that you were middle of the road.

Mr. KETTL. I'm frankly a bit surprised, because I know that for my work in particular, for the work of the Center for Public Management at Brookings, and for Brookings as a whole, there's every effort made to be non-partisan. And in fact, on the business of government management, in particular, we've worked very hard in an effort to try to play a constructive role, as the debate is proceeding, about how best to both cut but also to improve the performance of government.

So I have to confess, I'm frankly a bit surprised by that letter.

Mrs. MALONEY. Now that we are focusing, really, on block granting, there's now a whole movement toward block granting total responsibility back to the States. So how does the Federal Government obtain adequate measures of how programs it delegates to the States, such as block grants—23 children's programs have been block granted back to the States—how are we going to oversee these programs and the effectiveness of these Federal dollars?

Mr. HATRY. The suggestion that many of us have made is that these should be real partnerships. The State, and as appropriate local governments, should participate with the Federal Government in a real get-together to work out indicators. I'll point out the example of the U.S. Department of Labor, which, for many years has been doing such a thing with the Job Training Partnership Act.

They've been tracking, through the local programs, 13 weeks after the completion of their program, through an interview by telephone with a structured questionnaire, to get information on whether the person who went through the training program is then employed, and their wage level. That generates national figures and other data on those key outcome indicators. So we do have some precedent for that.

And other Federal programs are talking, child support enforcement, are trying to work out real partnerships. That's something which has eluded the Federal Government, is the true partnership, as opposed to I told you so; and really getting them involved so that the data that they collect not only is useful to the Federal Government, but is useful to the State and local programs so they can use it for monitoring their own performance.

So I would encourage some sort of accountability on these block grants, but at the same time have to be very carefully done. And they have to—and they should involve State and local input.

Mr. JASPER. May I add a point? As I think was observed, State and local governments seem to be, somewhat ahead of the Federal Government, with respect to performance measurement. In my view, that's not because they're "live wires" and we're "dead wood" here in Washington. It's because it's eminently easier and more logical to measure at the State and local level, because you're closer to the point of service delivery.

The closer you are to the point of service delivery, the easier it is to think up the measures that are relevant. In the case of block grants, without addressing the merits of block grants, I would suggest if we go that route, we will find that the service delivery mechanism at the State or local level will be susceptible to measurement. The thing that will be harder to measure is the degree to which the Federal participation played a significant role.

But the measures of the efficiency or effectiveness of the State program, I think, will be easier to come by than for the Federal program.

Mr. KETTL. If I may make just two brief points. The first is that the block grant case underlines Mr. Hatry's point earlier about the importance of keeping score. In this environment, we need to know whether or not these programs are having an effect, and we need to focus on outcomes. The second is that the tighter the money gets, the more we need to focus on that.

And in an era of tight budgets, it seems to me that it's a difficult proposition to put money on the stump and run away without paying some attention to what we're buying in exchange for the money that we're spending.

Mrs. MALONEY. Do you think that with Congress watching more closely, that agencies would set their performance targets more accurately or not? Wouldn't we expect, or Congress expect, low balling on their estimated performance?

Mr. KETTL. I operate under the assumption, I guess, that all performance targets will be gamed. And the trick is to structure the game in such a way as to improve the odds to get the results that you want. In particular, if Congress is unhappy with the nature of the performance measures that it's receiving, it's certainly within Congress' power to suggest that the agencies revisit them; to go back, try harder to do again.

But again, understanding that the business is more about communication than it is about measurement, the more we talk about what it is that we want to do, the better off we'll be.

Mr. HATRY. In my written testimony, I point out that performance targets will also be subject to gaming. But Congress should keep track of what's happening over time. But there's another thing that's working that's not as well known. On an annual basis, the agencies are going to be required, starting in calendar year 1997 and for fiscal year 1999, to have targets set each year.

If they low-ball in 1 year, you can see that; and they may be held to a tighter target the next year. So what they do in 1 year is going to affect what you can observe the following year. So it's not a completely easy gaming process. And the agencies' ingenuity is going to be hard pressed.

Mrs. MALONEY. Thank you. My time is up.

Mr. JASPER. As Dr. Kettl said, all techniques are subject to gaming. The whole budget process is subject to gaming. I think we do have some referees or umpires here. To a degree, OMB can be judge and jury about whether the targets have been set too low.

Mr. BASS. Thank you, Mrs. Maloney. The Chair will now recognize the gentleman from Pennsylvania, Mr. Mascara.

Mr. MASCARA. Thank you very much, Mr. Chairman. I have a few questions.

State governments have mandated that local governments carry out the Federal mandates. I attempted, as the controller of Washington County, PA for 6 years, to gauge the performance. I received no money from the State or Federal Government to do that. I thought it was important if you wanted to measure our input.

And my question is, if we're going to have more block grants than we did in the 1980's, and we have divided leadership, because divided leadership is no leadership, we have a Federal Government, who passes the money to the States, who passes it to the local governments, how do we control that? How do we really know—because we really never knew what the Federal Government expected of us.

And when I managed the old Manpower, the old CETA—in fact I testified before Congress in regard to JPTA. They were all amazed. And we never really knew what the Federal Government wanted. How do we get to that? I was there, and I couldn't.

Mr. HATRY. As Dr. Kettl just said, if we look at this as a new communications technique, presumably this would help with measures on all three levels of government. In discussing the money challenge with each other and what those measures should be, perhaps the county will be able to demonstrate to the State, in terms of Federal Government that a reasonable performance was the one—perhaps the Federal leadership wanted a new measurement process. I would like to stress that this performance measurement process would be fairly intensive.

Mr. KETTL. With the work being done in cities and counties, and Federal agencies on this issue, I am fairly optimistic that some of the more common outcome reviews can be put in place. It is something that it seems everybody says, it looks good.

So the Federal Government needs to work closely with those counties and States and cities to work out the measurement issues. It is very important.

I think, right now, there will be a different panel of State governments, and State governments if the local governments are to get into measurement. I think if they're not forced, not being beaten over the head with this stuff, I think they will cooperate with the Federal Government.

So it depends on reasonable things that don't cost a fortune to implement, but do help shed light on the outcome.

Mr. MASCARA. In 1984, Congress passed the act that required Federal, State, and local governments to submit to the auditing process. As a controller, of course I was concerned about the fiscal aspect a great deal, but we couldn't get the kind of resources that we needed from local firms or agencies, so we didn't have what we needed to do these kinds of audits. So we needed the resources also. It's nice to say, you should make your goals and objectives, but the government should set aside a certain portion of that money to pay for that performance.

Mr. BASS. I have a couple of questions. Mr. Jasper, you might start off, since you mentioned OMB's role. Which is the better source of data? OMB or the agencies themselves?

Mr. JASPER. I'm not sure that I did develop that point in my testimony. But the quick answer would be that, basically, the source of the data should be the agencies. OMB and GAO are merely agencies looking over the shoulders of other agencies.

Mr. KETTL. There are some kinds of programs where the sources may be obvious. There are some areas where the alternatives are fairly clear and where resources are fairly deep. On the other hand, for example, cleaning up radioactive waste around the country, where there is no alternative anywhere and the Federal Government is just going to have to go on its own, and, in the process, to think very carefully about how it knows whether or not it's doing its job well.

So in those areas where there are similar enterprises, the Federal Government can work with those enterprises, and at the very least, how to measure its enterprises. It needs at the same time to be alert to those places where it's different.

Mr. BASS. Very well. One last question. In your opinion, how long is it going to take before agencies utilize the methods you have developed here?

Mr. KETTL. In some cases, they are already being used to make budgetary decisions. Other agencies are a long ways away. There are a couple of important points here. The first is that the level of current expertise and technology and experience in the Federal

Government varies widely, and some agencies are going to take a much longer time to do that.

The second thing is that the job is much harder in some agencies than others. To use the example that I just pointed out, on the one hand, the Postal Service and express mail is a relatively straightforward one, where the Postal Service already has these data, and we can use that in the budget tomorrow. On the other hand, radioactive waste is far harder. We may never quite get to the point where we feel comfortable about that.

We need to be tolerant within the system, of recognizing that diversity. But ultimately, we need to recognize as well that the budget is part of it, but only a piece of the business of political communication that performance measurement involves. And on the other hand, we can't expect to be insulated from the budget, but we need to be able not to force every performance bit of information into the budgetary process as the sole measure of whether or not it's a useful guide.

Mr. HATRY. I fully concur, but I would like to add one additional thing, we might have raised earlier. To a great extent, what Congress does will make a major difference here. If Congress pushes for this information, and shows interest, and starts asking for such information, I think things will move along much faster than it otherwise would.

Mr. JASPER. If I could add a thought. No matter what Congress does, I would encourage it to be the force that Harry has recommended. I would suggest that to expect performance measurement to routinely be used across the board for resource allocation for all type of programs will not occur in our lifetime.

Mr. BASS. Interesting. Thank you. I have no further questions. I'd like to thank you three gentlemen for your testimony here today. I greatly appreciate your views into the subject as we work on it. It's an important issue. So, with that, I will excuse you, and thank you very much. At this time, we'll call our second panel, Mr. Johnny Finch and Mr. Chris Hoenig, of the General Accounting Office.

At this time, we will ask you two gentlemen to please stand and raise your right hands.

[Witnesses sworn.]

Mr. BASS. Thank you. We'll begin by hearing from Mr. Finch.

STATEMENT OF JOHNNY C. FINCH, ASSISTANT COMPTROLLER GENERAL, GENERAL ACCOUNTING OFFICE; AND CHRISTOPHER HOENIG, DIRECTOR, INFORMATION RESOURCE MANAGEMENT, POLICIES AND ISSUES, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, GENERAL ACCOUNTING OFFICE

Mr. FINCH. Thank you very much, Mr. Chairman and members of the subcommittee. We have, basically, a consolidated statement. We are pleased to be here today to contribute to another of the subcommittee's series of hearings on Federal management. And I'm joined today by Chris Hoenig, our director of information resources management policies and issues.

We have a fairly lengthy detailed statement which, with your permission, we will submit for the record.

Mr. BASS. Without objection, so ordered.

Mr. FINCH. The subcommittee has recognized that the state of management in the Federal Government needs to be improved substantially to meet the public's demand for a more cost effective government.

Too many structures and processes that worked well years ago no longer allow the government to respond quickly and effectively to a rapidly changing world where the resources available for public purposes are being significantly reduced.

There is a growing consensus among the public, Congress, and the administration that the Federal Government's performance must improve substantially.

However, many agencies lack the critical performance information needed to determine what to improve, by how much, and how rapidly. 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, the government's multiple stakeholders make it difficult to reach consensus on mission, goals, and performance measures.

Also, many Federal agencies have not yet developed the processes, systems, and information needed to successfully manage their operations. Even if these challenges are faced and met, private sector experience has shown that improvement efforts that yield substantial benefits have taken years to plan and implement.

When we testified before this subcommittee last month, we noted that agencies need to develop more precise outcome oriented performance goals and to better measure performance to manage for results. As agreed, our statement today will elaborate on how agencies can better measure their performance.

Our work on Federal, State, foreign, and private sector reform efforts has shown certain actions to be critical for developing and using performance measures to improve the effectiveness, quality and timeliness of Federal programs.

These actions are as follows: focus on mission and desired results; involve key stakeholders—those with a direct interest in the success of the program—in the development of the performance measures; develop performance measurement systems that have certain characteristics in order to produce relevant performance information for program managers, staff, and other decisionmakers; and use performance information in the selection and use of process improvement techniques that will further enhance performance.

First and foremost, successful performance measurement efforts require agencies to have a clear understanding of their mission, customers, and desired results. In the Federal Government, management and accountability traditionally have focused on inputs and processes rather than on the mission, performance and outcomes of the Federal programs. In addition, many Federal agencies are only beginning to identify their customers and define those customers' needs.

Thus, developing and maintaining a focus on defining mission, achieving mission specific results, and satisfying customers' needs will require a change for many Federal agencies. Our work on the experiences of leading State and foreign governments clearly demonstrates that while such a change is essential to measure performance and improve effectiveness, it will not come quickly or easily. In our review of private sector efforts, we found that making such organizational changes was a long-term process that could take 5 to 10 years to accomplish.

Our general management reviews over the last decade have shown that many agencies had not developed the basic elements of a strategic management process that effectively relates agency mission, program goals and strategies for achieving desired results.

Working with multiple internal and external stakeholders can pose a challenge for Federal agencies in developing performance measures. Customers and other key stakeholders are important because they have a central role in defining whether a program is successful.

The involvement of multiple stakeholders helps agencies to ensure that their performance measures are developed properly; target a program's outcomes; and will be useful to a wide range of congressional, agency, and other users. We have found that a lack of agreement among the stakeholders on an agency's goals and intended program outcomes can limit the use of performance information to improve effectiveness.

Leading States' efforts to develop and use performance measures underscore the importance of the executive and legislative stakeholders reaching a consensus on the types, value and format for presenting performance information.

We reported that Oregon, a national leader in State government efforts to reach out to stakeholders, brought together diverse internal and external stakeholders in order to reach consensus on Statewide goals. Oregon business, city, county, community, and State representatives, as well as legislators from both parties, met in 12 regional meetings over 6 months to develop the Oregon Benchmarks—Oregon's Statewide outcome goals.

To apply this lesson at the Federal level, the executive branch and Congress must work closely to ensure that appropriate strategic goals are established, proper performance measures are defined, and useful performance information is developed to meet both congressional and executive branch needs.

While a wealth of information exists and is reported to Congress on the activities that agencies perform, little is reported on the outcomes of those activities. Our work on the experiences of leading organizations also has shown that obtaining the views of agency managers and staff is essential to the development of sound performance measures. A major benefit of involving these individuals in the development of the measures is that they are closest to the programs and customers.

Therefore, they will be among those who know best what should be measured to determine the progress toward meeting strategic goals. Agency managers and staff also will be more inclined to use performance information to improve program services and delivery if they were involved in developing measures. The U.S. Army Corps of Engineers is an example of how a Federal agency is working to involve managers and staff in the development of performance measures and to foster support throughout an organization.

The Corps' Civil Works Operation and Maintenance Program is responsible for managing water resources by maintaining navigable waterways, controlling flooding, and promoting environmental stewardship. The Corps' process for developing performance measures was one of shared leadership and team developed measures. The Corps developed a tiered concept so that each level of the organization—headquarters, district and project—assisted in setting measures that were meaningful at that level.

Our work on leading State and foreign governments' and Federal agencies' efforts to set outcome oriented goals, measure performance and use performance information found that the content of performance measures naturally will vary by program. However, successful performance measurement systems typically produce measures that are outcome linked, significant, responsive to multiple priorities, and responsibility linked as well as based on credible information.

Successful performance measurement systems focus on program outcomes to the extent practicable. Our work has shown that outcome measures should indicate the degree to which strategic goals are being met and gauge the impact of a program's products or services.

To establish this cause and effect relationship poses a difficult and formidable challenge. Many Federal agencies will need to make substantial progress before they are able to successfully link their performance measures to outcomes.

For example, we have found that Federal rural development agencies have done little to analyze the impact of their programs on the development of rural areas. Some agencies, such as the Department of Agriculture's Rural Business and Cooperative Development Service and the Department of Commerce's Economic Development Administration, attempted to determine the results their programs achieved by using output measures, such as the number of grants made or number of people temporarily employed on a short term project.

While such information is valuable for program management and accountability, it does not present the most complete picture of the results of the Federal effort. More outcome oriented performance measures, such as a project's contribution to an increased tax base or income growth, would show the impact of Federal efforts on the targeted economy.

Nevertheless, the efforts of some agencies that OMB identified as leaders in implementing GPRA suggest that it is possible to focus a program on outcomes and to measure whether those outcomes are being attained. For example, as I discussed in my prepared statement, by focusing on outcomes, the Coast Guard's redirected efforts have contributed to a significant decline in fatalities.

Our work has shown that the experiences of leading organizations suggest that the number of measures should be limited to a vital few that provide the most needed information for accountability, policymaking, and program management. Using a few significant performance measures provides a clearer basis for assessing accomplishments, facilitating decisionmaking, and focusing on accountability. Too many measures, including those that have little value for stakeholders, can confuse and overwhelm users or make a performance measurement system unmanageable.

Our work has shown that public organizations face a variety of competing interests and demands that continuously force policymakers and program managers to strike difficult balances. As a result, the performance measures that are developed need to address various aspects of program performance and balance priorities among several goals. Managers must balance quality, cost and customer service and weigh the impact of improving any one or two of these measures on the others.

Agencies can ensure that they remain sensitive to these inherent tensions of delivering public programs and services by using performance measures that force a balance among competing priorities. Our work has shown that leading organizations try to link their performance measures to specific organizational units or to the individuals that have responsibility for program performance. Through this linkage, the responsible organizational unit is held accountable for program results.

This accountability helps to ensure that day to day activities remain focused on achieving the outcomes the organization is trying to attain. The experiences of leading foreign countries present different models of accountability for results. For example, since 1991, the United Kingdom's Citizens Charter reforms have called for individual agencies to publish service standards, measure performance against those standards, and solicit feedback on performance.

According to the 1994 Citizens Charter report, the United Kingdom has published 38 Citizens Charter documents covering major public services and setting out the specific service standards and remedies that citizens could expect if the standards were not met. For example, the Post Office was to compensate customers for the late arrival of a special delivery item by refunding twice the fee paid or a book of first class stamps, whichever was greater.

Our work on leading foreign countries has shown that although there is broad agreement on holding agencies accountable for achieving results, there is as yet no consensus on the best approach for holding individuals accountable. For example, New Zealand and the United Kingdom have chosen to hold government ministers accountable for outcomes, recognizing that program managers do not control all of the factors that may affect an outcome.

Australia and Canada have taken a different approach. While also recognizing that their managers did not control all the factors that contributed to program outcomes, they have chosen to hold program managers accountable for assessing the overall effectiveness of their programs and for reporting on how controllable and uncontrollable factors affected program outcomes.

Our work has shown that reliable financial and program performance information is a fundamental prerequisite for improving the management of government programs and providing the needed accountability for program results. Consequently, agencies must have the systems, processes, and skills to generate and use this information. Accurate and timely financial and program performance information is essential for government leaders to control costs, achieve needed management improvements, or make tough budget decisions.

Program performance and financial information that managers and other decisionmakers need to guide resource allocations and improve business processes come from sound, well-run information technology systems. Unfortunately, the Federal Government's current use of technology to gather and analyze financial and program information is also a source of great concern. The government has spent or obligated more than $200 billion on information systems and related technology activities over the past 12 years.

However, our work has shown that the government has invested heavily in costly information system projects and related technology that often fail to produce dramatic service improvements or significant reductions in personnel and administrative costs. We have found that information systems projects are frequently developed late, fail to work as planned, and cost millions—even hundreds of millions—more than expected.

Even the best performance information is of limited value if it is not used to identify performance gaps, set improvement goals, and improve results. Our work has shown that successful organizations recognize that it is not enough just to measure outcomes. Instead, they also assess the main processes that produce the products and services that lead to outcomes.

Such organizations typically assess which steps or activities of a process are the most costly, consume the most labor resources, and take the most time to complete. By analyzing the gap between where they are and where they need to be to achieve desired outcomes, management can target those processes that are in most need of improvement, set realistic improvement goals, and select an appropriate process improvement technique.

By setting realistic performance goals and taking advantage of existing knowledge of processes or practices, an organization can choose areas of concentration for process improvement efforts; set specific strategies to achieve those improvements; and learn new or better ways of implementing changes to core processes. Using performance measurement information, an organization can compare, or benchmark, its performance with that of world-class organizations.

Benchmarking is a critical part of an effective improvement program because it helps an organization identify outstanding levels of performance that actually have been achieved. Benchmarking therefore helps define specific reference points for setting goals for improving performance. It leads an organization to compare the performance of its processes and the way the processes are conducted with either internal organizational pockets of excellence; or relevant peer organizations to obtain ideas for improvement.

Peer organizations may be in the same industry or "best in class" in a given process or practice, such as product development, inventory management, claims processing or customer relations. The objective of benchmarking is to target those areas most in need of improvement and set goals that will dramatically raise the level of performance in those areas. 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.

However, 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.

Ambitious goals help challenge and motivate an organization to fundamentally rethink how it does its work. Benchmarking is helpful because knowing what others actually are accomplishing helps reduce internal resistance to change built up around perceptions of what can be done and what should be attempted. In addition to attempting to establish realistic, attainable goals at the outset of the planning process, it is important for organizations to recognize that goal setting is an iterative process and requires some flexibility.

Our work has shown that 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. Because ambitious performance improvements are so difficult to achieve, it is important that Federal agencies adopt and execute a comprehensive framework for managing their improvement efforts.

Performance measurement and benchmarking are key elements of an improvement framework, in part because they help an agency understand the nature of the gap between current and desired performance levels. They are also instrumental in helping the agency to select the appropriate process improvement technique, or the means by which to improve poorly performing business processes. The size of the performance gap helps determine how much change is needed and the timeframe for accomplishing the change.

Our work has shown that leading organizations use a variety of improvement techniques, depending on the seriousness of the performance problem; the speed with which a process must be improved; and careful consideration of the costs, benefits, risks and barriers to change. These techniques include continuous process improvement, process redesign, and business process reengineering.

Reengineering is perhaps the most frequently discussed improvement technique today. Its attraction is in its promise of achieving high levels of improvement in cost, quality, and timeliness that can help propel an organization into a leadership position in its market. Our work with leading organizations indicates that accomplishing significant improvements in performance nearly always requires that critical work processes be redesigned or reengineered in conjunction with the application of information technology.

Information technology projects aimed at improving performance that do not involve process improvement may fail to yield any significant, long term benefits. Our reviews of major system modernization efforts across the government have shown that many Federal agencies are still automating current ways of doing business. This results in the expenditure of millions of dollars with little or no benefit and lost opportunities to fundamentally improve government performance and public satisfaction.

Organizations that have reengineered successfully generally followed a set of identifiable practices, including strong executive leadership and commitment, a shared recognition and willingness to change, a clear strategic vision of the organization's future, a sound methodological approach to reengineering, and—most crucially—the ability of the organization's leadership and staff to successfully implement and manage the potentially profound and painful changes that are inherent in fundamentally altering the way business has been done in the past.

Reengineering efforts that do not follow these practices significantly increase their risk of failure. These risks are very high because the scope and complexity associated with reengineering are so great. It involves comprehensive changes not simply to business processes, but to management and support structures, people and organizations, technology and information systems, and policies and regulations.

In summary, Mr. Chairman, although some Federal agencies are making progress in establishing well-defined, meaningful and sound performance measures, most agencies still have a long way to go. The experiences of leading State and foreign governments, Federal agencies, and businesses provide valuable lessons for Federal agencies as they begin to implement GPRA's performance measurement requirements and redesign their critical work processes to achieve significant improvements.

Agencies are confronted with the central issue of developing performance measurement processes that focus on outcomes that are important to key stakeholders, wile also providing the critical management information needed to improve business processes to achieve those outcomes. Given the challenges that agencies face and the need to make significant performance improvements during a time of severely limited resources, Congress has an essential role to play through its oversight, appropriation and authorization capacities.

This concludes our prepared statement, Mr. Chairman, and we would be happy to answer any questions you or members of the subcommittee may have.

[The prepared statement of Mr. Finch and Mr. Hoenig follows:]

PREPARED STATEMENT OF JOHNNY C. FINCH, ASSISTANT COMPTROLLER GENERAL, GENERAL ACCOUNTING OFFICE; AND CHRISTOPHER HOENIG, DIRECTOR, INFORMATION RESOURCE MANAGEMENT, POLICIES AND ISSUES, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, GENERAL ACCOUNTING OFFICE

Too many structures and processes that may have worked well years ago no longer allow the government to respond quickly and effectively to a rapidly changing world where the resources available for public purposes are being significantly reduced. While the need for change is great, the challenges are both complex and long-term.

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, many federal agencies have not yet developed the processes, systems, and information needed to successfully manage their operations. Even as these challenges are faced and met, private sector experience has shown that many improvement efforts which yield substantial benefits have taken several years to plan and implement.

GAO's work on federal, state, foreign, and private sector reform efforts has shown that the following actions are critical for developing and using performance measures to improve programs:

(1) focus on mission and desired results;

(2) involve key stakeholders—those with a direct interest in the success of the program—in the development of the performance measures;

(3) develop performance measurement systems that are outcome-linked, significant, responsive to multiple priorities, and responsibility-linked, as well as based on credible information; and

(4) use performance information and benchmarking in the selection of process improvement techniques most likely to enhance performance.

In passing the landmark Government Performance and Results Act—the federal government's major statutory performance measurement initiative—Congress recognized that its ability to make sound decisions was hampered by the absence of sound financial and performance information. As a result, Congress has a central role in ensuring that agencies establish appropriate strategic goals, define proper performance measures, and develop useful performance information to meet both congressional and executive branch needs.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to contribute to this Subcommittee's series of hearings on federal management. The Subcommittee has recognized that the state of management in the federal government needs to be improved substantially to meet the public's demand for a more cost-effective government. Too many structures and processes that worked well years ago no longer allow the government to respond quickly and effectively to a rapidly changing world where the resources available for public purposes are being significantly reduced. There is a growing consensus among the public, Congress, and the administration that the federal government's performance must improve substantially. However, many agencies lack the critical performance information needed to determine what to improve, by how much, and how rapidly.

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, the government's multiple stakeholders make it difficult to reach consensus on mission, goals, and performance measures. Also, many federal agencies have not yet developed the processes, systems, and information needed to successfully manage their operations. Even if these challenges are faced and met, private sector experience has shown that improvement efforts that yield substantial benefits have taken years to plan and implement.

When we testified before this Subcommittee last month, we noted that agencies need to develop more precise outcome-oriented performance goals and to better measure performance to manage for results.[1] As agreed, our statement today will elaborate on how agencies can better measure their performance. Specifically, we will discuss the actions that our work on federal, state, foreign, and private sector reform efforts has shown to be critical for developing and using performance measures to improve the effectiveness, efficiency, quality, and timeliness of federal programs. These actions are as follows:

(1) focus on mission and desired results;

(2) involve key stakeholders—those with a direct interest in the success of the program—in the development of the performance measures;

(3) develop performance measurement systems that have certain characteristics in order to produce relevant performance information for program managers, staff, and other decision-makers; and

(4) use performance information in the selection and use of process improvement techniques that will further enhance performance.

My comments today are based on our reports on leading state, foreign, and private sector efforts to create a more results-oriented environment and our ongoing work on federal implementation of the goal-setting and performance measurement requirements of the Government Performance and Results Act (GPRA) and related initiatives.[2] Next week, as requested by the Subcommittee, we will discuss a fuller range of issues involving the early implementation efforts under GPRA—the federal government's major statutory initiative for goal-setting and program performance measurement.

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[1] Managing for Results: Steps for Strengthening Federal Management (GAO/T-GGD/AIMD-95-158, May 9, 1995).

[2] Managing for Results: Experiences Abroad Suggest Insights for Federal Management Reform (GAO/GGD-95-120, May 2, 1995); Government Reform: Goal-Setting and Performance (GAO/AIMD/GGD-95-130R, Mar. 27, 1995); Managing for Results: State Experiences Provide Insights for Federal Management Reforms (GAO/GGD-95-22, Dec. 21, 1994); and Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology (GAO/AIMD-94-115, May 1994). Also see our reports included as footnotes and the "Related GAO Products" section of this statement.

FOCUS ON MISSION AND DESIRED RESULTS IS ESSENTIAL FIRST STEP TO MEASURE PERFORMANCE

First and foremost, successful performance measurement efforts require agencies to have a clear understanding of their mission, customers, and desired results. In the federal government, management and accountability traditionally have focused on inputs and processes rather than on the mission, performance, and outcomes of federal programs. In addition, many federal agencies are only beginning to identify their customers and define those customers' needs. Thus, developing and maintaining a focus on defining mission, achieving mission-specific results, and satisfying customers' needs will require a change for many federal agencies. Our work on the experiences of leading state and foreign governments clearly demonstrates that, while such a change is essential to measure performance and improve effectiveness, it will not come quickly or easily.[3] In our review of private sector efforts, we found that making such organizational changes was a long-term process that could take 5 to 10 years to accomplish.[4]

Our general management reviews over the last decade have shown that many agencies have not developed the basic elements of a strategic management process that effectively relates agency mission, program goals, and strategies for achieving desired results.[5] GPRA provides a statutory framework for federal agencies to employ a strategic management process that includes the development of strategic plans and performance measures that focus on outcomes.

The experiences of the Coast Guard provide an example of how strategic planning that focuses on outcomes can lead agencies to redirect their efforts and contribute to dramatic improvements in effectiveness. The mission of the Coast Guard's marine safety programs is to protect the public, the environment, and U.S. economic interests through the prevention and mitigation of marine incidents. Through its strategic planning process, the Coast Guard recognized that, although it traditionally concentrated on inspecting the physical condition of ships, two-thirds or more of all reported casualties were caused by human error. When the Coast Guard began to focus on the outcomes it was trying to achieve, such as fewer injuries and fatalities, rather than on activities, such as inspections, it fundamentally shifted its program efforts. For example, the Coast Guard worked in partnership with the towing industry to build the knowledge and skills of towing industry employees. The Coast Guard's redirected efforts contributed to a significant decline in the towing industry fatality rate, from 91 per 100,000 industry employees in 1990 to 36 per 100,000 in 1994.

STAKEHOLDER INVOLVEMENT IS CRITICAL TO ENSURING PERFORMANCE MEASURES ARE USEFUL

Working with multiple internal and external stakeholders can pose a challenge for federal agencies in developing performance measures. Customers and other key stakeholders are important because they have a central role in defining whether a program is successful. The involvement of multiple stakeholders helps agencies to ensure that their performance measures (1) are developed properly; (2) target a program's outcomes; and (3) will be useful to a wide range of congressional, agency, and other users. We have found that a lack of agreement among the stakeholders on an agency's goals and intended program outcomes can limit the use of performance information to improve effectiveness.

Leading states' efforts to develop and use performance measures underscore the importance of the executive and legislative stakeholders reaching a consensus on the types, value, and format for presenting performance information. We reported in February 1993 that the difficulty some states had in achieving stakeholder consensus on meaningful performance measures was a key reason performance measures had not attained sufficient credibility to influence decisions on resource allocation.[6] Our December 1994 report on leading state management reforms continued to em-

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[3] GAO/GGD-95-120, May 2, 1995, and GAO/GGD-95-22, December 21, 1994.

[4] Organizational Culture: Techniques Companies Use to Perpetuate or Change Beliefs and Values (GAO/NSIAD-92-105, Feb. 27, 1992).

[5] Managing IRS. Important Strides Forward Since 1988 But More Needs to Be Done (GAO/GGD-91-74, Apr. 29, 1991); General Services Administration: Status of Management Improvement Efforts (GAO/GGD-91-59, Apr. 3, 1991); and Management of VA: Implementing Strategic Management Process Would Improve Service to Veterans (GAO/HRD-90-109, Aug. 31, 1990).

[6] Performance Budgeting: State Experiences and Implications for the Federal Government (GAO/AFMD-93-41, Feb. 17, 1993).

phasize the importance of executive and legislative branch officials working together early in the development of performance measures.[7]

We reported that Oregon, a national leader in state government efforts to reach out to stakeholders, brought together diverse internal and external stakeholders in order to reach consensus on statewide goals. Oregon business, city, county, community, and state representatives, as well as legislators from both parties, met in 12 regional meetings over 6 months to develop the Oregon Benchmarks—Oregon's statewide outcome goals. As a result, these stakeholders shared a common focus on specific statewide goals that they did not have before. These shared goals formed the basis for cooperative state, local, private, and non-profit sector efforts.

To apply this lesson at the federal level, the executive branch and Congress must work closely to ensure that appropriate strategic goals are established, proper performance measures are defined, and useful performance information is developed to meet both congressional and executive branch needs. In passing GPRA, Congress noted that its ability to make sound decisions was hampered by the absence of sound financial and performance information. While a wealth of information exists and is reported to Congress on the activities that agencies perform, little is reported on the outcomes of those activities.

Our work on the experiences of leading organizations also has shown that obtaining the views of agency managers and staff is essential to the development of sound performance measures. A major benefit of involving these individuals in the development of the measures is that they are closest to the programs and customers. Therefore, they will be among those who know best what should be measured to determine progress toward meeting strategic goals. Agency managers and staff also will be more inclined to use performance information to improve program services and delivery if they were involved in developing the measures.

The U.S. Army Corps of Engineers is an example of how a federal agency is working to involve managers and staff in the development of performance measures and to foster support throughout an organization. The Corps' Civil Works Operation and Maintenance Program is responsible for managing water resources by maintaining navigable waterways, controlling flooding, and promoting environmental stewardship.

The Corps' process for developing performance measures was one of shared leadership and team-developed measures. The Corps developed a tiered concept so that each level of the organization—headquarters, district, and project—assisted in setting measures that were meaningful at that level. Under this approach, senior management officials at the headquarters level were responsible for defining the operation and maintenance mission and key results areas. Actual performance measures were developed at successive levels. The Corps plans to implement these new measures in fiscal year 1996.

SUCCESSFUL PERFORMANCE MEASUREMENT SYSTEMS HAVE COMMON CHARACTERISTICS

Our work on leading state and foreign governments' and federal agencies' efforts to set outcome-oriented goals, measure performance, and use performance information found that the content of performance measures naturally will vary by program. However, successful performance measurement systems typically produce measures that are outcome-linked, significant, responsive to multiple priorities, and responsibility-linked, as well as based on credible information.

Performance Measures Should Be Linked to Outcomes

Successful performance measurement systems focus on program outcomes to the extent practicable. Our work has shown that outcome measures should (1) indicate the degree to which strategic goals are being met and (2) gauge the impact of a program's products or services. To establish this cause-and-effect relationship poses a difficult and formidable challenge.

Many federal agencies will need to make substantial progress before they are able to successfully link their performance measures to outcomes. For example, we have found that federal rural development agencies have done little to analyze the impact of their programs on the development of rural areas.[8] Some agencies, such as the Department of Agriculture's Rural Business and Cooperative Development Service[9] and the Department of Commerce's Economic Development Administration, attempted to determine the results their programs achieved by using output meas-

[7] GAO/GGD-95-22, December 21, 1994.

[8] Rural Development: Patchwork of Federal Programs Need to Be Reappraised (GAO/RCED-94-165, July 28, 1994).

[9] The Rural Business and Cooperative Development Service was formerly named the Rural Development Administration.

ures, such as the number of grants made or number of people temporarily employed on a short-term project. While such information is valuable for program management and accountability, it does not present the most complete picture of the results of the federal effort. More outcome-oriented performance measures, such as a project's contribution to an increased tax base or income growth, would show the impact of federal efforts on the targeted economy.

Nevertheless, the efforts of some agencies that the Office of Management and Budget identified as leaders in implementing GPRA suggest that it is possible to focus a program on outcomes and to measure whether those outcomes are being attained. For example, as I discussed earlier, by focusing on outcomes, the Coast Guard's redirected efforts have contributed to a significant decline in fatalities.

Performance Measures Should Be Limited to a Few

Our work has shown that the experiences of leading organizations suggest that the number of measures should be limited to a vital few that provide the most needed information for accountability, policymaking, and program management. Using a few significant performance measures provides a clearer basis for assessing accomplishments, facilitating decision-making, and focusing on accountability. Too many measures, including those that have little value for stakeholders, can confuse and overwhelm users or make a performance measurement system unmanageable.

The National Oceanic and Atmospheric Administration (NOAA) provides an example of an agency that has begun to use a few significant measures to focus on outcomes. For example, it has set an outcome-oriented goal to increase the warning time before tornados, hurricanes, and floods by improving performance. Agency officials determined that the most meaningful performance measures to gauge tornado warnings are the number of minutes that elapse in predicting tornados and the accuracy of those predictions. Thus, while NOAA continues to use an array of process measures for internal management purposes, elapsed time and accuracy are now viewed as the critical measures for determining the overall success of its efforts. Preliminary estimates show that NOAA increased the lead time in predicting tornados from 7 to 8 minutes and increased the accuracy of its predictions from 47 to 53 percent of the time from fiscal year 1993 to fiscal year 1994.

Performance Measures Should Address Multiple Priorities

Our work has shown.that public organizations face a variety of competing interests and demands that continuously force policymakers and program managers to strike difficult balances. As a result, the performance measures that are developed need to address various aspects of program performance and balance priorities among several goals. Managers must balance quality, cost, and customer service and weigh the impact of improving any one or two of these measures on the others. Agencies can ensure that they remain sensitive to these inherent tensions of delivering public programs and services by using performance measures that force a balance among competing priorities.

The Veterans Health Administration (VHA) of the Department of Veterans Affairs is an example of an agency that is trying to balance competing measures to gauge overall performance. According to VHA, accurately assessing the quality of a service or product depends on having measures in three key areas: customer satisfaction, the medical industry's standards of quality, and cost limitations. The relationships among these measures represent competing demands on VHA. For example, the demand to reduce costs, which might be met by strictly holding to appointment schedules, could shorten the amount of time a patient would like to spend with the doctor and reduce customer satisfaction. Currently, VHA is monitoring its progress in balancing these competing demands.

Performance Measures Should Be Responsibility-Linked

Our work has shown that leading organizations try to link their performance measures to specific organizational units or to the individuals that have responsibility for program performance. Through this linkage, the responsible organizational unit is held accountable for program results. This accountability helps to ensure that day-to-day activities remain focused on achieving the outcomes the organization is trying to attain. The experiences of leading foreign countries present different models of accountability for results.[10]

For example, since 1991, the United Kingdom's Citizen's Charter reforms have called for individual agencies to publish service standards, measure performance against those standards, and solicit citizen feedback on performance. According to the 1994 Citizen's Charter report, the United Kingdom has published 38 Citizen's

[10] GGD-95-120, May 2, 1995.

Charter documents covering major public services and setting out the specific service standards and remedies that citizens could expect if the standards were not met. For example, the Post Office was to compensate customers for the late arrival of a special delivery item by refunding twice the fee paid or a book of First-class stamps, whichever was greater.

Our work on leading foreign countries has shown that, although there is broad agreement on holding agencies accountable for achieving results, there is as yet no consensus on the best approach for holding individuals accountable. For example, New Zealand and the United Kingdom have chosen to hold government ministers accountable for outcomes, recognizing that program managers do not control all of the factors that may affect an outcome. These countries have chosen to hold program managers accountable for efficiently providing specified goods and services on which the managers and ministers have agreed, rather than the outcomes of those goods and services. Australia and Canada have taken a different approach. While also recognizing that their managers did not control all the factors that contributed to program outcomes, Australia and Canada have chosen to hold program managers accountable for assessing the overall effectiveness of their programs and for reporting on how controllable and uncontrollable factors affected program outcomes.

Credible Financial and Performance Information Is Essential for Sound Decision-making

Our work has shown that reliable financial and program performance information is a fundamental prerequisite for improving the management of government programs and providing the needed accountability for program results.[11] Consequently, agencies must have the systems, processes, and skills to generate and use this information. Accurate and timely financial and program performance information is essential for government leaders to control costs, achieve needed management improvements, or make tough budget decisions.

However, our work has shown that today's financial systems provide agency managers and Congress with little meaningful financial information. For example, most government financial management systems are as yet unable to routinely perform the most rudimentary bookkeeping functions. With the passage of the Chief Financial Officers Act of 1990 and the more recent Government Management Reform Act of 1994, Congress paved the way for the federal government to have the same kind of financial statement reporting that is required in the private sector and by state and local governments.[12] Beginning in fiscal year 1996, the 24 major agencies that constitute virtually the entire executive branch budget are to prepare entitywide annual financial statements and to have those statements audited.

Program performance and financial information that managers and other decision-makers need to guide resource allocations and improve business processes come from sound, well-run information technology systems. Unfortunately, the federal government's current use of technology to gather and analyze financial and program information is also a source of great concern. The government has spent or obligated more than $200 billion on information systems and related technology activities over the past 12 years. However, our work has shown that the government has invested heavily in costly information system projects and related technology that often fail to produce dramatic service improvements or significant reductions in personnel and administrative costs.[13] We have found that information systems projects are frequently developed late, fail to work as planned, and cost millions—even hundreds of millions—more than expected.

The recent reauthorization of the Paperwork Reduction Act in 1995 incorporated essential changes relating to information technology in line with the principles and practices we have identified from our work.[14] For example, the act requires agencies to promote the use of information technology to improve the productivity, efficiency, and effectiveness of government programs, including improvements in the delivery of services to the public. It also requires agencies to assume responsibility and accountability for maximizing the value and assessing and managing the risks of information systems initiatives. To do so, agencies will require well-defined processes to select, control, and evaluate technology investment decisions.

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[11] GAO/T-GGD/AIMD-95-158, May 9, 1995.

[12] Financial Management: CFO Act Is Achieving Meaningful Progress (GAO/T-AIMD-94-149, June 21, 1994).

[13] Information Management and Technology Issues (GAO/OCG-93-5TR, Dec. 1992) and Government Reform: Using Reengineering and Technology to Improve Government Performance (GAO/T-OCG-95-2, Feb. 2, 1995).

[14] GAO/AIMD-94-115, May 1994.

USING PERFORMANCE INFORMATION AND BENCHMARKING TO SET GOALS AND IMPROVE PROCESSES

Even the best performance information is of limited value if it is not used to identify performance gaps, set improvement goals, and improve results. Our work has shown that successful organizations recognize that it is not enough just to measure outcomes. Instead, they also assess the main processes that produce the products and services that lead to outcomes. Such organizations typically assess which steps or activities of a process are the most costly, consume the most labor resources, and take the most time to complete. By analyzing the gap between where they are and where they need to be to achieve desired outcomes, management can target those processes that are in most need of improvement, set realistic improvement goals, and select an appropriate process improvement technique.

Using Benchmarking to Compare With Leading Organizations

By setting realistic performance goals and taking advantage of existing knowledge of processes or practices, an organization can (1) choose areas of concentration for process improvement efforts, (2) set specific strategies to achieve those improvements, and (3) learn new or better ways of implementing changes to core processes. Using performance measurement information, an organization can compare—or benchmark—its performance with that of world-class organizations. Benchmarking is a critical part of an effective improvement program because it helps an organization identify outstanding levels of performance that actually have been achieved.

Benchmarking therefore helps define specific reference points for setting goals for improving performance. It leads an organization to compare the performance of its processes and the way the processes are conducted with either (1) internal organizational pockets of excellence or (2) relevant peer organizations to obtain ideas for improvement. Peer organizations may be in the same industry or "best-in-class" in a given process or practice, such as product development, inventory management, claims processing, or customer relations.

The objective of benchmarking is to target those areas most in need of improvement and set goals that will dramatically raise the level of performance in those areas. For example, the Xerox Corporation was among the first to use benchmarking to set ambitious performance goals and dramatically improve performance. 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, such as purchasing, customer service, and financial management. The ultimate target for each area was set at the level of performance achieved by the world leader, regardless of industry. By 1989, when it won the Malcolm Baldrige National Quality 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.

As the Xerox example suggests, 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. However, 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. Ambitious, or stretch, goals help challenge and motivate an organization to fundamentally rethink how it does its work. Benchmarking is helpful because knowing what others actually are accomplishing helps reduce internal resistance to change built up around perceptions of what can be done and what should be attempted.

In addition to attempting to establish realistic, attainable goals at the outset of the planning process, it is important for organizations to recognize that goal-setting is an iterative process and requires some flexibility. Our work has shown that 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, for example, an iterative goal-setting process is part of the organization's aggressive and ongoing commitment to continuous performance 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 the "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. This means that quality lapses now measured in defects per million are in 6 years to be measured in defects per billion and in 12 years in defects per trillion.

Performance Measurement and Benchmarking Are the Basis for Selecting Appropriate Process Improvement Techniques

Because ambitious performance improvements are so difficult to achieve, it is important that federal agencies adopt and execute a comprehensive framework for managing their improvement efforts. Performance measurement and benchmarking are key elements of an improvement framework, in part because they help an agency understand the nature of the gap between current and desired performance levels. They are also instrumental in helping the agency to select the appropriate process improvement technique, or the means, by which to improve poorly performing business processes. The size of the performance gap helps determine how much change is needed and the time frame for accomplishing the change.

For example, the Harper Group, an air-freight forwarder based in San Francisco, decided that it needed to set ambitious goals to address its performance gap. A problem that it faced was that it relied on supplier airlines—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.

Our work has shown that leading organizations use a variety of improvement techniques, depending on (1) the seriousness of the performance problem; (2) the speed with which a process must be improved; and (3) a careful consideration of the costs, benefits, risks, and barriers to change. These techniques include continuous process improvement, process redesign, and business process reengineering.

Continuous process improvement focuses on improving by incremental changes to one or more work tasks performed within a single business process. This technique is appropriate in cases where performance measurement indicates that the gap between current performance and customer expectations, or desired results, is small. It is often carried out by process improvement teams made up of the staff who are responsible for carrying out the work task that is to be improved. The risks of failure are low and improvements should be expected in less than a year.

Process redesign focuses on improving an entire business process—or a major subprocess—where performance measurement and benchmarking indicate the opportunity or need for significant performance gains. Because it often requires additional resources or a redistribution of existing resources, redesign requires more senior management attention than continuous process improvement. Redesign often affects several parts of an organization, reporting relationships, procedures and policies, and skill needs. The length of redesign efforts typically ranges from several months to 2 years.

Business process reengineering focuses on radically altering many of the processes of an organization, using an approach that critically reexamines, rethinks, and redesigns how the organization supports its mission. The purpose of reengineering is to achieve dramatic levels of performance improvement organizationwide. It may be the appropriate technique to use when performance measurement and benchmarking indicate an opportunity or need for dramatic performance gains. However, the "pain" of reengineering implementation is high because of the far-reaching nature of changes brought about by this technique. Reengineering efforts can range in length from 2 to 5 years.

Reengineering is perhaps the most frequently discussed improvement technique today. Its attraction is in its promise of achieving high levels of improvement in cost, quality, and timeliness that can help propel an organization into a leadership position in its market. Our work with leading organizations indicates that accomplishing significant improvements in performance nearly always requires that critical work processes be redesigned or reengineered in conjunction with the application of information technology. Information technology projects aimed at improving performance that do not involve process improvement may fail to yield any significant, long-term benefits. Our reviews of major system modernization efforts across the government have shown that many federal agencies are still automating current ways of doing business. This results in the expenditure of millions of dollars with little or no benefit and lost opportunities to fundamentally improve government performance and public satisfaction.

As an example of the failure to reengineer before automating processes, the Veterans Benefits Administration (VBA) of the Department of Veterans Affairs embarked on a modernization effort aimed at speeding up the processing of veterans' compensation claims. We recently reported that in 1992, a veteran had to wait an average of 151 days—more than a third of a year—for an original compensation claim to be processed.[15] VBA planned for the modernization effort to eventually involve the acquisition of up to $680 million in computer and communications equipment. VBA, however, neglected to set new performance goals and redesign its current claims process before acquiring the equipment. In our review of this modernization effort, we determined that applying new technology to VBA's current process would only improve service by 6 to 12 days.

Like VBA, the Social Security Administration (SSA) needs to improve the efficiency and effectiveness of its work processes. However, unlike VBA, SSA has recognized its need to fundamentally improve its disability determination process in order to achieve major performance improvements. SSA's disability claims determination process is highly inefficient and paper-driven. When SSA measured the performance of this process in 1993, it found that an average of 155 days elapsed from a claimant's first contact with SSA to an initial decision. Usually only about 13 working hours were spent on the claim, but as many as 26 people handled it before an initial claim decision was reached. SSA's goal is to reduce its initial claims processing time to an average of 60 days.

Organizations that have reengineered successfully generally followed a set of identifiable practices, including strong executive leadership and commitment, a shared recognition and willingness to change, a clear strategic vision of the organization's future, a sound methodological approach to reengineering, and—most crucially—the ability of the organization's leadership and staff to successfully implement and manage the potentially profound and painful changes that are inherent in fundamentally altering the way business has been done in the past.[16] Reengineering efforts that do not follow these practices significantly increase their risk of failure. These risks are very high because the scope and complexity associated with reengineering are so great. It involves comprehensive changes not simply to business processes but to management and support structures, people and organizations, technology and information systems, and policies and regulations.

Importance of Ongoing Performance Measurement and Benchmarking in Sustaining Process Improvements

Sustaining improvement and institutionalizing a results-oriented focus requires ongoing performance measurement, benchmarking, and process improvement. Leading organizations show that these activities are not only essential at the beginning of improvement efforts—regardless of the process improvement techniques used—but also after the improved processes have been implemented. Put simply, an organization must strive to continually better the way it carries out its mission. Ongoing performance measurement and benchmarking are essential feedback mechanisms for controlling costs, correcting unanticipated problems in improved processes, and identifying new needs and opportunities to make further improvements. If an organization fails to respond to those needs and opportunities, its performance will erode over time.

In summary, Mr. Chairman, although some federal agencies are making progress in establishing well-defined, meaningful, and sound performance measures, most agencies still have a long way to go. The experiences of leading state and foreign governments, federal agencies, and businesses provide valuable lessons for federal agencies as they begin to implement GPRA's performance measurement requirements and redesign their critical work processes to achieve significant improvements.

Agencies are confronted with the central issue of developing performance measurement processes that focus on outcomes that are important to key stakeholders while also providing the critical management information needed to improve business processes to achieve those outcomes. Given the challenges that agencies face and the need to make significant performance improvements during a time of severely limited resources, Congress has an essential role to play through its oversight, appropriation, and authorization capacities.

This concludes our prepared statement. Mr. Chairman, we would be pleased to answer any questions you or Members of the Subcommittee may have.

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[15] Reengineering: Opportunities to Improve (GAO/AIMD-95-67R, Jan. 6, 1995).
[16] Reengineering Organizations: Results of a GAO Symposium (NSIAD-95-34, Dec. 13, 1994).

Mr. BASS. Thank you very much, Mr. Finch. We're going to call a 15-minute recess so that the members here can go vote. And we'll reconvene in 15 minutes. Thank you.

[A brief recess was taken.]

Mr. BASS. The subcommittee will come to order, and we will now proceed with the testimony of Mr. Hoenig.

Mr. FINCH. I gave a combined statement.

Mr. BASS. Oh, I'm sorry.

Mr. HOENIG. Yes, Mr. Finch's statement summarizes both of us.

Mr. FINCH. I summarized both of them, so we're ready for the questions.

Mr. BASS. OK, very well, thank you very much. We will commence, then. I'd like to ask you both, then, if you could explore how the General Accounting Office measures its own performance. What are the basic indicators that GAO uses to measure its performance, savings to the taxpayer, identified numbers of reports produced or some other figure?

Mr. FINCH. OK, I'll take a shot at that. We use a combination of outcome, output, input, and process measures. And over the past couple of years, we've become immersed in the quality management approach. And we've begun to take steps to walk the talk, if you will, in terms of trying to do some of the things that all the textbooks and the gurus say that you should do.

For example, we have a strategic plan that we have issued. And it's the first one that we have done, and we recognize that hopefully we will improve on that as we go along. We are organized around 35 issue areas of national interest. Each of the issue areas has both a strategic plan and an operating plan that talks about the kinds of work to be done, issues, and the stakeholders; and is developed with a lot of input from congressional stakeholders and from interest groups.

In terms of measuring our performance, we have a number of indicators in that regard, and we issue a set of performance indicators. One of the things that we focus on, of course, is dollar savings. That's one of the measures that we use. For last year, I think our measurable savings were $19.5 billion, which is a significant return on investment for us. I'll just take the opportunity to toot our horn a bit.

But another thing we look at are the number of recommendations that we make, and how many of those recommendations actually get implemented—what portion of our work actually results in change, which we hope is change for the best in government. There are a number of other process indicators that we use in terms of time limits——

Mr. BASS. What was that number, by the way?

Mr. FINCH. Which one's that?

Mr. BASS. $19 billion recommended, how much implemented?

Mr. FINCH. Oh, that was $19.5 billion actual rung the cash register.

Mr. BASS. OK, very well.

Mr. FINCH. That's money in the bank, savings.

Mr. BASS. OK.

Mr. FINCH. The other things are recommendations. Many of our recommendations are not readily quantifiable into dollar savings.

But we keep track of those because changes in management, management improvements, those kind of things—even though they may not be readily convertible into dollar savings, they do result in increased performance and, hopefully, better government.

So we have a whole set of indicators that we use, and as I mentioned earlier, they include all of the things that you heard the other witnesses talk about, and the things that I mentioned in my testimony about inputs, outputs, outcomes.

Mr. BASS. OK, fine. Concerning the Federal agencies involved in partnerships with the States such that the outcomes occur in the States, but are not necessarily fully controlled by those States, how can we ensure that the States are performing as well as desired in producing the results we want; and that the States are accountable for the results?

Mr. FINCH. I think there are a couple of dimensions to that, Mr. Chairman. One is that in these instances, the States would be stakeholders. So they should be involved in deciding what the outcomes are and what the performance measures are, so that they should buy in and the measures and the information developed would be credible.

The other thing is to make sure that the measures would be useful to the States, as well as to the Federal Government. Because if the measures are useful and the people have a part in developing the measures, they will more likely comply with the measures. I think there's another issue here in terms of incentives and disincentives, as well. I think the Federal Government can create a set of incentives and disincentives that would encourage the States to comply.

Mr. BASS. OK. The Federal Government is invested heavily in costly information system projects and related technology that often fail to produce dramatic service improvements or significant reductions in personnel and administrative costs. How can we improve this record? What can we do to encourage agencies to do better?

Mr. HOENIG. Mr. Chairman, I think I'll give you three answers to that question, starting with what it really takes to do successfully what we're talking about here, which is using information technology to significantly improve agencies' mission performance. I think in that first step, understanding what it takes, we have a study where we went out and studied five major leading corporations in five major States, and identified 11 fundamental practices that they go through to be totally able to use complex information technology to improve performance.

And we need to work very closely with Congress, in the Senate and the House, as well as with agencies and with OMB and the administration to develop some consensus on those. The reauthorization of the Paperwork Reduction Act, which is going to become effective in October of this year basically builds on those best practices. The second piece really involves identifying how well agencies are doing at these things.

Are they doing very well or doing very poorly? What's the performance gap? And in that area as well, we've developed basically self-assessment kits, or tool kits and approaches, which allow agencies to generate results.

Mr. BASS. Thank you. Some of the most useful work the GAO does is "non-blue book" work; that is, helping people like me and staff and so forth prepare for hearings and give testimony at hearings and do research for committee staff. What weight does GAO give to this type of non-blue book assistance?

Mr. FINCH. It's extremely important, and we give a lot of weight to it. We haven't really been succeeded in figuring out exactly how to measure all of it yet. We have captured some of it in terms of when we brief congressional staff or close out a series of work with a briefing. We do capture that as a deliverable; the briefing being a deliverable. But we do an awful lot of work behind the scenes, providing questions for hearings and that sort of thing.

And we have come, more and more, to realize that that truly is something that our customer—the Congress—really values. And it plays a significant role in terms of customer satisfaction. We are struggling now, as we go through looking at our performance indicators, and trying to revise and improve them, with that very issue of how can we capture some of these other things in such a way as to quantify them.

Mr. BASS. OK. A proper notion of performance measurement includes a comparison of output or outcomes—they're used together here in this case. The lion's share of the work that GAO performs relates to specific congressional requests. This share has increased from 60 percent to 80 percent or so in the last decade.

Does GAO keep track of the costs associated with a request? Has GAO ever considered using a revolving fund to require congressional offices to recognize the costs associated with GAO's performance of a job? Could this reduce frivolous requests?

Mr. FINCH. There are several questions in there. Let me see if I can kind of sort through that. We recently were reviewed by NAPA. And one of the NAPA recommendations that was made was that we should do a better job of identifying the cost of our assignments, and making that information available to our requesters.

And one of the things that NAPA said was that we should really develop what they called "terms of reference" for each of the jobs that we do. And the terms of reference, as they described it, would basically be a contractual arrangement between us and the requester. We would reach agreement up front on the job that says, we'll do this job with this scope, this methodology, this will be the deliverable for the product, and we estimate that it will cost about this much.

We are really trying to develop that because we think that was a very useful recommendation. We have some pilots going on across the agency now where we are trying to really get a better grip on cost data for the work, than we had before. Before, we basically just estimated the number of staff days that the work would entail. We didn't really do a good job of costing out all the elements of cost. So we're working on that now.

I think that will be—sharing of that cost data—will be useful in terms of helping both us and the Congress sort through what work it is they want us to do. And as we continue to downsize in the future, that will become even more important because we will not be able to do all of the work that we have been requested to do, which is what we tried to do in the past. And NAPA made this point—that in the past, GAO really tried to fill every request that was given to it.

And we do need a way to sort that through, particularly with the downsizing that we're going to have to do now.

Mr. BASS. Thank you, Mr. Finch. I have one last question for you. We know that GAO's blue books go through a number of layers of review. How many employees does a reviewer or manager oversee? The people most knowledgeable about a topic are those closest to it. How many layers up the chain are projects reviewed? How many eyes review a typical GAO blue book for content, before publication? I'd appreciate just a general feel, nothing specific.

Mr. FINCH. Sure, absolutely. We recognize that our review process is well known. And we recognize that we need to be constantly sensitive to striking an appropriate balance among the competing priorities of quality, cost, and timeliness. This is something that we've done as we've started really getting into the quality issues and looking at our own processes.

We have major initiatives underway now. For example, one of the things that we've set for ourselves is a goal to reduce our rework by 50 percent over the next couple of years. By reducing the rework, we will hopefully also reduce the cycle time. We have a cycle time goal that's commensurate with that as well. As a part of this, we are trying to develop a system so that we can better discriminate between the jobs and the products, in terms of their complexity, so that we can best focus the senior management on those jobs where—the really complex jobs, senior management should really be involved in, because they're the ones that we can really help out with most. And then perhaps they don't need to spend as much time on jobs of lesser complexity. So we're working on that issue.

Mr. BASS. OK, very well. Well, that's about it. Those are all the questions I have. I'd like to thank both you gentlemen for being here today. We certainly appreciate GAO's perspective. We'll probably be back in touch; it's certainly a complex and significant issue. So thank you very much.

Mr. FINCH. Thank you, Mr. Chairman.

Mr. HOENIG. Thank you.

Mr. BASS. The chair will now recognize our third panel—Ms. Linda Kohl and Dr. Sheron K. Morgan. If you would be willing to stand and raise your right hands. As is customary, we take an oath before we testify.

[Witnesses sworn.]

Mr. BASS. Ms. Kohl, you may begin.

STATEMENT OF LINDA KOHL, DIRECTOR OF MINNESOTA PLANNING, STATE OF MINNESOTA; AND SHERON K. MORGAN, NORTH CAROLINA OFFICE OF STATE PLANNING, STATE OF NORTH CAROLINA

Ms. KOHL. Thank you, Mr. Chairman. Minnesota was one of the first States in the Nation to implement a comprehensive Statewide benchmarking project, which we call Minnesota Milestones. We began Minnesota Milestones in 1991; and from the start, we have tried to make sure we were not thinking of it as just another government report, but really a new way of thinking about government—a way of thinking about government that is based on the idea that results really matter.

We found, through our use of Milestones since then, that benchmarking can be both a useful public policy tool and a way to begin to hold government accountable for results. In the past several years, Minnesota has instituted performance based budgeting through all our State agencies, and we now require regular performance reports for all the major agencies. We also believe that benchmarking can be a tool for the Federal Government to use, particularly in assuring accountability for block grants.

I'll briefly describe how we went about compiling our first Minnesota Milestones document. We believed it was important to get input from Minnesotans all around the State. So we held 30 different meetings in 15 different locations. These were basically focus groups in which we asked Minnesotans to articulate their vision for the future of the State for the next 10, 20, and 30 years.

We took notes at these meetings, we recorded the discussion; and from that, we developed a vision statement that was then circulated to the meeting participants. The goals that came out of that exercise then were used to formulate the performance indicators and measures that became the Milestones. We developed five criteria for choosing out indicators.

One was clarity. We wanted to make sure the indicator was easy to understand. It had to be valid. It needed to measure what it intended to measure. Availability of the data was one thing we considered. We wanted, preferably, indicators in which data was easily obtainable on a regular basis. And if we needed new data, we wanted to make sure that the cost of gathering that data must outweigh the—must be worth the information we would gather.

Fourth, accuracy—we wanted to make sure the data was consistently reliable and accurate. And then finally, we gave preference to those indicators that focused on outcomes. That is, they deal with the desired results rather than budgets or other program inputs. We developed a draft list of indicators, and then widely distributed these throughout the State both to the people who attended public meetings; various interest groups; State agencies.

We also asked panels of experts to review these indicators, and we had an advisory committee that gave us advice on which indicators met the criteria that we had set forth. We also looked to other States and other countries to set targets for the future. We went through a benchmarking exercise in which we tried to identify other States or other countries that had achieved the kind of results that Minnesotans had told us they wanted, in our series of public meetings.

Our first Minnesota Milestones report was issued in December 1992. And it contained 20 broad goals and 79 indicators, or ways to measure whether or not we were making progress toward those goals. These goals and indicators are rather global in nature. They are not all within the purview of what government can or should do. But we felt they did indicate the direction that Minnesotans wanted their government to go and wanted their State to go in the next 10, 20, and 30 years.

Since then, we have issued periodic report cards. The first was in 1993, in which we revisited the goals and the indicators that we had set forth in 1992, and tried to determine how we had done on the goals, and also on the various measures. We also issued this very small summary document that is actually formulated like a report card, and we called it a report card on our State.

We have distributed those widely. We are now in the process of developing our second update, and we intend to do updates periodically about every 1½ years. When we issued our first Minnesota Milestones report, we did not have data for all the indicators. We made a number of data collection recommendations, several of which have been implemented; including a State-wide survey of citizens' experiences as crime victims, and their perception of crime.

Since Minnesota Milestones was published, we have instituted performance based budgeting and regular performance reports for all State agencies. We began this process in the 1993 budget cycle, and we refined this further in 1995 with formal performance reports, which are now being done about every 2 years. In addition to the Milestones, each agency has developed agency and program specific performance indicators to measure their effectiveness and efficiency.

In addition to the idea of measuring outcomes, we have found the exercise and the goals set forth in Minnesota Milestones to be valuable in guiding State-wide strategic plans. We now have coordinated, multi-agency strategic planning initiatives on several of the Milestones. One of the major areas in which Minnesota Milestones has had a policy impact is on their form of services to children and families.

This year, the legislature approved Governor Arnie Carlson's initiative to create a new department of children, families, and learning. And the goals and structure of this new department are designed to measurably improve the well-being of Minnesota's children and families. In fact, one of the duties of the new commissioner, one of the first duties, is to establish measurable outcomes in the area of children and family services.

We've done several other things to forward the Milestones. One is the children's report card, which is an on-line, county by county report card on 21 indicators of children's well-being. Users can get information about child poverty, infant mortality, abuse and neglect reports, and data from a State-wide student survey. And they can get this as easily as going to their public library, or if they are connected to the Internet, it is now available on Internet as well.

In 1993, we created 51 family services collaboratives throughout the State through a $22 million grant program. A collaborative consists of a minimum of a county, a school district, and a public health entity, plus representatives of the broader community. Each of these collaboratives are required to assess the needs of their own communities and to develop measurable goals and indicators. The participating collaboratives report that they have been able to improve efficiency by focusing resources on prevention instead of more expensive crisis intervention services.

Finally, we believe that benchmarking and Milestones can be a tool for the Federal Government in assuring accountability for block grants. Our Governor, like many Governors, believes that block grants should come with utmost flexibility. But we also realize that the Federal Government has an interest in accountability and making sure that the funding is achieving the desired results.

We think a results oriented approach can help do that. And we found, at the local level, it has fundamentally changed the relationship between the State and local governments when we give them money and ask them to produce results. Thank you very much.

[The prepared statement of Ms. Kohl follows:]

PREPARED STATEMENT OF LINDA KOHL, DIRECTOR OF MINNESOTA PLANNING, STATE OF MINNESOTA

Thank you, Mr. Chairman.

Minnesota was one of the first states in the nation to implement a comprehensive statewide benchmarking project. Governor Arne Carlson initiated Minnesota Milestones shortly after he took office in 1991. The idea, patterned after a similar project in Oregon, was to develop a long-range plan for the state with measurable goals and objectives.

From the beginning, we believed that Minnesota Milestones was going to be much more than simply another government report. We realized that it represents a whole new way of thinking about government—based on the idea that results really matter.

Why is it so important to measure results? Traditionally, bureaucracies have tended to focus on inputs, rather than outcomes or results. But if we don't measure results, we are not likely to achieve them. Quite simply, what gets measured, gets done. In a time when government is under ever-increasing scrutiny, it is critical that we be able to explain and quantify what it is we are trying to achieve, and whether or not our efforts are successful.

Through Minnesota Milestones, the use of benchmarking and performance measurement has proven to be useful both as a public policy tool and as a way to hold government accountable for results. In the past several years, Minnesota has instituted performance-based budgeting and now requires regular performance reports for all major state agencies.

We believe that benchmarking also can be a tool for the federal government to use in assuring accountability for block grants.

With your permission, Mr. Chairman, I will briefly describe how we developed the Minnesota Milestones indicators and measures. Essentially, it was a three-stage process, the first of which was to ask Minnesotans to articulate their long-term vision for the state

To get that information, we held 30 meetings in 15 different locations around the state. Thousands of Minnesotans participated in small focus groups, in which they were asked to talk about their vision for the state over the next 10, 20 and 30 years.

Each of the focus groups was staffed by two people from Minnesota Planning; one to serve as a discussion leader and the other to record comments that were made. The comments were later sorted into categories and used to develop the Milestones goals.

The "product" of that effort was a preliminary vision statement that focused on common themes that had emerged from the meetings. That draft statement was circulated to all focus group participants.

In the second phase of the project, Minnesota Planning staff, along with staff from other agencies, began developing the indicators or measures that became the Milestones. We developed five criteria for the indicators:

- Clarity (the indicator should be easy to understand);
- Validity (it should measure what is intended to be measured);
- Availability of data (data should be easily obtainable on a regular basis; the advantages of gathering new data must outweigh the cost);
- Accuracy (the data should be consistently reliable and accurate) and
- Focus on Outcomes (the indicators should deal with desired results, rather than budgets or other program inputs.)

Once a draft list of indicators was developed, they were widely distributed to meeting participants and interest groups around the state, as well as throughout state agencies.

The third phase was to solicit extensive feedback on the indicators. We used a variety of methods: widely circulating the draft indicators, asking panels of experts to review indicators in their area of expertise; and using an advisory committee to help us evaluate the indicators.

The first Minnesota Milestones report was issued in December 1992. It contained 20 broad goals and 79 indicators, or ways to measure whether or not we were making progress toward those goals.

Last year we issued a Minnesota Milestones report card update that showed how we were doing on the goals and indicators. This report card was distributed widely around the state. We plan to issue these report cards periodically, and to revisit the milestones about every five years to see if they should be revised or refined.

When we issued the first Minnesota Milestones report, we did not have data for all of the indicators. We made a number of data collection recommendations, several of which have been implemented, including a statewide survey of citizens' experiences as crime victims and their perception of crime.

Since Minnesota Milestones was published, Minnesota has instituted performance-based budgeting and regular performance reports for all major state agencies. We began this process in the 1993 budget cycle, using the Minnesota Milestones indicators, and we refined this further in 1995 with formal agency performance reports. In addition to the milestones, agencies have developed additional agency- and program-specific performance indicators to measure their effectiveness and efficiency.

In addition, we have found Minnesota Milestones to be valuable in guiding statewide strategic plans. We now have a coordinated, multi-agency strategic planning initiative on "sustainable development," the idea that economic growth need not be incompatible with environmental protection and enhancement, which grew directly from Minnesota Milestones. We have a strategic plan and new legislation for increasing the supply of affordable housing in St. Paul and Minneapolis.

But perhaps the major area in which Minnesota Milestones has had a policy impact is in reform of services to children and families. That agenda was advanced this year when the state Legislature approved Governor Carlson's initiative to create a new Department of Children, Families and Learning. The goals and structure of the new department are designed to measurably improve the well-being of Minnesota's children and families.

Minnesota Milestones played a role in other developments related to services for children and families:

- In 1993, we developed the first integrated Children's budget, which showed for the first time how much state money we were spending on programs for children and families. This year, the integrated children's budget that we presented to the Legislature became the budget for our new Children's department.
- Last year we developed an online "Children's Report Card," now available on the Internet. Users can get a county-by-county "report card" on 21 indicators of children's well-being, such as rates of child poverty, infant mortality, abuse and neglect reports, and data from a statewide student survey. The on-line report card has been used extensively by county officials, the media and the public.
- We have created 51 family services collaboratives throughout the state through a $22 million grant program. A collaborative consists of a minimum of one county, one school district and one public health entity, plus representatives of the broader community such as businesses, non-profits, and others. The collaboratives are required to assess the needs of their communities and to develop measurable goals. Participating counties report that they have been able to improve efficiency by focusing resources on prevention instead of the more expensive crisis intervention services.

The involvement of citizens through Minnesota Milestones helped build public support for the rest of our children's agenda. When people have solid information about how children are doing in their own communities, it can be a powerful tool for mobilizing citizens, the private sector, the non-profits and other community interests to reform services for children and families.

Finally, I would like to mention a possible additional use of milestones or performance measurement, and that is in assuring accountability for block grants. One of the major issues in the discussion of block grants seems to be the level of control that the federal government would impose on the states in exchange for block grants or other new funding mechanisms.

Most governors would like virtually no federal controls and a guaranteed level of federal funding. But, understandably, the Congress and Executive Branch are somewhat leery of giving states a blank check, with no way to hold them accountable.

A benchmarks or milestones approach can be a middle ground, which would address the concerns of the federal government over accountability while still giving the states and local governments maximum flexibility to make funding decisions.

At the state level, we have found that a results-oriented approach fundamentally changes the relationship between the state and local governments. Now we are partners with local communities in working together for better results, rather than enforcers or regulators. The state's role is one of providing nurturance and support, guidance and information, permission and parameters. The same dynamic could work at the federal level.

In conclusion, our experience in Minnesota has shown that benchmarking and performance measurement can be a powerful policy tool for agencies to use in reforming or reengineering their activities. We also have learned that this is a complicated process, one that takes time, and one that demands a high level of citizen involvement if it is to have credibility.

Mr. BASS. Thank you very much, Ms. Kohl. I understand you have two exhibits, one of which you alluded to during your testimony. We will, without objection, make them part of the record of this hearing.

Ms. KOHL. Thank you.

[NOTE.—Due to high printing costs the information referred to above may be found in subcommittee files.]

Mr. BASS. Dr. Morgan.

Ms. MORGAN. Thank you. I'm director of the Office of State Planning in North Carolina. And professionally, I've been wrestling with issues of performance and accountability in State government for about 20 years. I want to point out, in response to the comments of my colleagues earlier, that while I agree with virtually everything they've said about performance measures and the pros and cons and how we ought to go about it, that at the heart of the debate on performance measures is a constitutional void.

Despite the remarkable insight of the founding fathers, they failed to anticipate the remarkable power of large scale organizations. And I think that is essentially what we are wrestling with here. We did not have, at this time, the ability to hold large scale organizations accountable to balance the power of the public and the public interest against the power of large organizations whose core mandate, by their very nature, is to preserve themselves and to maximize their mission.

This is why they're so valuable to us, and this is why we need them. So we have got to find a way, in the late 20th century and the 21st century, to maintain the public's control over how these organizations direct their energies. What I'd like to do is to simply point out that a performance measure, if it's to be effective in the environment of large scale organizations in government, have got to affect a focus on not only the performance of the delivery organization, but it's got to work its way back upward to the senior managers on the executive side and the legislative process.

Because one of the powerful things that happens in examining program outcomes and measures of those outcomes is that it presents you an opportunity to examine whether or not this is something government ought to be doing at all; whether it's something that it's possible for government to do. We have an incredible number of public programs that are directed at social issues that we cannot solve. And it's unrealistic to expect organizations directed to solve them to perform at high levels.

If we reexamine the nature of the public policy objective, if we reformulate the question, I think we'll come up with better strategies, better programs, and ultimately, better measures. Having said that, do you need to break?

Mr. BASS. No, why don't you complete your testimony. We're operating under the 5-minute rule.

Ms. MORGAN. OK. I'd quickly like to go through some overheads that give you an idea of what we've done in North Carolina. First, we have a budget preparation process, which really turns the rules of the game upside down. In North Carolina, the Governor prepares the budget, doesn't have the veto. By constitutional direction, he does prepare the budget, and there is incredible power in the preparation of that document.

But up until the time the document that we have delivered to the legislature has followed a format, developed back in 1929, in which government in North Carolina was simple, straightforward, and the total cost of State government operations, most of which went into roads, was less than $1 million. North Carolina's budget now is $17 billion. We're coming out of a 30-year period in which we could count on revenue growths ranging from 6 percent to 12 percent.

It might blip a little during a recession, but they would bounce back at 12 percent the following year. We even have two budget processes—one for continuation; one for expansion. We have a culture that addresses new problems with new spending. We're facing 20 years to 30 years of flat revenue growth. In that environment, we need to come up with not only performance measures, but a whole new culture and process of making budget decisions.

We have to place the Governor and the legislature in the position of challenging historical large scale organizations with questions of public purpose, as well as routine performance, against very concrete performance objectives. The way we've gone about this—it started about 4 years ago, as a result of a legislatively mandated commission. We've organized all of the activities of State government into 10 generic program areas, vice across institutional structure.

We've taken the statutes to identify what the content of those program areas are, and we're now really beginning to focus on developing good measures within those program categories. From our experience—and I'm going to focus on measures rather than process for the rest of my remarks—what constitutes a good program measure is that it release policy to budget by focusing on outcomes.

But the key is, there's got to be a policy content, a policy objective in the outcome. It shifts accountability from a focus on efforts, activities, to a focus on results—what difference did it make? And finally, a really good performance measure sends a very clear message to the front line workers about how their behavior affects the outcome of the program.

The primary benefit is that it stimulates more analysis throughout the process of analysis for clarification of new thinking. The reality tests whether or not it's really an appropriate activity. And finally, it forces issues of accountability. To give you a very concrete example, we passed a law in North Carolina 5 years ago that said we would reduce the amount of waste that we deposited in landfills by 25 percent by the year 2000.

One of the objectives is to increase composting substantially. The strategy was to encourage composting programs in every county. The State set out to license those, to set guidelines and standards.

And up until very recently, the way we've measured performance was to count the number of licenses, the number of registered facilities. But in the most recent review, in the context of performance budgeting, this was defined as the performance objective.

It was to increase the amount of stuff that was composted, not the number of sites that were doing the composting. So we now have an outcome measure that focuses on the annual tons of compost waste. Now, there's a relationship between the two, obviously. But in terms of influencing personnel behavior out there on the front line, it says, we want you to focus more attention on getting more stuff into the compost pile, and less attention on identifying additional sites.

Mr. BASS. Dr. Morgan, I have the unpleasant task of telling you that I do have to go over and vote. And we do operate under the 5-minute rule here. Your slides are a part of our testimony here, and in our record. Is there any way you could sort of wrap it up in a minute or so, do you think? Your testimony; otherwise, I'm going to have to recess and we're going to have to come back.

Ms. MORGAN. I think the final point that I'd like to take away with you is that we really are talking about a transformation in culture. It's not just a matter of coming up with some neat measures. We're talking about introducing into government a culture that values employees' behaviors, as well as legislators and senior managers. It values people who make a difference. It looks at fixing problems and not blaming.

But finally, skipping all the way to the bottom, it looks to the long term, and it looks to the impact, the difference it makes as a result of government activities, rather than simply going through the motions. Thank you.

[The prepared statement of Ms. Morgan follows:]

PREPARED STATEMENT OF SHERON K. MORGAN, NORTH CAROLINA OFFICE OF STATE PLANNING, STATE OF NORTH CAROLINA

It is my pleasure to testify before the Subcommittee today. I will start with some background on North Carolina's use of performance measurement and then address a number of the Subcommittee's concerns regarding performance measurement.

BACKGROUND

North Carolina's Performance/Program Planning and Budgeting (P/PPB) addresses three problems. The state's traditional line-item budget:

- does not connect budget decisions to policy objectives;
- emphasizes inputs and outputs rather than results; and
- obscures overlap and duplication.

North Carolina's line-item budget, essentially unchanged since 1929, was designed to prevent misuse of public money. Faced with massive budget shortfalls (1989-91), state officials recognized that fiscal control alone was inadequate. Prospects for limited growth in revenue and public demands for more effective government required clearer policy objectives and more effective services at lower cost.

Performance/Program Planning and Budgeting (P/PPB), requested by legislators in 1991 and mandated in 1994, is a significant departure from previous practice because it:

- Links policy and budgeting. P/PPB organizes the State's activities by purpose and outcome, rather than by agency. For example, while the traditional budget makes clear how much the Department of Commerce spends on travel, the new budget shows what state agencies spend to aid small business. The process of identifying expected outcomes stimulates discussion among and about agencies sharing common responsibilities.
- Shifts accountability from efforts to results. P/PPB tells the legislature and the public what outcomes they can expect for the funds requested. Managers

have committed themselves to performance objectives and have designed yardsticks to measure how well they meet these objectives. This focus on results motivates managers to discard ineffective strategies and enables legislators to better evaluate competing program operations.

While a traditional line-item budget was prepared for 1995-97, the Governor also submitted a Performance/Program Budgets for six areas: Corrections, Economic Development and Commerce, Environment, Health and Safety, Justice, and Social and Economic Well Being. The 1997-98 budget will include the other four program areas: Transportation, Cultural Resources, Education and General Government.

FOCUSING ON RESULTS AND OUTCOMES: PROGRAMMATIC PLANNING AND BUDGETING

A number of states are measuring outcomes in the context of budgeting. North Carolina has taken the next step by developing a large scale, on-going analysis of public policy objectives independent of organizational service delivery mechanisms.

To make performance measurement most effective, the planning and budgeting process needs to challenge the agendas of institutions. Defining the problems and expected outcomes outside of the current organizational structure is essential for bringing changes to bear in constructive manner. In this programmatic context, performance/Program Planning and Budgeting assumes that:

- policy- and budget-making is an iterative process;
- consensus on policy is fluid;
- analysis of policy objectives and outcomes involves learning;
- separating analysis of policy objectives from agency structure allows a new examination of policy that may lead to changes in strategy, expected outcome or policy;
- programmatic analysis does not necessarily imply reorganization;
- improving government performance requires changing the behavior of individuals; and
- good performance measure guide workers in producing the expected policy outcome

USES OF PERFORMANCE MEASURES: EVALUATION

In the State of North Carolina, performance measurements is a tool for evaluation of state programs in the context of the state budget. The Office of State Planning defines evaluation as the examination of state government policy through measurement of the impact of government strategies and related actions. Policy objectives have some intended result, some expected impact. Strategies are specific ways to accomplish policy objectives, and actions are the delivery of services out the strategies.

The primary benefit of performance measurement is the analysis, clarification and rethinking that occurs when agencies try to express expected results and actual results in concrete terms. Mandates that emerge from the legislative process tend to be general and sometimes vague or ambiguous. The biennial process of defining expected outcomes, objectives, strategies and outcome measure is means for periodic reexamination and rethinking of public policy and clarification of public purpose.

USE OF PERFORMANCE MEASURES: ANALYSIS

An analysis of the results of state agency actions compared to the expected impact of the related policy objective would reach one of three conclusions:

1. the actions are effective in achieving the policy objective, i.e., the impact is clearly positive;
2. the actions are not effective, or are having unintended impacts;
3. the actions may be resulting in the intended impact, but a reliable measurement of the impact has not been developed.

The first conclusion leads to the recommendation to continue the current strategies and actions, with room for continual improvement. The second conclusion—ineffective actions or unintended impacts—leads to one of two recommendations:

- change the agency strategies and/or improve the quality of service delivery; or
- change the policy objective to fit the reality of the situation so that agencies will have a greater intended impact.

If a policy objective does not fit reality, a state agency may be doing the best it can, but not getting positive results. The agency will not get positive results with any strategy or set of actions derived from a flawed or out-of-date policy objective. Over time, conditions change and customers or clients change, and policy objectives need to keep pace.

The focus on examining and reexamining policy objectives differs from typical program evaluations. The latter emphasize program impact and efficiency in service delivery. For an agency that is ineffective, conclusions may be that strategies are wrong or incomplete, that service delivery is too costly, or that service quality is poor. Program evaluations have value, but the examination of policy objectives is more critical for the following reasons:

- state agencies prepare strategic plans and think about trends inside and outside of state government that have implications for their programs;
- agency program managers understand the conditions in which they operate;
- most, if not all, state agencies are doing a good job at what they are doing;

The presumption that most if not all state agencies are doing a good job,

- lessens the importance of typical program evaluations, and
- places emphasis on whether the policy objective sets clear expectations and if the policy can have a positive impact given actual conditions and behaviors.

If the causal relationship between the policy and the intended impact is false or weak, then the agency carrying out the policy cannot make a clear, positive impact on the problem or need.

PERFORMANCE MEASUREMENT: HELPING AGENCIES IN ATTAINING THEIR OBJECTIVES

For performance measurement to have an impact on the effectiveness of state government programs, the measures must be meaningful and useful to the state agencies. Therefore, in North Carolina, state agencies are responsible for developing performance measures. If, however, performance measures are merely a bureaucratic requirement, agencies will spend time on the requirement without a return in agency performance. The cost of performance measurement to agencies is real. Agency personnel could fill all of their hours delivering services, complying with rules and reacting to crises. Time devoted to performance measurement will be well spent, however, if the process of measuring and evaluating produces changes in staff behavior that makes programs more effective.

INVOLVEMENT IN MEASURING PERFORMANCE: ROLE OF PLANNING AND BUDGETING

Given the need for evaluation, analysis and agency buy-in, the role of the Office of State Planning in conjunction with the Office of State Budget and Management, is to:

- set standards for and coach agencies in the development of outcome measures that will indicate whether the policy objectives are having their intended impacts;
- advise agencies on the selection of outcome measures that best indicate the impact of their actions;
- make the policy context clear in Department Plans and Performance/Program Budget narratives; and
- set a framework for the Executive Branch to analyze the results of state agency actions compared to the expected impact of the related policy objective;
- translate the framework and concepts for use in executive boards and commissions.

In this role, the Office of State Planning is not an advocate for policies or conclusions, does not take an adversarial role, and avoids being co-opted by state agencies. The office supports leaders in departments to evaluate their programs' impacts. The values that govern the work of the Office of State Planning in evaluation of state programs are:

- making a difference—state policies and actions can have a positive impact on problems, but if no intended impact is apparent, the policies and actions must be questioned;
- quality—of measures, assessed by criteria such as validity and reliability;
- continual improvement—in program effectiveness, in the impact of policies, and in the quality of measures
- fixing, not blaming and not punishing—attitude and action must encourage people to highlight the need for of opportunities for improvements in program effectiveness;
- recognition—of effective policies, strategies and actions;
- building capability in agencies—to assess program effectiveness, to generate feedback about the impact of their programs;
- communicating—making results clear to agency heads, the Governor, the General Assembly and the public;
- the long term—improvement may be gradual and benefits may not be immediate;
- neutrality—not advocating particular policies or agency programs, but maintaining a professional, objective stance.

THE ROLE OF BENCHMARKING: SETTING TARGETS

The State of North Carolina is committed to planning and budgeting processes in which the state agencies identify and define measurable objectives and targets. State agencies work toward the goals expressed in statutes and executive policies. Agencies take cues, also, from executive boards and commissions that clarify goals and set long-term visions. In particular, the Commission for a Competitive North Carolina produced a comprehensive set of goals for the state and ways to measure progress. Its offspring, the NC Progress Board, will set 20-year targets and monitor progress with periodic analysis and reports. The products of boards and commissions can be insightful and challenging, and legislative mandates can be compelling. In that context, however, state agencies must take responsibility for setting performance targets, buy into the concept, and use performance measures in program management. If agencies merely report results to legislators and executives without using performance measures to affect behavior of staff in service delivery, a prime opportunity is lost.

In North Carolina, state agencies have identified and defined objectives, strategies and performance measures, including measures of program impact. For the current biennial budget, the emphasis was on defining measurable objectives and outcome measures and producing baseline data. For the next budget, state agencies will develop a comprehensive set of performance targets. State agencies may set targets based on past performance or internal performance analysis. In many cases, agencies may find a best practice in some other organization to which they may benchmark their own performance. The targets will be important in assessing progress toward desired results.

PERFORMANCE MEASUREMENT AND DESIRED PROGRAMMATIC RESULTS—WHICH FIRST?

North Carolina has implemented performance measurement in conjunction with identifying desired programmatic results. Clear statement of the desired outcome helps determine the right thing to measure. The definitions of some performance measures will change, however, as the desired results are refined in the process of legislative review and deliberations over appropriations. In North Carolina, many objectives identified for P/PPB were not readily measurable or were more oriented toward management objectives than program impact. Consequently, the related outcome measures were difficult to define. In the next round of P/PPB, some objectives will be modified to be more concrete, and the related outcome measures will be altered or replaced.

EXAMPLE

One example of performance measurement illustrates some of the points in this statement. In the Department of Environment, Health and Natural Resources, the solid waste division maintains statistics on the number of permits issued for facilities that compost waste. In developing a concrete objective related to the expected outcome of a reduction in solid waste disposed in landfills, the agency realized that a measure of the tons of waste composted would be a better indicator of program impact the number of licensed facilities. Though the agency spends much of its time issuing permits and expects that a geographic dispersal of facilities could promote efficiency, the agency realized that the amount of waste composted would be the more meaningful outcome measure. In analyzing the results, the agency could compute the tons of composted waste per capita, the ratio of composted waste to solid waste disposed in landfills, or other relationships. Other analysis would relate to transportation costs, use of the compost as a product for gardens, environmental impacts of the composting and other costs associated with the program. The agency set a target of a 25 percent increase in tons of waste composted over six years. An evaluation of the composting program would include actual values for the outcome measure (tons of waste composted) compared to the expected progress, and a reexamination of the composting policy.

USING PERFORMANCE MEASURES—STATE POLICY AND MANAGEMENT IN NORTH CAROLINA

GOOD PERFORMANCE MEASURES

- Link policy to budget with focus on outcomes
- Shift accountability from efforts to results
- Guide workers by linking individual behavior to program outcomes

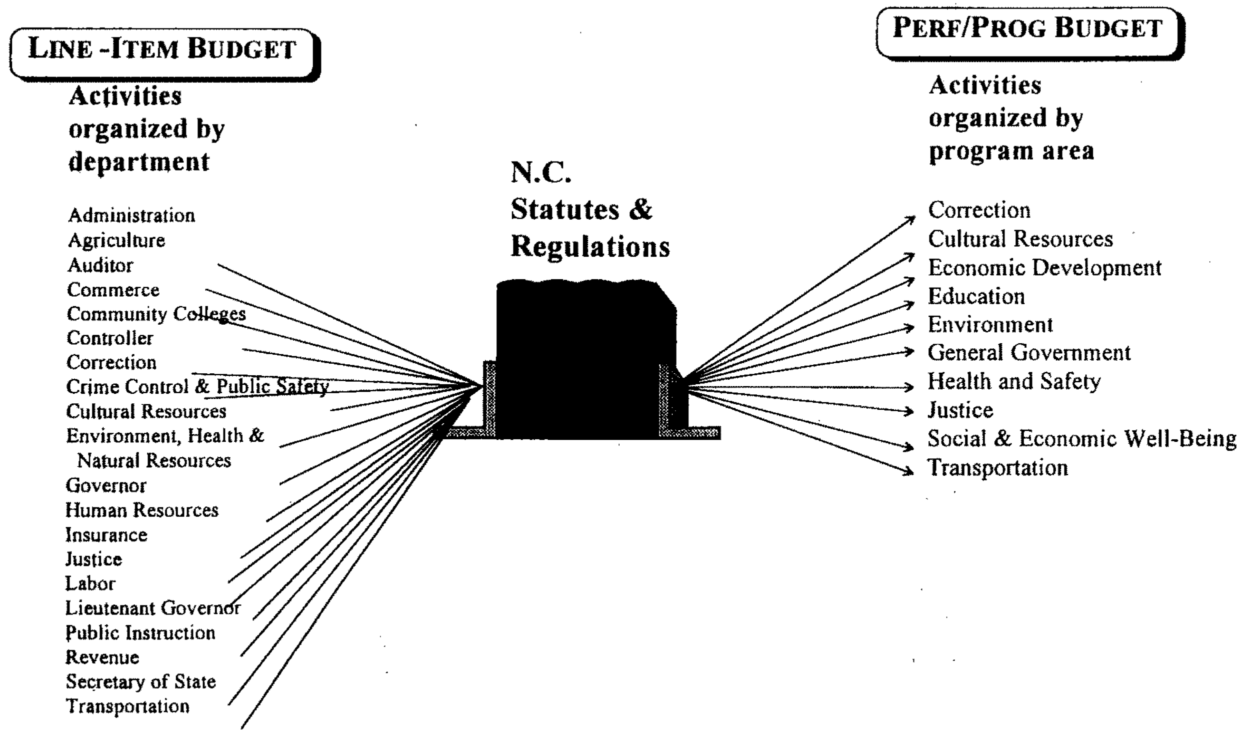
PRIMARY BENEFITS

analysis, clarification and rethinking that occurs when agencies try to express expected results and actual results in concrete terms.

reality testing if a policy objective does not fit reality, an agency may be doing the best; it can, but not getting positive results.

accountability

A Performance/Program Budget is Another Way of Looking at Government Activities



REQUIREMENTS

- clearly defined expectations (not rhetoric)
- carefully tailored program measures useful to agencies as well as legislators
- standards for measures and coaching for agencies to develop good outcome measures
- executive and legislative participation in defining a framework for comparing agency actions and expected impact
- incentives

KEY ASSUMPTIONS

- Reviewing actual outcomes against expected outcomes may improve performance
- Separating analysis of policy outcomes from agency structure highlights turf issues.
- Reviewing actual outcomes against policy objectives may change 1. policy, 2. program strategy, or 3. expected outcome any one of which may lead to improved performance.

CRITICAL SUCCESS FACTORS

Agencies must share responsibility for setting performance targets and use them in program management.

Performance measures must be allowed to change as the desired results are refined in the process of budget review, policy debate and program evaluation.

GOVERNING VALUES

- taking risks
- making a difference
- real measures of real outcomes
- fixing,—not blaming or punishing
- recognition of effective policies, strategies and actions
- building planning capacity
- communicating results
- acting for the long term

EXAMPLE

Policy objective: Reduce the quantity of solid waste disposed in landfills.
Strategy: implement composting program for counties and municipalities
Activities: promote, inform, register, license, collect data, etc.
Performance objective: increase the management of waste through compost systems by 25% by 2000
Outcome measure: annual tons of waste composted
Activity measure: number of registered composting facilities

Mr. BASS. Thank you very much, and we will now recess for 15 minutes, while we vote.

[Recess.]

Mr. FOX [presiding]. Ms. Kohl, Dr. Morgan, thank you very much for your testimony. We'll now ask you a couple questions, if we may. The questions will be for either of you. First, would you both agree that strong central leadership is necessary for projects like yours to succeed?

Ms. KOHL. Yes. In our State, Governor Arnie Carlson was the leading force behind the Minnesota Milestones project, really championed it. He went to all the public meetings that we held around the State—30 meetings at 15 locations. And he spoke not really to get anybody thinking in a certain direction, but to welcome the people and really talk about his vision for the project.

He also championed it throughout State government; required State agencies to use Minnesota Milestones in their budgeting process in 1993; insisted that the finance department continue it through 1995. I think his leadership was instrumental in making this happen.

Mr. FOX. Doctor, do you want to expand on that?

Ms. MORGAN. Yes. Governor Hunt has made reengineering of State government one of his five major priorities. And he is intent on using the performance budgeting process that we are developing to continue to develop the executive budget, regardless of whether the legislature chooses to review it in that format or not. And I think—because there's some resistance on the legislative side from moving away from a line item budget. It's familiar and it's very concrete.

It's a lot harder job, on the legislative side, to look at programmatic issues and performance issues, and to ask the hard questions. But I think they've begun to realize that if the Governor prepares the budget in that format, and his decisions as to what to fund and not to fund are made in that context, it puts them at a substantial disadvantage if they choose to go back to the old format for reviewing it.

Mr. FOX. Let me ask you this. Would you describe how a typical department or agency goes about the process of selecting performance indicators, inputs, outputs, outcomes, to measure? How does it develop a system to record the data, and what are the results?

Ms. MORGAN. In North Carolina, we began at a programmatic level, where we've identified all of the agencies that share responsibility for an area, like health care. It's subdivided into various programmatic categories. And within those delineations, a set of generic expected outcomes are defined by the participating agencies. And then at another level, inside those agencies, they hammer out agency specific expected outcomes.

And then there's a very structured process in which the Office of State Planning sets standards for the measures and for the methodology of collecting the data. Some attention is given to cost. And we're just now beginning to develop the process, how that information will come back through the executive and then the legislative branches for review and evaluation.

Ms. KOHL. In Minnesota, we've done it quite a bit differently. We first went to the people and asked them to articulate a vision for the State, and from that, developed measures and indicators based on that vision. We then asked agencies to begin to identify how their programs and their budgets speak to the Milestones, and how their programs are aligned with the Milestones; and then asked them to further go the next step, and identify agency performance measures that speak to the Milestones and to also speak to goals like efficiency and effectiveness of their programs.

So we really started with a broad vision that was developed with the help of thousands of Minnesotans. And then we asked the agencies to take that information and come up with their performance measurements that got to the Milestones. We wanted to make sure there was a connection between the ultimate outcome and the programs that they were developing measures for.

Mr. FOX. In regard to the vision that you asked the people, did you have forums throughout the State? And who would you invite? I think that's intriguing how you did that.

Ms. KOHL. Yes, Mr. Chairman. We went around the State. We set up 30 different meetings in 15 locations, and they were geographically based around the State so that no one had to travel more than an hour to get there. We trained facilitators, and we essentially went out with a blank sheet of paper. We didn't take a document and ask them to react to it. We went out and tried to get them engaged in a conversation, really, about what they wanted the State to look like in the next 10, 20, and 30 years.

We broke everyone into focus groups, or small groups of about 8 to 12 people. We had recorders—both tape recorders and people taking notes. And they wrote down all of the comments that were made in the sessions. Then we took those comments back to our agency, which is Minnesota Planning, and did an informal sort to identify common themes that emerged from those meetings.

We were quite surprised, I guess, to find that there were a lot of similarities throughout the State. We were expecting to find some differences between rural areas and urban areas, but we found out that the goals and values were very similar throughout the State. From there, we used those goals, then, to develop the measures. And that we did with mostly staff work from State agencies and from our agency, with the help of experts and advisory committees that we had set up.

Mr. FOX. Do you have a means by which you're going to adopt the most popular innovations?

Ms. KOHL. Mr. Chairman, we are asking all of our agencies to work toward the Milestones, both programmatically and strategically. We are developing strategic plans to deal with some of the priority Milestones that we've identified, particularly in the area of reform of children and family services, and also in the area of the environment. Sustainable development is our major initiative.

So we are developing strategic plans to achieve the goals that we set forth.

Mr. FOX. I would ask you both, are there many common indicators that were used State-wide to prepare State government units?

Ms. KOHL. Mr. Chairman, we have found that there really are not that many indicators that are good indicators. The ones that we have identified through Milestones are very similar to the ones that Oregon adopted as part of the Oregon benchmarks process, as part of other measurement or outcome setting exercises. So it kind of depends on the priorities of a given State. But I believe that many of the outcome indicators and the measurements are very similar across the board.

Ms. MORGAN. One thing I'd like to point out, in looking at generic measures and goals and objectives that arise out of a process like Minnesota Milestones, and we did something similar in North Carolina called NC2000. You set in motion a quasi-legislative process that gins out an agenda which is associated with a group of people that participate in that process. But you then have the quandary of how you feed it back into the constitutionally defined institutions.

And I think what we've tried to do in North Carolina, in contrast to some other States, is to start with the body of policy commitments that are in the statutes, and submit them to very rigorous review, raising questions about what is the expected outcome; what is the expected public purpose; how do you know it when you see it; and how do you measure it.

I think from that, you can build opportunities for public participation through political campaigns, through special gubernatorial and other commissions that address particular issues, that get at issues of salience to the public. But I have some real skepticism about goal setting, benchmarking exercises that simply go out to the public and bring these back as goals to be fed into government.

Because they then set up a competing set of goals that are written into the statutes. And who decides which ones prevail?

Mr. FOX. OK. I have just one more question. Are your States involved with partnerships with Federal agencies, where the State and the agency from the Federal Government agree on the results to be achieved from a program such as a block grant program? And if you do, how do you ensure accountability doesn't get overlooked?

Ms. KOHL. Mr. Chairman, that's an excellent question. We have just begun to have conversations with the Federal Government within the past 2 months. We are trying to explore something similar to the Oregon option, on which a number of agencies in Oregon are working with the Federal Government to come up with possibly some kind of a blanket waiver.

We're looking for, perhaps, something a little different. We're asking for some technical assistance and some other services that we might be able to use. But I do think that your point about using outcome measurement and performance measurement as a way of ensuring accountability for block grants is quite important. Our Governor has been a strong champion of using outcome measurement in connection with block grants, as way of preserving the utmost flexibility for States, and assuring accountability at the Federal level.

Ms. MORGAN. We're just beginning to explore those relationships in North Carolina.

Mr. FOX. I want to thank you for your testimony, and your answering the questions a fully as you did. We now have our chairman back, Congressman Stephen Horn, and I'd like to turn the gavel back to him. I was glad to assist.

Mr. HORN. I apologize for being late, but I had to sit it out on the floor, until I could offer an amendment which we just finished voting on. This is the first time I've ever missed one of my own hearings. I thank very much the gentleman from Pennsylvania, Mr. Fox, for doing what he's been doing. Thank you.

This is, to me, one of the most important hearings we're holding. I feel terrible that I wasn't able to sit here. But I don't have control over the floor, so we sit here when we can. Thank you for coming.

Mr. FOX. Mr. Chairman, would you like to have your statement read, or would you like to read it into the record?

Mr. HORN. I'll have my statement inserted into the record earlier, where appropriate.

Mr. FOX. OK. Thank you very much for your outstanding testimony. We'll now call on panel four, Mr. Joseph G. Kehoe, managing partner, government services, for Coopers & Lybrand Consulting; and Ms. Laura Longmire, national director of benchmarking for KPMG Peat Marwick LLP.

[Witnesses sworn.]

Mr. HORN [presiding]. We'll now proceed with the testimony of Joseph Kehoe, managing partner of government services for Coopers & Lybrand Consulting.

STATEMENT OF JOSEPH G. KEHOE, MANAGING PARTNER, GOVERNMENT SERVICES, COOPERS & LYBRAND CONSULTING; AND LAURA LONGMIRE, NATIONAL DIRECTOR OF BENCHMARKING, KPMG PEAT MARWICK, LLP

Mr. KEHOE. Thank you, Mr. Chairman and members of the subcommittee, for the opportunity to represent Coopers and Lybrand in today's hearing. As you said, Mr. Chairman, I am the managing partner of Coopers & Lybrand's government consulting unit, a group of over 500 management, finance and information technology consultants, headquartered in Washington, DC. Much of our work with the Federal Government concerns performance measures, reengineering, benchmarking, and activity based costing, the subject of today's hearings.

Based on my 30 years' experience in financial consulting and management consulting, I am absolutely convinced that it is possible to significantly reduce the cost of government, while at the same time improving its performance. There are many ways to do this, including reengineering and quality management. But in order to manage these improvement approaches so that they deliver both savings and higher performance, you first have to know what things really cost you, and what affects or drives these costs.

Mr. HORN. We'll leave at the 10-minute mark.

Mr. KEHOE. OK. Right now, they know and you know what these organizations spend, because that information is in their budgets. What a lot of people, or most people, don't know is what does it cost a government agency to produce a product or service? What does it cost to produce the product or service, and what affects those costs and drives them up and down? Activity based costing delivers this information.

You share the same problem that the private sector had, probably 10 or 15 years ago, in that most of the financial systems in use in the United States were designed for external reporting, reporting to shareholders, reporting to Wall Street, reporting to certain government agencies that were interested in protecting shareholder value and shareholder interests.

Activity based costing was pioneered at General Electric in the late 1960's, and is now used by hundreds of private companies, including John Deere, Johnson & Johnson, and American Express. Most companies started out using activity based costing to calculate real product costs. Up until about 30 years ago, when overhead costs were low, compared to total product costs, you allocated those costs based on some way of spreading them over all the products that you manufactured, usually direct labor hours or direct labor dollars.

In today's world, with technology and labor enhancing techniques like reengineering, the direct cost component of many products or services produced is very low, compared to overhead. And so, when you spread this evenly over direct labor hours or direct labor dollars, you got a lot of distorted product costs. Activity based costing solved this problem by tracing overhead to the processes that incurred those costs, and tracing those processes into specific products; instead of allocating them by some formula rate per hour, percentage per hour, et cetera.

When people reallocated costs using acitivity information they discovered that certain products that they thought were profitable ended up being not profitable, because they were allocating costs wrong, and other products that appeared to be non-profitable were in fact making money for the company. So that's what people in the private sector began to use activity based costing to do.

Most government managers and Congress measure costs in budget line items, or full-time equivalents, FTEs. And the way you run things using a budget is that managers get rewarded for staying within their budgets, while Congress attempts to improve operations by changing the levels of those budgets somehow. And let's look at the problems that that presents for reforming government operations to make them more cost effective.

The left-hand column of exhibit A is the typical line item budget information available to most Federal managers. These things, called traditional line items, are cost objects. That's what you spend your money on, and these are inputs. They're salaries, telecommunications costs, facilities cost, travel, et cetera. And they add up to $700,000. These are real figures from the Cincinnati service center of the IRS.

If you want to improve the cost effectiveness of that center, the things that the budget tells you aren't much help. They don't tell you where to go to get better, or to be more cost efficient. IRS now uses activity based costing to produce financial information, like is shown on the right-hand side of that column. Here, the same budget line item costs are broken out by individual processes or activities that produce work or services.

For example, in the first item there, prepare work plans, that is the real costs used to prepare work plans in this particular organization. By dividing that by the number of work plans produced, you have a relevant unit cost. And the way you would go, very simplistically understanding, was that a good cost or not, one way to do it is by comparing it with the unit cost of other IRS centers, and seeing who's high and low and what you would do to bring a high cost performer more in line with the low cost performer. That's called benchmarking.

And someone else is going to be talking about that in a minute.

Mr. HORN. I wonder if we could hold the conclusion until we get back. We've got to make it to the floor and vote. Let's have a 15-minute recess.

Mr. KEHOE. OK.

Mr. HORN. I think we ought to be back in plenty of time. I'm sorry to hold you up like this, Ms. Longmire, as well as the audience. Thank you. We shall return.

[A brief recess was taken.]

Mr. HORN. Mr. Kehoe, we will let you have a 30-second wrap-up.

Mr. KEHOE. OK. Was my 5 minutes running while you were gone, Mr. Chairman? Let me talk a little bit about naval shipyards and how they used activity based costing to improve support and administrative functions and reduce costs in response to reduced workloads and base closures. By applying a technique called value analysis, naval shipyards discovered that more than half of the costs that they incurred did not add any value to their products, which are overhaul and refitted vessels.

This is called rework, supervision, inspection; a lot of which was mandated by regulations. Shipyards are now aggressively reducing this non-value adding work. And what you see over there is an example that came from the shipyards, which says that over 60 percent of the costs incurred in naval shipyards was non-value added costs. That means they didn't contribute to the products shipyards put out.

What we've had in this country are processes that have evolved over time. They were never designed; they just were added to. And when a problem came up, someone implemented something, a set of activities, to solve that problem, inspect it one more time, et cetera. And those inspections and those solutions never go away. The result is, when you look at a process today, process that was never redesigned or never really looked at, that's a typical picture of what you find.

You will find that in any government organization or any business organization, for that matter, that never really took a hard look at their processes and rationalized them—why do we do all the things we do?

[The prepared statement of Mr. Kehoe follows:]

PREPARED STATEMENT OF JOSEPH G. KEHOE, MANAGING PARTNER, GOVERNMENT SERVICES, COOPERS & LYBRAND CONSULTING

Thank you, Mr. Chairman and members of the Subcommittee, for the opportunity to represent Coopers & Lybrand in today's hearing. I am the managing partner of Coopers & Lybrand's Government Services, a group of over 500 management, finance, and information technology consultants headquartered in the Washington, D.C., area. Much of our work with the federal government concerns performance measurement, reengineering, benchmarking, and activity-based costing, the subjects of today's hearings.

You have asked me to provide you with background information on how industry and government organizations use activity-based costing for measuring costs and performance and for improving operations. My staff and I have worked with many federal organizations to apply activity-based costing to their operations, including the Navy, Air Force, Defense Mapping Agency, Department of the Treasury, Department of Energy, and the U. S. Postal Service, and also with government contractors. Coopers & Lybrand Consulting assists many private companies in setting up activity-based costing financial systems, including manufacturers, service organizations, and utilities. I have written and presented several articles and papers on activity-based costing, some at federal management conferences, and recently co-authored a book about it entitled Activity-Based Management in Government.

Based on my 30 years experience in financial and management consulting, I am absolutely convinced that it is possible to significantly reduce the cost of government while at the same time improving its performance. There are many ways to do this, including reengineering and quality management. But in order to manage these improvements approaches so that they deliver both savings and higher performance, you first have to know what things really cost and what drives those costs.

Right now, few government organizations have accurate cost information. They know and Congress knows what these organizations spend, because that information is in their budgets. However, it is very difficult to determine what a government-produced product or service actually costs, because federal accounting systems are not set up to provide accurate cost data. Private companies have had somewhat similar problems because they used traditional management cost accounting practices that produced distorted cost information. Some companies and government organizations have overcome such problems by using activity-based costing to replace or augment traditional cost accounting practices.

Activity-based costing was created because traditional management accounting was no longer relevant to modern organizations

Activity-based costing is a system of management cost accounting. It gives executives and managers accurate information about the cost of products and services and the cost of the processes that make them. In any successful business, you have to measure, understand, and control costs in order to maximize return to shareholders. This attention to cost effectiveness begins with, operates under, and is continually judged by accurate financial information.

Activity-based costing was pioneered at General Electric in the 1960s and is now used by hundreds of companies, including John Deere, Johnson & Johnson, and American Express. Most companies started out using activity-based costing to calculate accurate product costs. Very quickly, they discovered that traditional cost accounting practices were misleading; one reason was that these practices allocated overhead or indirect costs evenly to all products. In reality, different products consume different amounts of overhead, including functions such as administration, quality control, planning, facilities, maintenance, and other support costs. This was not a problem 50 years ago, when most companies and governments had low overhead rates. Today, overhead costs often are higher than the direct cost of making a product or delivering a service. One of the main reasons for this increased overhead has been the growth of support and administrative departments and functions. For example, 50 years ago we did not have large information systems departments, today, every large organization has one, and it adds to overhead costs.

Activity-based costing solved this accounting problem by directly tracing overhead costs to the processes that made specific products, instead of allocating them by some formula such as "40 percent times the cost of a direct labor hour." When they traced actual overhead costs, many companies discovered that their so-called profitable products in fact lost money for every unit sold, because these products consumed much more overhead than they were allocated under traditional accounting practices. Their new knowledge about costs led companies to raise prices or reduce costs on some products and abandon others.

Many companies discovered more powerful applications for activity-based costing than simply figuring out product costs. They used it to generate financial and operations information that they could apply to improving processes, or the way they did their work. The result was that they raised their productivity and quality, while lowering costs. In a moment, you will see how they did this.

Governments use budget line items to manage spending, but have little idea about costs

Obtaining accurate financial information has been difficult in nearly all government organizations, because they do use outmoded management cost accounting practices—if, indeed, they use them at all. Most government managers—and members of Congress—measure costs in budget line items or full-time equivalents, or FTEs. Managers are rewarded for staying within their budgets, while Congress attempts to improve government operations through changes in these same budgets. In other words, we know what government organizations spend, but not what it costs to produce a government product or service, be it a jet plane or a grazing permit. Let's look at the problems this presents for reforming government operations in order to make them more cost effective.

EXHIBIT A

Traditional versus Activity Views of Costs IRS Cincinnati Service Center—Processing Division

Traditional Line Items	Amount	Activity-Based Costing	Amount
Salaries	$500,000	Prepare work plans	$30,000
Telecommunications	100,000	Facilities and personnel planning	30,000
Enforcement expenses	50,000	Mail receipt and sorting	50,000
Facilities	30,000	Document and data preparation	180,000
Travel	20,000	Data entry	40,000
		Document and security control	130,000
		Data reconciliation	90,000
		Taxpayer file maintenance	110,000
		Refund requests/correspondence	40,000
Total	$700,000	Total	$700,000

The left hand column of Exhibit A is typical of the line item budget information available to most federal managers. These are real figures from the Cincinnati Service Center of the U.S. Internal Revenue Service. If you want to improve the center's cost effectiveness—its ability to do more with less—these budget line items do not offer useful information about where to begin. Line items cannot be easily matched to individual products or outputs, such as the unit cost of preparing a single document. Without unit costs on its products and services, the IRS cannot determine if it is cost effective, benchmark its costs against those of other organizations, or even tell whether a reengineering project has actually saved money. That is a typical situation in most government organizations.

Activity-based costing produces financial information that managers can use to make improvements

However, the IRS, like several other government organizations, now uses activity-based costing to produce financial information like that shown in the right hand column of Exhibit A. Here, the same budget line item costs are broken out by the individual process or activity that produces a specific product or service. For example, a work plan is the product of the process labeled "prepare work plans" at the top of the exhibit's left hand column. All the resources that go into the "prepare work plans" process are directly traced to that process, such as the amount of salaries and telecommunications it consumes. By dividing the number of work plans produced by this process, you arrive at a fairly accurate unit cost figure for the plans. You can compare this unit cost with that of another similar process outside the IRS, in order to benchmark IRS cost effectiveness in producing work plans. That type of comparison is central to good performance measurement.

Here is another use for the activity-based costing information in the center's budget: setting priorities. If the center wants to reduce this budget by 10 percent, where should it start? Using the line items on the left side of Exhibit A, many organizations would say, "Let's cut salaries and travel." But just reducing these line items does nothing to improve the productivity of the center. In fact, productivity may fall because fewer people are available to do the same amount of work in the same way as before. With the activity-based costing information on the right side of the exhibit, center managers know that the "document and data preparation" process costs more than any of the others—$180,000. Making it a priority to reengineer this process may produce the best results, as measured by accuracy, speed, and cost savings

As another example, we have recently worked with the U.S. Postal Service to apply activity-based costing to its international money order processes. Because activity-based costing required Postal Service managers to identify, describe, and calculate costs for all activities in those processes, they now understand what drives those costs up and down. Thus, they know where to focus their reengineering efforts and can measure the results of these initiatives.

This is powerful information, and it motivates managers to take action. One academic study of activity-based costing in the IRS has shown that, just by having this type of information, IRS managers in one office started to make more cost-effective, money-saving decisions. These decisions included using $18,000-a-year paraprofessionals to do routine work once handled by $55,000-a-year professionals.

Activity-based costing is used by government organizations to reduce the amount of resources going into work that adds cost, but no value, to their products and services

Naval shipyards have used activity-based costing to slim down, streamline, and improve their support and administrative functions in response to reduced work loads and base closure. By applying a technique called value analysis to their activity information, the shipyards discovered that over half the resources devoted to these functions did not add any value to their main products: overhauled and refitted vessels. The problem was due to errors, rework, and unneeded work, some of which was mandated by government regulation. The shipyards are now aggressively reducing this non-value adding work. Also, they are using activity-based costing methods to determine how to consolidate support activities that can serve several shipyards from a central location, a move that will save money without harming effectiveness.

EXHIBIT B

Non-value added work can consume two-thirds of an organization's resources.

I want to underscore the utility of value analysis in activity-based costing. Exhibit B is the typical result when we help a government organization to conduct value analysis of its support and administrative functions: up to two-thirds of the money goes into operations that, in the eyes of the customers who use them, add no value to government products and services.

Value analysis is controversial and often misunderstood, so let me be very clear about it. As you can see in Exhibit C, a non-value added activity often may be important and useful. For example, inspecting products after they are made is non-value added activity, because the product does not change. However, you better believe that astronauts want the space shuttle inspected several times before they use it. On the other hand, one inspection may be enough for the average government document, not the dozen quality checks it often gets in the typical bureaucracy.

What the two-thirds non-value added figure means is that, if an agency is looking to become more cost effective, it can probably find significant savings by focusing on non-value added activities and processes. Although you cannot eliminate all these non-value adding activities, a serious initiative to do this, using benchmarking, reengineering, new technology, quality management, and other methods, will produce significant results. These results will be measured not just in money saved but also in improved performance in other areas.

EXHIBIT C—ACTIVITY VALUE CLASSIFICATION

Value added

- Activities that are absolutely essential to making and delivering a product or service the customer needs
- Activities that change the fit, form, or function of the final output delivered to customers
- Any work that increases the net worth of the output (quality, value) as perceived by the customer

Non-value added

- Any activity or resource used beyond what is absolutely essential to delivering the product the customer needs
- Those activities that can be eliminated with no deterioration of performance of value added activities
- Any work that does not transform inputs into outputs, such as supervision, reviewing work products, inspection, and rework
- Any work task or activity that can be eliminated if a previous task or activity is done right the first time

Local governments use of activity-based costing in privatizing and to improve fee-supported operations

Federal interest in privatization and competition is another reason for wanting accurate cost information. The city of Indianapolis, Indiana uses activity-based costing in a money-saving program in which city departments compete against private contractors for road and bridge maintenance business. According to Indianapolis mayor Stephen Goldsmith, "Activity-based costing has to come in front of competition because we can't even get our own people into a bid mentality until we know how much it costs to provide a service. " Besides motivating public managers to reduce costs to be more competitive, in Indianapolis activity-based costing also creates a "level playing field" for fair comparison of public and private sector bid proposals.

Another federal interest is that the fees some government offices collect for providing services cover the cost of those services. A few years ago, the city of Phoenix, Arizona discovered that city offices that issued permits and licenses only recovered 40 percent of their costs through user fees; the other 60 percent was paid for by appropriations. Politically, it was difficult to raise fees to match actual costs, so managers used activity-based costing to find out how to lower their costs through process improvements. Today, Phoenix's user fee offices are supported nearly 100 percent by their fees.

Activity-based costing is a key ingredient in significantly reducing the cost of government while improving performance

In summary, if you are going to reduce costs and improve performance at the same time, you must have accurate cost information and understand what drives costs up and down. If federal managers have that information, they will be able to deliver significant, cost-effective improvements in government operations.

The federal government has made important progress in using activity-based costing, primarily in the organizations mentioned in this presentation. In addition, the Federal Accounting Standards Advisory Board, of which I am an advisor, has issued a draft set of managerial cost accounting standards that conclude that many federal organizations will benefit from activity-based costing. In the future, I believe the Congress will hear more about this new accounting and management tool and certainly will see its results among the pioneer federal organizations that use it.

Thank you for the opportunity to be here today. I will be pleased to answer any questions you may have.

Mr. HORN. Well, that's very helpful. We'll get back to some of this in the questioning period.

Mr. KEHOE. OK.

Mr. HORN. Ms. Longmire, I thank you for coming, and sorry to keep you waiting. Please proceed.

Ms. LONGMIRE. Thank you. I'd like to say thank you for asking me to come here today to talk about these quality improvement tools. But I also want to compliment you for taking the time to learn about these tools, and the power they can have over your organization. There's a sense of urgency among the American people today. A recent survey commissioned by KPMG Peat Marwick showed that voters are ready for a change, by a 3 to 1 ratio. Over 80 percent of the voters felt that government spends money on the wrong things. They're more concerned about how their money is spent, and less about how much money is spent.

What your customers are looking for is accountability. While the public is bombarded with volumes of data, what is missing is the measurement of results. That's where performance measurement, benchmarking, and business process reengineering fit in. In my years as the worldwide champion of benchmarking at Texas Instruments, and now at KPMG, I've learned that these three tools work together. At KPMG, we use them both internally to improve our own business processes, and externally to help our business and government clients achieve their goals. We have found that this is one area where the private and public sector can learn from each other; because in today's environment, both of us have to do more with less.

The first step is performance measurement. In order to improve processes, you must be able to measure them. If you don't measure your business processes, you don't know how well you're doing or where you're going. Government is good at measuring, but often measures the wrong things. Your measurements should be based on customer needs, not on management needs.

You need to know, how well do you perform; how long does it take you to do this task; what are the costs associated with it; are the customers satisfied with your service, your quality, your time, and your costs; how much better could you do. Once you have these measurements, you can take the process to the next level, which is benchmarking. Benchmarking is a process of searching for best practices, methods in tools, and either adopting or adapting those, in order to become the best of the best.

It's the aha experience—the experience of saying to yourself, I never thought about doing my work that way. Let me give you an example where a defense contractor learned, from Mary Kay Cosmetics, how to improve their inventory management practice. Based on the changes in stock requisitions and the practices, the contractor achieved a 300 percent improvement in their processes, and reduced time from order entry to delivery of service from 1 week to 4 hours.

At KPMG, we were so impressed with these results, that we shared them with the Air Force. Another benchmarking experience we shared with the Air Force dealt with the rapid turn around of their aircraft. The Air Force then chose a partner with Southwest Airlines to learn from them. In turn, Southwest had learned from an Indianapolis 500 pit crew—all outside their own industry.

Government can use the same kind of measurement tools for similar processes, such as purchasing, cost analysis and service delivery. Benchmarking is a tool that allows you to compare your work to the world's best practices, wherever they may exist, in government or in industry. That brings us to reengineering, the highest level business process tool, which incorporates both performance measurement and benchmarking.

Let me emphasize, reengineering is not synonymous with downsizing. It has to do with redesigning the way that you work and provide services, sometimes even determining what businesses you were in. One way many global companies and government agencies accomplish this improvement is by utilizing a Malcolm Baldridge based quality assessment to measure how they currently perform as organizations, and determine where they should focus the quality tools for continuous improvement.

Embedded within the Baldridge criteria are the requirements for benchmarking and best practices. We use the Baldridge criteria at KPMG to focus on improving processes such as employee satisfaction. With this focus, we were able to identify best practices and employee rewards and recognition, and are now implementing these best practices in our firm. The bottom line—happy employees produce happy customers, which produce increased revenue.

We also use performance measurements to compare our financial results with those of our clients and with other leaders in our industry. We do this through our own financial benchmarking data base, which incorporates key indicators and best practices, drawn from world-class global companies. There are thousands of projects going on in industry and government today at varying levels of complexity and completion.

But KPMG has found that the most successful projects share some common items. They're long-term in scope; take direct management commitment and investment in technologies and tools; constant communication, to eliminate fear in the work place. And there's one principal that overarches all of these four elements. For government to effectively serve its customers and deliver value to shareholders, it must fundamentally change the culture from a focus on compliance and controls to results.

All the process in the world can change, but you won't get the results you want until you change the drivers; that is, the incentives and rewards built into the system. Each one of the tools I've described today varies in intensity and results. It requires a full knowledge of what each tool can do, and a commitment to make them successful. We now have the knowledge; commitment is key to your success; you have a sense of urgency; you have a vision. Now you have to stick to it.

[The prepared statement of Ms. Longmire follows:]

PREPARED STATEMENT OF LAURA LONGMIRE, NATIONAL DIRECTOR OF BENCHMARKING, KPMG PEAT MARWICK, LLP

Thank you for this opportunity to appear before you today concerning benchmarking, performance measurement and business process reengineering. I want to compliment you for seeking knowledge on how to use these potentially powerful tools to command change.

There is a sense of urgency among the American people today. A recent survey commissioned by KPMG Peat Marwick showed that voters are ready for change by a three to one ratio. Over 80 percent of voters feel that government spends money on the wrong things. They are more concerned about how their money is spent than how much is spent.

What they are looking for is accountability. While public leaders issue volumes of data—and volumes of rhetoric—what is missing is the measurement of results. That's where performance measurement, benchmarking and business process reengineering fit in. In my years as Worldwide Champion of Benchmarking at Texas Instruments and now as Director of Benchmarking for KPMG, I have learned that these three tools work closely together. The bottom line is, you can't improve business processes until you can measure them.

This basic principle is as applicable to government as it is to business. After all, government and business are alike in that we manage business, resources and people. Both are facing significant cutbacks—and both have to do more with less to succeed in today's environment.

The fact is, organizations simply can't continue to work in the same old way. By sharing and learning from each other, however, we can accelerate the improvement journey and satisfy our customers' needs.

What we learned at Texas Instruments by focusing on customer value and business processes is that all of our processes could be measured both in quality terms and in response time. We were able to reduce defects and response time anywhere from 20 to 50 percent—and in 1992 won the Malcolm Baldridge Award for our efforts.

At KPMG, we are using these tools to improve our own business processes and to help our business and government clients achieve their goals. In other words, we're taking our own medicine: we are doing the same things in our firm that we are advising others to do.

We have found that to make improvements and implement change, you have to focus on results rather than bottom line cutbacks. That means focusing on what's important and of value to the customer. It means asking, what do we need to do that's important to own customer—and what is just added costs?

Many of us in business have made mistakes in performance improvement by making reengineering synonymous with downsizing. I want to emphasize that the power of improvement is through improving business processes, not through seduction in forces. Government will not realize the savings in reduction in force unless you also improve processes at the same time.

So how do you do that? Through performance measurement, benchmarking and reengineering business processes. Here's how it works.

PERFORMANCE MEASUREMENT

You have to start with measurement. Performance measurement is a different way to evaluate what an organization is doing, focused on how well you are accomplishing your goals and at what cost. By systematically evaluating the effectiveness and efficiency of resources used, you can quantify results, establish clear accountability, and ultimately, help government do more with less

Measurement is important because you need to know where you currently stand in order to improve. You need to know:

- How well do you perform?
- How long does it take to do this task?
- What are the costs associated?
- Are the customers satisfied with your service, quality, time and cost?
- How much better could you do?

Unless you measure your practices or your processes, you have no basis of comparison.

For example, the U.S. Social Security Administration has one of the largest customer help desks anywhere. Like the Land's End catalogue store, Social Security provides a service when the customer needs it, not just during the traditional business hours. But how do you know this is an effective service? Do you know how many rings before the customer is answered? How many hand-offs until the customer's problem is resolved? And what is your customers' level of satisfaction?

In industry, there are standards. By the third ring, the phone will be answered. There will be no more than two hand-offs. The first person may be a switchboard operator; the second must deal with the issue. And in a customer satisfaction rating of 0 to 100 percent, best practices call centers achieve a 95 or higher satisfaction rate.

Government, which has similar call centers, can benefit from the path industry has already traveled in this area. All of the business process teams I've worked with were able to make an average improvement of 30 percent just by documenting the way they work. Putting it down on paper makes people question, "Why do we do that? Would my customers want to pay for it?" And as a result, they are able to eliminate unnecessary work.

In KPMG's experience, getting started is the hardest part. Managers have to be convinced that initiating performance measurement is as important as continuing with "business as usual." They need to know that simply focusing on what to measure often identifies tasks or services that can be eliminated, thereby freeing resources for higher priorities.

We've learned that people first have to understand what performance measurement is, how it works, and how it can help them. It also helps if everyone in the organization has a common understanding of the benefits, approach, and terminology. Then we can help them successfully implement performance measurement, based on the following steps:

- Identify the organization's core, or most essential, services
- Define the desired results (for example, reduction in the drop-out rate)
- Identify potential indicators to achieve those results
- Select a manageable but balanced mix of indicators, focusing on outcomes and efficiency
- Collect data to evaluate current and historical performance
- Establish target values and periodically check progress toward the goal

At the U.S. Customs Service, we helped the executives and senior managers reach consensus on how best to begin. Next, we provided a series of training courses and hands-on workshop sessions so the managers and their staff could identify useful performance measures.

Those measures have provided the framework that Customs is now using to integrate operational, financial systems and information technology initiatives. Cities like Baltimore, St. Paul, Portland, Indianapolis and York, Pennsylvania have each adapted this training to their most pressing needs and are implementing performance measurement in similar, yet distinct, ways.

BENCHMARKING

Performance measurement is like a compass, showing you where you are now. But to know where you need to go to improve, you have to have a map. Benchmarking provides the map.

Benchmarking is a tool that shows how to drastically achieve performance improvement by comparing your organization with the best practices of others. You may think you're pretty good until you look externally and see what the possibilities are. By comparing yourself to private or public sector leaders, you can leapfrog improvements in the way that you work.

For example, at KPMG I oversee a world-class financial benchmarking data base. The key performance measurements allow us to compare our financial results with the leaders in American industry. Government can use the same knowledge base for similar processes, such as purchasing. In such areas, you should be comparing yourself to best practices wherever they exist, whether in government or in industry.

KPMG used benchmarking to help a large pharmaceutical company improve its proposal preparation process. When we compared our client to some marketing-intensive, regulated industries, we found that the client's process took an average of 90 days—while their benchmarking partners took one hour.

The company's initial goal is to cut the process to 30 days. After identifying steps in the process and developing enabling tools, we helped them develop a new process allowing point of contact personnel to propose contracts at the customer's site. One of the enablers is a notebook computer software package that allows for the standardization of proposal preparation.

KPMG's benchmarking methodology is based on the Xerox model, which has been in place since 1980. This tried and true approach takes place in four phases:

1. In the first phase, process owners flow-chart or map their processes, measure these processes and determine who should be their benchmarking partners.
2. Phase two uses this data to compare key performance indicators to industry leaders, which identifies performance gaps.
3. Phase three involves communicating the best practice findings, gaining acceptance by the people who will have to use the new tools and establishing stretch goals for improvement.
4. In phase four, the data is translated into action plans and implementation for the "best of best" practices or new improvements.

Benchmarking is not complete until innovations are implemented into the process. Just gathering the data, establishing the benchmarks and publishing a report won't get the results you want. Only through full implementation will the cost savings and performance improvements be fully realized.

By the way, best practices and benchmarking are two-way streets. There are best practices within government that industry has learned from. For example, a high tech electronics company improved its paid time-off policy for employees by adopting the government's practice of leave time management, enabling their personnel to manage their own vacation, sick leave and family time at their own direction. The benefit of self-management and self-direction? Happy employees produce happy customers.

Another example closer to home is in the Department of Defense. KPMG conducted a benchmarking study for DOD to help consolidate a number of data processing installations. To support this mission, we asked several questions: What are the best practices in data processing centers? How are they organized? What tools do they use? What are their key performance indicators? We then conducted operational performance measurements of their data centers and compared them to best commercial practices, to help them evaluate which centers would become DOD's best of the breed. Having insight into comparable practices gave the Department a rational basis for making critical decisions regarding data processing consolidations.

Ultimately, the power of benchmarking is the "aha" experience that team members get when they witness a best practice or innovation. We always hear: "We never thought about doing it that way. Why couldn't we do it?" These innovations usually lead to even higher levels of improvement because they spark new ideas. As the teams implement the best practices, they improve on the design or implementation of what they have seen. Now they are the benchmark.

BUSINESS PROCESS REENGINEERING

Reengineering is the high level, strategic process improvement tool. In other words, it's your destination. In business or government, that means doing it faster, smarter, cheaper. You simply can't get by with business as usual: customers won't pay for it and citizens won't stand for it.

High level processes need to focus on customer-driven outputs. For government, this is a major shift. Do you know who your customer is—your ultimate customer? Is it the Committee? The House of Representatives? The President? The taxpayer? Or is it your aide, to whom you've just given a major report to compile?

Reengineering raises these questions and poses alternatives that can lead to break-through improvements. Many times, these improvements will eliminate work methods and processes that have been used for years. They may even change the organizational structure or the functions that are performed.

At KPMG, we utilize a six-step methodology to take our clients through the reengineering process:

1. Analyzing the organization's businesses, products or services and high level processes to determine how these fit with the overall business strategy
2. Determining the focus or business direction for improvement
3. Identifying the scope of the improvement and the target objectives
4. Designing a new process, generally based on innovative enablers and best practices
5. Mobilizing for implementation—the action stage
6. Implementing the design and measuring for success to determine progress toward your goal

Many people don't understand that reengineering is not about cutting positions, but about fundamentally changing the way work is done. If you don't change the process and the enablers, you have simply increased the work load of the people who are left, which adds stress, deflates morale and produces burnout. This is one area where government can learn from the mistakes of industry—and avoid them.

Business process reengineering takes time—and patience—but we can see the results in our clients' operations:

- KPMG found that Albany County was spending more to process small purchase orders than the cost of the item itself. With the new policy we recommended, county agencies can easily make small purchases, and the Purchasing Department can concentrate on higher value purchases where potential savings justify the fees.
- Our recommendations for a comprehensive reengineering of North Carolina state government identified potential savings of $280 million in the first year alone. Recommendations actually enacted by the legislature amounted to an impressive $30 million in 1994 and $42 million in 95.
- In Louisiana, KPMG identified significant savings opportunities that could be realized simply by consolidating the state's multiple payroll systems. Consolidating redundant systems and functions not only streamlines processes, it reduces support costs and ensures consistency and reliability of data.

- We helped a major chemical manufacturer realize $800 million in cost savings through implementation of a series of reengineering recommendations. This was a major systems integration project, including benchmarking, business process redesign, information technology selection, design and systems migration planning.

Then there's the famous accounts payable example, where Ford improved their process to reduce the number of clerks from 500 to 300—and found that Mazda was doing the same function with only five clerks. Ford realized that streamlining the process wasn't enough: they had to rethink the entire process, from procurement to order fulfillment.

There are thousands of projects going on in industry and government today, at varying levels of complexity and completion. But KPMG has found that the successful projects share common themes. These themes are:

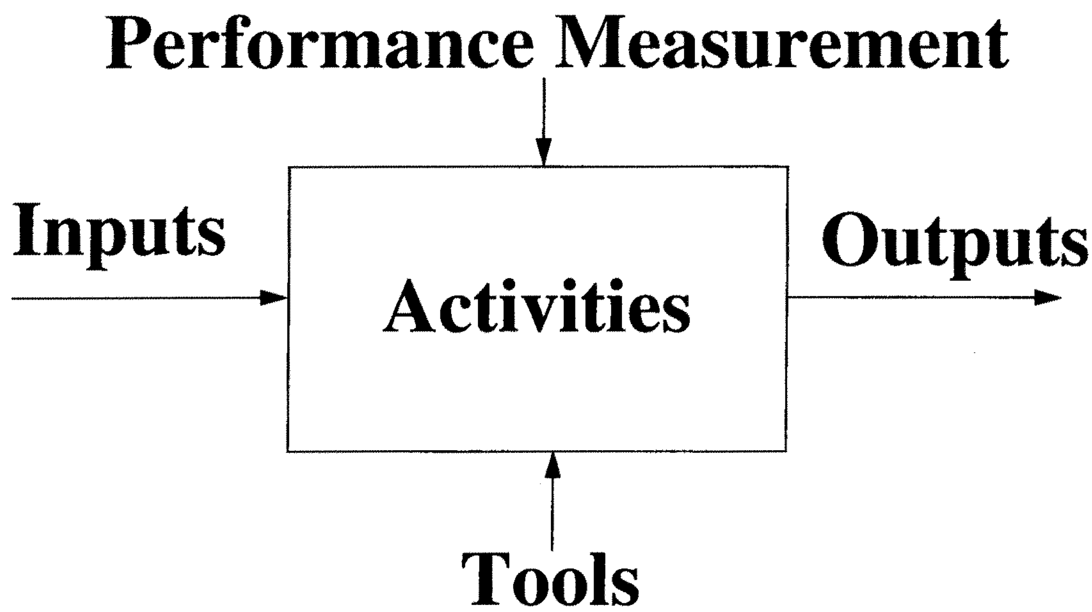
- Long-term scope. We all want quick fixes, but it takes time for organizations to make meaningful change.
- Management commitment. Recognition of the need for change and commitment to execute the change has to start at the top. To achieve the greatest successes, you have to direct your best people and invest adequate resources.
- Investment in technologies and tools. Usually a reengineering project involves significant investments in technology. The potential of technology should not be underestimated or overestimated in terms of its impact on results.
- Constant communication to eliminate fear in the workplace. The natural tendency is to fear that this is another way to slash and burn the organization. Ongoing communication is essential to alleviate these fears and involve the workforce in the change.

But there is one overarching principle beyond all of these elements. For government to move forward in the 21st century, you have got to fundamentally change the culture from a focus on compliance and control to results. All the processes in the world can change, but you won't get the results you want until you change the drivers—that is, the incentives and rewards built into the system.

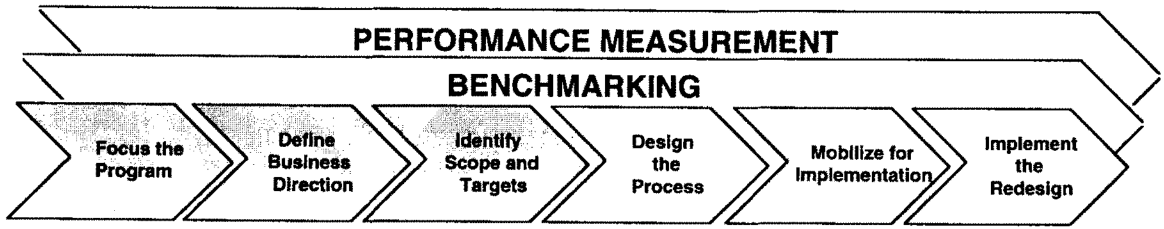
Each one of the tools I have described today varies in intensity and results. It requires a full knowledge of what each tool can do and a commitment to making them successful. We now have the knowledge. Your commitment is the key to success in government. You have to have a sense of urgency. You have to have a vision. And you have to stick to it.

Thank you.

The major elements of process activity



Relationship of Performance Measurement to BPR



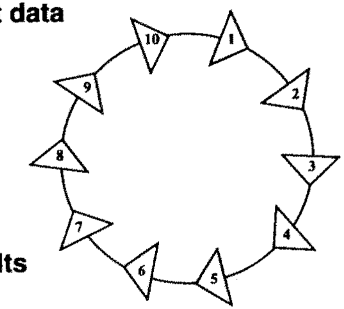
Performance Measurement

- **Identify essential services**
- **Define desired results**
- **Identify potential indicators**
- **Select a balanced mix**
- **Obtain data/evaluate trends**
- **Establish target values**
- **Periodically check progress**

KPMG Peat Marwick LLP

KPMG's 10-Step Benchmarking Methodology

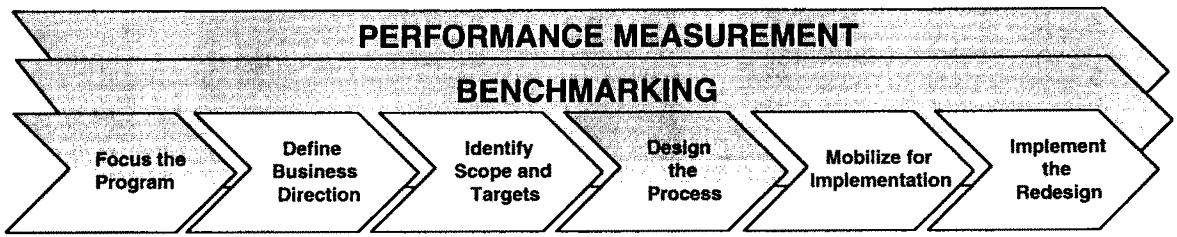
1. Identify what is to be benchmarked
2. Identify comparative candidates
3. Determine data collection methods & collect data
4. Determine gap analysis
5. Project future performance levels
6. Communicate benchmarking findings
7. Establish functional goals
8. Develop action plans
9. Implement best practices and measure results
10. Recalibrate benchmarks



Based on Xerox Model

KPMG Peat Marwick LLP

Phases of a Reengineering Project



Establish appropriate functions to measure
Determine key indicators
Measure current performance
Compare to "best practice" indicators

Conduct process benchmarking
Determine GAP
Identify indicators and enablers
Implement "best practices" into design

Based on KPMG Methodology

KPMG Peat Marwick LLP

Mr. HORN. Very good, and in the time allowed, too. Actually, I was going to give you another 2 minutes, since your colleague, Mr. Kehoe, had another 2 minutes. Let me ask you, you heard the witnesses earlier today—and I haven't had a chance to hear them, but I read a lot of their testimony. How would you pull this all together? You're experts in consulting and management. You've had experiences with a lot of different firms, some governmental, some non-governmental.

What we're looking for is, how do we get the executive branch of the government—those that you aren't yet turning around yourself—to get on board? Do you see any differences between government and private industry that are worthy of note? Or do we just do it, or start or what?

Ms. LONGMIRE. In my opinion, there's really not a difference in your business or our business. And you do have to take a stand and get started. The first thing would be, probably, to start with one project and gain a success story. And once you do that, looking at their processes, the steps within their processes, and measuring it, it would probably spread like wildfire. That's the way it does in our industries.

Mr. HORN. Well, I think you'd admit, it takes a certain degree of skill to bring people along. Because I'm sure they're terrified when they move from one traditional system to which they've become accustomed, to another that doesn't quite hold out nirvana and the great golden goal here, but might take a complete reinventing of the person and the team to achieve those goals. What experiences could you share with us on that?

How might government pursue it, given governmental goals? What has been the government's incentive system?

Mr. KEHOE. Mr. Chairman, let me just try and answer to that. Our experience in working in the Federal Government is that we were very pleasantly surprised that the workers that we dealt with were very open to new ways of doing business. The 10 or 20 management layers over those workers were less so inclined. They wanted to make sure they understood why you were going to do something different. And they wanted to make sure that the workers really understood what they were doing.

That is a typical protective mechanism in all large organizations.

Mr. HORN. Were those primarily staff that had that reaction, or were they line managers?

Mr. KEHOE. Staff—management layers once or 10 times removed from where actual work got done. We have been successful—and your question was, how do you get people to do this—we have found that the best way to get people to do the right thing is to have them understand the way they do things today, and actually look and see how many of the things they do today and the activities they perform have literally nothing to do, nothing to do, with the product they're supposed to be turning out.

They understand that quicker than I could have ever believed. The problem comes in the reviews of that, to say, well, you don't understand why you do this. And the reality is, they don't understand, because it has nothing to do with what it is they're supposed to be doing. There are just other steps that have been added to solve a problem that has long since gone away.

So the way to do that is get people involved who own the process, and to take a hard look at the layers of government, and really ask yourself the question—like industry has done—what do these people do, anyway? Can we just eliminate the work they're doing or the things they do, because they are truly non-value added. So it is possible to do.

Mr. HORN. Would you like to add anything to that, Ms. Longmire?

Ms. LONGMIRE. I agree with Mr. Kehoe. In our involvement with government employees, they are very receptive to change the way that they work—very receptive to change. Again, it has to deal with the management layers, usually.

Mr. HORN. One of the things we've been thinking about is our hearing in Chicago yesterday on field offices, regional offices, interrelationships between region and field, and both in relation to the national office. My instincts say there is a lot of the regional office superstructure we could get rid of, especially in an age of information and technology that one couldn't even dream about just 10, 20 years ago.

Give the empowerment and whatever direction is needed directly to the people that are interacting with the customer, namely the taxpayer, the citizen who has a problem or needs a passport or a Social Security card or whatever. Now, that would put us in a position where we could get a broader span of control throughout government agencies.

Forty years ago at Sears Roebuck, sometimes 110 different people reported to an executive. Again, you get down to how complicated is each particular role and how much information do you need to solve any problems that really need to go up the hierarchy. So I'd be curious as to what your perspectives are. You talked about the shipyards, Mr. Kehoe, and I'd be interested if there's any analogies there. That's an industrial based process, that's more comparable to private industry. But it's also government based in the sense that the aim is to serve the Navy in an effective, efficient way, and get that ship back to sea. So I'd be interested in your analysis. Did you do a whole series of shipyards, or just one, or what?

Mr. KEHOE. We did all the Navy shipyards.

Mr. HORN. Did you?

Mr. KEHOE. Yes.

Mr. HORN. Which ones seemed more effective and efficient than the others?

Mr. KEHOE. They were—well, actually, Long Beach is a very good shipyard. Charleston is a very good shipyard. Puget Sound is a pretty good shipyard. The others weren't as good, let me just put it that way. But Mr. Chairman, to my point before, of involving workers, we conducted activity based analysis at Charleston—let me just stick with one, because we did them all—at Charleston Naval Shipyard.

Using Charleston Naval Shipyard workers, had them look at the way they do their business today, and conducted a value analysis—did, in fact, the work they're doing have anything to do with the product Charleston Naval Shipyard is in the business to do, and that is overhaul; in this particular case, a nuclear submarine. We did that. They understood how much non-value added—and that's that 60-some percent—they were doing.

And they eliminated it so much that they were going to do an overhaul of the U.S.S. *Providence*—a nuclear attack submarine—the first time they'd ever done one. They benchmarked it against the best performance the Navy had in overhauling nuclear submarines. They redesigned the way they approached a submarine overhaul, and beat the best performance of the Navy by 25 percent—the first time they ever did one.

This is empowering workers. Now, after that, now you have the layers of management saying, what did they really do and how did that happen? The fact of the matter was, you empowered a workforce who knew better than anybody how to overhaul submarines, and said, there's a lot of this stuff that we're doing that we don't have to do. They turned out a quality product, which is the only way they turn submarines out, within schedule at a 25 percent improvement of the best submarine they ever overhauled.

That is significant accomplishment, and they did it themselves with some sort of guidance. They said, here's how you go about doing this, and pushing from time to time. But it's possible to do.

Mr. HORN. Yes. And their reward was the Navy——

Mr. KEHOE. They got closed.

Mr. HORN. Charleston is also on the list to be closed.

Mr. KEHOE. Right.

Mr. HORN. Did the Navy know the results of their——

Mr. KEHOE. Oh, absolutely.

Mr. HORN. They didn't let the facts get in the way of their decision?

Mr. KEHOE. Well, I don't know who made that decision, but no, they didn't. And you have the same thing at Long Beach.

Mr. HORN. Yes.

Mr. KEHOE. High performing, low cost, non-nuclear shipyard.

Mr. HORN. And now they're on the list to be closed. In other words, Longbeach is the only yard, as I look at the charts, that sent money back to the Treasury for the past 5 years.

Mr. KEHOE. So there's a moral in here somewhere.

Mr. HORN. And the Navy decided to close them; leave open the inefficient ones.

Mr. KEHOE. Right.

Mr. HORN. Which I find fascinating commentary on the Navy leadership, more than anything else. Yes, Ms. Longmire.

Ms. LONGMIRE. One thing that's very powerful within the government—you have many different branches and many pockets of excellence.

Mr. HORN. Yes.

Ms. LONGMIRE. There are call centers, like in the Social Security Administration, that shares with the IRS, with the TVA. And they have some excellent best practices that even industry learns from. So there are some very, very good practices within the government.

Mr. HORN. Well, I'm glad to hear you say that. I think in my experience of about 35 years' observation and participation, the people who have come to town somewhat suspicious of the civil service have often left town with great respect and regard for the civil service. It's a matter of getting away from the imagery that's sometimes created by politicians, I might add, that like to run against Washington, and realizing that people want to be helpful, can be helpful, and are helpful.

It's good to hear you say your experiences confirm my biases in this area. Chairmen are always glad to hear that. Mr. Fox stepped in for a while. I don't know if he had some questions. I'm not sure what you've gone over on some of our previous questions. Since you both have worked with several agencies in developing this type of program analysis, are there any agencies, and I asked you about the shipyards, that you would say are doing an exemplary job of capturing and recording cost data, related to program activities? Which ones have you run into?

Mr. KEHOE. Well, I would say the Navy and naval shipyards have done an outstanding job of going through an analysis of understanding what their customers want and how they go about delivering those services right now; understanding the nature of those services; and set out to fundamentally change the way they did business. And some of these places have been doing business for a couple hundred years.

Mr. HORN. Right.

Mr. KEHOE. And they took a hard look at it. And not because they didn't have anything else to do. We have, in our business, something called the burning platform, which says that people change when there's absolutely no alternative to it. And you jump off an oil rig that's a couple hundred feet in the air when it's on fire, and that's the only alternative you have other than burning.

That's what it takes a lot of people to change. The Navy understood that if their shipyards didn't tighten up and get better, there were other people in the United States that were capable of running shipyards. And they turned to and, I would say, got the job done pretty well. So that's one agency that I think has done a real good job at that.

Mr. HORN. At least with regard to shipyards.

Mr. KEHOE. Shipyards, right, yes.

Mr. HORN. But did you have a chance to independently look at how they gathered cost data? Did they have any basis for putting a value, otherwise known as a cost, on a particular activity? How good are their financial records that you can convert into an analysis of the organization?

Mr. KEHOE. I know of no government agency that you can take their existing financial information and easily make it valid cost information. You are in government where the private sector was about 10 years ago. Most of your accounting deals with Treasury controls over cash, or somehow reporting back here on consumption of budget resources. And very little of your accounting gets into really understanding what it takes to manage a Federal agency and give information to agency management so that they can really run the place.

Mr. HORN. As you look at the models with which your firm has dealt in the private sector, what would you say is a good model that the government might look to, in terms of using the cost data to put a value on the goals to be achieved and knowing how far along we are toward the achievement of those goals?

Mr. KEHOE. I mentioned Johnson & Johnson, American Express. Allied Signal is a pretty good model to look at of how do you run a company with a customer focus in mind. They went into a quality management program probably 5 years ago when every indicator Allied Signal had was going south—losing market share, losing money, losing customers. And basically, they came in and discovered that the reason that they were was not because they had a lot of less than smart employees, but that it just took them a long time to do everything.

And a fellow by the name of Larry Bosidy came in there from General Electric, and very quickly understood that Allied Signal was good at understanding what the market needed. It was good at designing and producing what the market needed. It just took them 4 or 5 months longer than the worst of their competition, and they couldn't deliver it quick enough.

Mr. HORN. Now, was this that they had so many processes and overlapping staff, or what?

Mr. KEHOE. Absolutely.

Mr. HORN. What was clogging the lines of communication?

Mr. KEHOE. Non-value added activities up and down the organization—review committees and groups. And this is, again, after the best engineers in the world designed a product. And you had layers of management who had to somehow touch it.

Mr. HORN. Well, they've got the audit mentality that government often has, due to the taxpayers saying, "we don't want fraud and abuse."

Mr. KEHOE. Right.

Mr. HORN. The result is, you gain incompetence and disuse.

Mr. KEHOE. And lose market share.

Mr. HORN. Yes. Ms. Longmire, what's your experience? Do you see some models we ought to look at in the private sector, with which you've dealt?

Ms. LONGMIRE. Yes, sir. I would say that you could probably use just about any of the national quality award winners. And you have access, through the Department of Commerce, to their key business processes, their drivers, and how they measure. And those definitions and that template can be used for any government agency. And it's right here, available to you.

Mr. HORN. Yes. Whether or not we keep the Department of Commerce, we'll still have those data, I take it. One of our problems, and Congress did recognize this, as you know, a few years ago, is the inadequacy of basic cost data. So we passed a Chief Financial Officers Act. We are going to be holding hearings on it. Do you feel they've made any impact in the agencies with which you're familiar?

Do you see difference in those cost data? Are we asking the right questions, or do we need a complete shift in what we ought to be collecting? Sometimes we collect things because they're easy to count. But in terms of data, we need to do something that helps managers make decisions between priorities. What's your experience on this?

Ms. LONGMIRE. Because coming out of industry, not necessarily a consulting firm, I am not aware of that act. But I would say that, again, you can collect measurements or metrics all day long. But if they're not focused on customer output that's needed, then you're collecting a lot of insufficient data. Because coming out of operations, I can tell you at one time, I measured 200 key performance indicators of my operation.

As we got focused and looked at quality and what was important to the customer, it came down to five indicators.

Mr. HORN. What were the five? Do you remember some of them?

Ms. LONGMIRE. Yes, sir, I do. In customer service, the most important was on time delivery. OK, on time delivery specifically—if you were a secretary, you could measure on time delivery by getting a letter to the process owner at the same time mail delivery or stocking work positions or assembly, whatever it might be. There's an on time delivery perception.

Quality would be defects and cycle time. And that's very important, also, to the customer, quality and the time it takes to do the job. And then there's employee indicator of satisfaction. And then there was one financial indicator, which was return on assets. Those were the five.

Mr. HORN. Now, we have a problem with that in the Federal Government, in terms of the return on assets. I'm not sure how we measure that.

Ms. LONGMIRE. Maybe it's an effective measurement of the budget.

Mr. HORN. I'm sorry, it might be an effective measure of the budget? Yes. Well, again, I'm not so sure, because sometimes budgets are created based on historical bases of individuals that had a certain amount of charm and persuasion. Goals were sought that we no longer care about, and nobody's gone back to look at that sort of automatic bias.

Government had the problem where they assumed the base was good. And then with the crazy base-line budgeting we've been suggested to do, it automatically ratcheted up, based on inflation and number of people served. And nobody ever asked the question, "hey, should we be doing the base?"

Ms. LONGMIRE. Exactly.

Mr. HORN. Jimmy Carter came in and talked about zero based budgeting. Great idea. Nobody did it. And it's complicated to do. Nobody likes to go back and ask fundamental questions. They prefer to talk to you about increments in something that will please you, and just leave the base untouched. What we've got to do is touch the base.

I don't know if you see private industry succeeding.

Mr. KEHOE. Yes, there's a good analogy, Mr. Chairman, between where the government finds itself today and the utilities industry a couple of years ago. The utilities industry used to be a regulated industry, which guaranteed investors some return, like an 8 percent profit or something like that. And that profit was figured on their cost base. Once an item of expense was in the cost base of the utility, it stayed there forever.

And nobody looked at it again. And utilities had a guaranteed market. You couldn't switch providers. And there was no competition, by law; it was unallowed. We are in the process of changing that in this country. And we are doing a lot of business with utility companies who are now opening up this overhead tool, called their rate base. Because right now, big companies have the ability, in some States, to switch providers based on cost of electricity, for example.

So the utilities are all of a sudden not in a protected class anymore, and they are having to understand what makes up their cost structure and get more competitive. I would say there's an analogy there to the Federal Government, which what you're hearing from taxpayers is, enough is enough; let's find out where this money is going and perhaps do these things a little bit more efficiently and economically than we used to.

Mr. FOX. Mr. Chairman.

Mr. HORN. Yes, we've got a vote in 10-minutes.

Mr. FOX. Well, I just wanted to say thanks to these two witnesses, Mr. Kehoe and Ms. Longmire, for their excellent testimony, and helping us to take the common sense from the private sector and help us try to apply it to public sector improvements. We can learn from your lessons. Thank you very much.

Mr. HORN. Well, let me add my thanks to those. I think rather than recess while we vote, we will adjourn. But we're most grateful, and if you have additional thoughts, please communicate them. The staff might send you a few questions. If you'd be so kind as to give us a succinct answer to them, we'll put them in the record at this point.

My own opening statement, without objection, will be put in at the beginning of the hearing, with a note that I'm on the floor doing battles for truth and justice. We thank the staff director, Russell George, behind me; the professional staff member that prepared the hearing, Anna Young, who's beside me here; Tony Polzak, legislative fellow; Andrew Richardson, the clerk; Matt Pinkus, for the minority staff; and Marianne Nash, the reporter.

So thank you, and sorry we've had these disruptions. Mr. Fox's opening statement will also be put in the record at the appropriate place. Thank you all for coming; we appreciate it.

[Whereupon, the hearing was adjourned at 5:45 p.m., subject to the call of the Chair.]

[Additional material submitted for the record follows:]

PREPARED STATEMENT OF JAMES R. FOUNTAIN, ASSISTANT DIRECTOR OF RESEARCH, GOVERNMENTAL ACCOUNTING STANDARDS BOARD, NORWALK, CT

On behalf of the Governmental Accounting Standards Board (GASB), I would like to express our appreciation for the interest this committee and the Congress is taking in the measurement of government performance. We believe this effort, if continued, will lead to improved services and improved communication about the results of their programs to citizens and elected officials. We continually share with federal officials information about state and local governments' work with performance measurement and management for results and about the implementation of the Government Performance Act of 1994.

INTRODUCTION

The GASB is a not-for-profit organization that is constituted as part of the Financial Accounting Foundation. The GASB has responsibility of establishing financial reporting standards for all state and local governmental entities in the United States. The GASB believes that financial reporting for state and local governmental entities should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability. As part of this, financial reporting should provide information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity.[1]

To determine how financial reporting might accomplish this objective, the GASB spent four years, with the assistance of Harry Hatry of the Urban Institute and over 20 academics, researching the state of the art of service efforts and accomplishments (SEA) reporting and published a series of research reports entitled Service Efforts and Accomplishments Reporting: Its Time Has Come. Copies of these research reports have been provided to committee staff.

That research concluded that SEA measurement and reporting had progressed to a point where it would be feasible and appropriate for the GASB to further elaborate on the concepts of SEA reporting and encourage broad experimentation with performance measurement and reporting by state and local governmental entities. However, in 1994 the Board concluded that further experimentation was needed involving of management, internal auditors, elected officials, and citizens before SEA information should be considered for inclusion as part of the information required for general purpose external financial reporting.

To encourage experimentation, the Board issued Concepts Statement No. 2 in 1994.[2] This Concepts Statement describes the process of accountability, what governments are accountable for, and the key characteristics of an accountability system.[3] It also provides the reasons why the Board believes that SEA information is essential for complete financial reporting, the elements of SEA reporting, the characteristics SEA information should possess, the limitations of SEA information, and methods of enhancing its usefulness. The Concepts Statement closes with the conclusion that the Board believes that including SEA measures as part of general purpose external financial reporting would represent a significant improvement in financial reporting practices for state and local governmental entities. It also requests that state and local governmental entities experiment with SEA measurement and reporting for a period of at least five years. After that period the Board notes that it will again research the state of the art and determine if SEA measures possess the characteristics discussed below.

ELEMENTS OF SERVICE EFFORTS AND ACCOMPLISHMENTS REPORTING

SEA reporting elements consist of three categories of SEA measures and certain explanatory information. Other types of performance measures have also been identified but the Board did not consider these necessary for external financial reporting. These other types of measures include, process and activity measures, and diagnostic information geared to assist management in understanding the underlying reasons for a given level of performance and what might be done to change that performance.

Categories of SEA Measures

There are three broad categories of SEA measures: those that measure service efforts, those that measure service accomplishments, and those that relate efforts to accomplishments.

A. Categories of service efforts, and accomplishment (SEA) measures

1. Service efforts measures—financial and nonfinancial resources used to provide services (inputs)

2. Service accomplishments measures

a. Outputs—the amount of products or service provided

b. Outcomes—the results that occur (at least partially) because of providing those products or services

3. The relationship between service efforts and service accomplishments—efficiency as measured by cost compared to outputs or cost compared to outcomes

A clear division cannot be made in all cases among these categories but they are helpful for understanding what SEA information is designed to measure.

Explanatory Information

Explanatory information includes both quantitative and narrative information that can assist users to understand reported SEA measures, assess the entity's performance, and evaluate the significance of underlying factors that may have affected the reported performance. Narrative information can provide explanations of what the level of performance reported means, the possible effects that explanatory fac-

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[1] GASB Concepts Statement No. 1, Objectives of financial Reporting, (Stamford, CT:GASB, May 1987) page 27.

[2] GASB Concepts Statement No. 2, Concepts Related to Service Efforts and Accomplishments Reporting (Norwalk, CT:GASB, April 1994).

[3] GASB. Concepts Related to Service Efforts and Accomplishments Reporting, pp. 9-11.

tors might have on performance, and actions that have been (or are being) taken to change reported performance.

CHARACTERISTICS SEA INFORMATION SHOULD MEET

In order for SEA information to be able to be used and relied upon as part of general purpose external financial reporting it is important that it possess the characteristics of relevance, understandability, comparability, timeliness, consistency, and reliability.

- Relevance—data included should be essential to provide a basis for understanding the accomplishment of goals and objectives with significant decision-making or accountability implications
- Understandability—information should be concise yet complete, communicated in a readily understandable manner, and include explanations about important underlying factors
- Comparability—should include comparisons that will provide a clear frame of reference for assessing performance
- Timeliness—should be reported in a timely manner so that it will be available to users while it is of value in assessing accountability and making decisions
- Consistency—should be reported consistently from period to period, but be reviewed regularly and modified or replaced as needed to reflect changing circumstances
- Reliability—should be derived from systems that produce controlled and verifiable data and be representationally faithful

MONITORING EXPERIMENTATION WITH SEA MEASUREMENT AND REPORTING

In the little more than one year since the issuance of Concepts Statement 2, the GASB has been actively in encouraging and monitoring progress being made by state and local governments. There are several governmental entities that have progressed significantly in establishing performance measurement systems and in using these measures for management and even budgeting. Among those we are most familiar with are: the State Oregon's Oregon Benchmarks project, the State of Texas' performance budgeting and reporting system now completing its second biennium budget process, the City of Portland, Oregon's annual performance report, and the State of Florida's benchmark program of the Government Accountability to the People office within the Governor's Office.

We believe that the use of performance information is a critical element in improving the performance of government, that it is essential to improving the communication between governmental agencies and citizens and elected officials, and that the use of performance measures for budgeting leads to improved dialogue about the results that occur because of spending rather than just dialogue about how much should be spent. There has been considerable progress in developing and using relevant measures of performance. However, one important lesson being learned is that as our knowledge of performance measures increases so does the level of uncertainty about what we should be measuring, how inputs and strategies and even outputs affect outcomes, what is efficient performance, and what effect explanatory factors have on results.

CONCLUSIONS

Performance (SEA) information that measures the outputs and outcomes of governmental services is recognized as being an essential part of the data needed to effectively manage, budget, and report on results. Governmental organizations increasingly are identifying the need for these measures and are beginning efforts to develop relevant measures of outputs and outcomes for the services they provide. Yet these efforts at measuring performance and managing for results seem to result in more questions and issues about the efficiency, and effectiveness of services. These questions often relate to the fact that researchers', policy makers', and managers' understanding of the relationship between resources being used and services (outputs) provided, services provided and results (outcomes), and explanatory factors and results is still limited.

Understanding these linkages and how these different factors effect outcomes is rather like trying to develop a mathematical model for something as simple as the number of grouse in a particular preserve.[4] On the surface it appears quite simple,

[4] For the results of a service being provided by a government agency, for example elementary school education. the level of complexity is much greater.

but there is a lot of noise—distortions, interference, external factors—that affect the outcome. Valentine Coverly in Tom Stoppard's play Arcadia explained it quite well be he described the problem as "it's all very, very noisy out there. Very hard to spot the tune. Like a piano in the next room, it's playing your song, but unfortunately it's out of whack, some of the strings are missing, and the pianist is tone deaf and drunk—I mean, the noise! Impossible!" So what do you do? "You start guessing what the tune might be. You try to pick it out of the noise. You try this, you try that, you start to get something—it's half-baked but you start putting in notes which are missing or not quite the right notes. . . and bit by bit the tune emerges."

So we must be careful to avoid considering performance measures—especially those developed at first by agencies—as fully relevant measures of the outcome of a service much less the affect that service is having on the well-being recipients or citizens.

Developing relevant, understandable measures of performance is a challenge that presently confronts everyone who is interested in government or is working in government. It requires all decisions makers to develop an understanding of and appreciation for the complexity of measuring the results of governmental services. It requires a long-term commitment to learn, to be open to the questions that will arise, to be open to new information, to be understanding and patient, to continue to seek relevant, reliable and understandable measures, to seek new ways of providing services, and to be willing to confront problems and issues for which we do not know answers. Creation of a management plan, a budget, and reporting methods that focus on results and provide information for assessing the performance of services and communicating that Performance to citizens is an evolutionary process. It is a challenge that will be with us for many years and whose answers will provide us with an idea of how government can become more efficient and effective.