Chapter Two: Performance

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IBM CENTER FOR THE BUSINESS OF GOVERNMENT
WASHINGTON, DC 20005

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

SUBJECT: **Performance**

One of the many myths about government that you have probably encountered is that "government doesn't have a bottom line." By this, folks usually mean that government doesn't make a profit.

You do have a bottom line and will have to manage to it. However, your bottom line is different; it's the results of your organization. Former government executive Chris Wye writes, "Political leaders are triply vested—as American citizens, appointed public servants, and members of an incumbent political party—with bottom line responsibility for the performance of the policies, programs, and activities entrusted to their care."

Assess Your Performance Framework

Harvard University's Robert Behn describes a performance framework as a way of thinking about the leadership challenge of producing specific results in organizations based on a collection of general, cause-and-effect principles, supported by some operational hints for implementing these principles. Much of your first year in office should be devoted to understanding the performance framework of your organization so that you can track progress on your organization's performance and results. You won't be starting from scratch. Your predecessors also tracked performance. Your job is now to make sure that the information currently being collected by your organization is useful to you in both your decision-making capacity and performance manager role. Due to the numerous demands on your time, you should select three to five priority areas on which you will personally monitor your organization's performance. You should place your emphasis on your most important organizational goals. However, your organization will also be addressing a wider range of goals, many of which will not require your attention but still must be done.

Under the Government Performance and Results Act, enacted in 1993, each federal agency is required to develop both multi-year strategic and annual performance plans that include agency goals and measures. One of your first requests to your staff should be to review your organization's existing strategic plan. Over the next year, you may need to revise the strategic plan to link to the president's priorities. You will also benefit from the experience your staff has gained over the last decade in both strategic planning and performance management. Technology has also enhanced organizational capability to use performance management to track organizational progress toward agency goals as reflected in the organization's strategic plan.

Implement Your Performance Framework

Behn describes three components of performance management that you should put in place to ratchet up your organization's performance:

- Create or enhance the performance framework: What would it mean to do a better job?
- Drive performance improvement: How can you mobilize your people?
- Learn to enhance performance: How will your organization change to do better?

Behn offers "better practices" for you to use in implementing your organizational performance framework. You should:

- **Clarify and articulate your organization's mission.** Behn recommends that you "proclaim—clearly and frequently—what the organization is trying to accomplish." A key to your success will be ensuring that you "get the mission right" and then articulate it.
- **Identify your organization's most consequential performance deficit.** Your task here, as described by Behn, is to "determine what key failure is keeping the organization from achieving its mission."
- **Establish a specific performance target.** This involves specifying what new level of success you desire for your organization.
- **Clarify the link between target and mission.** This involves clearly articulating how meeting the performance targets you establish will help your organization accomplish its mission.

Use Performance Information

After your performance framework is in place and you are comfortable with the information your organization is producing, you will find that you can use performance information in many ways. The Urban Institute's Harry Hatry, Elaine Morley, and Shelli Rossman, along with former University of Southern California professor Joseph Wholey, identify four ways in which you can use performance information in your organization:

- **Trigger corrective action.** In your managerial role, you can use the information collected to make changes in your organization's performance to eliminate performance deficits.
- **Motivate your employees.** As discussed in the *Memo on People*, one of your key responsibilities is motivating and rewarding your employees. Performance management will tell you which of your managers are exceeding the performance targets you established and should be recognized and rewarded.
- **Plan and budget.** As discussed in the *Memo on Money*, one of your major challenges will be using performance information in the budget process to allocate resources within your organization.
- **Identify and encourage "best practices."** Based on the information you collect, you will begin to see that some components of your organization might be performing better than others. This will give you the opportunity to share the best practices of high-performing components with other components that might not be performing as well.

There is an old saying that "if you don't know where you are going, you will never get there." This is truly the case of managing in government. If you do not have a performance framework (which includes your goals and objectives) in place, you will not be able to track where you are heading and agency progress toward achievement of your goals. In order to track agency progress, you will need to either put a performance management system in place or use the system now in place.

Getting Started on Performance Management

Question: How do I get started on improving performance in my organization?

Answer: According to Harvard University's Robert Behn, the first question that agency heads and their leadership teams must address is, "What would it mean to do a better job?" In his report to the IBM Center (2006), he writes, "Different people will make this call differently. In some circumstances, the answer may appear obvious. In others, it may be open to much debate. But this debate should not go on forever. If the organization is actually to improve performance, it cannot go on forever."

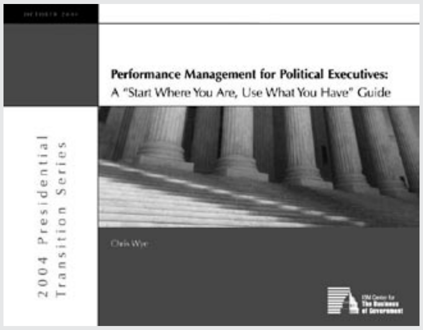
Behn, like many other performance experts, advocates the "get started" approach. As noted in the *Memo on Performance*, Behn sets forth "better practices" needed to create a performance framework for your organization:

- **Clarify and articulate the organization's mission.** This practice involves two key activities to achieving your goals: strategy and performance. You must articulate your organization's mission and then quickly begin to track the performance of your organization against that mission. Your articulation of the mission must go beyond the traditional "mission statement," which you may have seen when you walked into the building.
- **Identify the organization's most consequential performance deficit.** You and your team will be facing many challenges during your tenure. According to Behn, "This is the first challenge to the organization's leadership—to figure out, from the variety of problems inhibiting its ability to produce results, that one performance deficit (or, at most, a very few) on which the organization should now focus its intelligence and energies."
- **Establish a specific performance target and performance metrics.** Whatever target you select, you must also do the following:
  - You must specify the target in sufficient detail to ensure that a vast majority of people will agree when it has been achieved.
  - You must attach a specific deadline to the target. You should also request intermediate milestones on the organization's progress toward achieving your goal and you should ensure that the milestones are "real."
  - You must clearly identify a person who is accountable for delivering results.
- **Clarify the link between target and mission.** It is not enough simply to articulate a mission, identify a performance deficit, and establish performance targets. You must also link the target and mission. This is a crucial step. Behn writes, "Unfortunately, most actions taken by most public agencies are not connected … closely to their mission. The causal link between the actions taken by the agency to close its performance deficit and the achievement of its mission may be indirect, vague, poorly understood, or nonexistent.

A related perspective is provided by former government executive Chris Wye. Wye recommends that an effective strategy for getting started is to select one or two management or performance areas that will receive your priority attention. These might be, points out Wye, areas of your special expertise or interest. In his report to the IBM Center (2004), Wye writes, "Focusing on a small number would help to assure that something gets done. Let it be known that these are the things you are interested in. Let it be known that you see this as your 'long term' contribution to the institution of government, not related to party politics or policies. And then ask for help. You'll probably be pleasantly surprised by the enthusiastic response from career professionals."

A Primer on Recent Management Reform Legislation

From *Performance Management for Political Executives: A "Start Where You Are, Use What You Have" Guide* by Chris Wye



The last two decades have given rise to a series of legislation aimed at improving the performance of government. Key pieces of legislation include the following:

1990: The Chief Financial Officers (CFO) Act
Intended to strengthen financial accountability in the government, the CFO Act created chief financial officers in the largest federal agencies who are responsible for managing agency financial matters, required the Office of Management and Budget (OMB) to develop a five-year financial plan and report for the government, and required agency CFOs to conform their financial plans to the government-wide plan. The act also created the Chief Financial Officers Council, chaired by the Office of Management and Budget.

1993: The Government Performance and Results Act (GPRA)
The centerpiece of recent performance legislation, GPRA requires agencies to set goals and measure performance toward them. Each agency must prepare a five-year strategic plan, updated every three years, an annual plan, and an annual report. OMB is required to prepare a government-wide plan. A unique feature of GPRA is its strong focus on outcome measures.

1994: The Government Management Reform Act (GMRA)
Designed to strengthen the CFO Act of 1990, GMRA extended the act by requiring an audit of each agency's financial statement as well as of the government-wide financial statement.

1996: The Clinger-Cohen Act
The Clinger-Cohen Act created the position of chief information officer in the largest federal agencies. CIOs are required to implement a "sound and integrated information technology architecture." The act empowers OMB to issue directives to CIOs, effectively giving OMB a leadership and coordinating responsibility position.

1996: The Federal Financial Management Improvement Act (FFMIA)
Again tightening agency financial management, FFMIA requires that agency annual financial statements include a report showing where their financials are in compliance with federal financial requirements, accounting standards, and the U.S. Government Standard General Ledger.

1998: Government Paperwork Elimination Act (GPEA)
Intended to encourage the use of electronic, web-based applications, the GPEA requires agencies to offer an electronic option for information gathering or use, and also requires agencies to accept electronic signatures.

2002: The Chief Human Capital Officers Act (enacted as part of the Homeland Security Act of 2002)
The act requires the heads of 24 executive departments and agencies to appoint or designate chief human capital officers (CHCOs). Each CHCO serves as his or her agency's chief policy advisor on all human resource management issues and is charged with selecting, developing, training, and managing a high-quality, productive workforce. The CHCO Act also established a Chief Human Capital Officers Council to advise and coordinate the activities of member agencies on such matters as the modernization of human resource systems, improved quality of human resource information, and legislation affecting human resource operations and organizations.

Implementing Performance Management

Question: After I get started, what are the steps I need to take to ensure successful implementation of performance management in my organization?

Answer: Your greatest challenge will be to manage the tension between the use of performance management to increase accountability and improve performance, on the one hand, and employees' fears that the performance management system will be used to penalize them for not achieving targets, on the other.

In her report to the IBM Center (2006), University of Massachusetts Boston's Shelley Metzenbaum cautions, "less attention should be paid to incentives and far more to ensuring the active and effective use of outcome-focused goals and measures." Metzenbaum recommends that linking rewards and penalties to goal attainment be used with caution. This contrasts to some degree with private sector business models, which emphasize incentives, both positive and negative. In government, the potential range of financial incentives is much more limited.

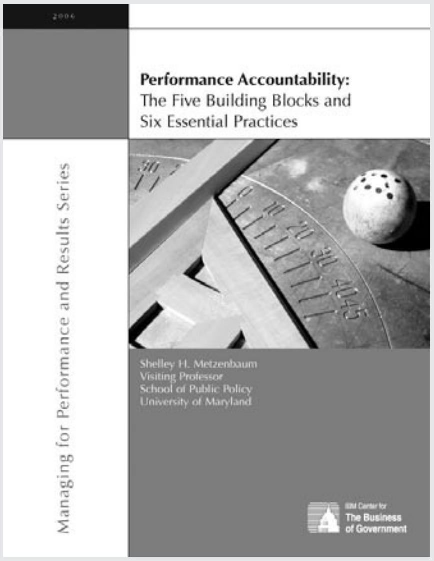
Your ultimate success will depend on how well you implement performance management in your organization and balance the tension described above. In her report, Metzenbaum sets forth five building blocks essential to successful implementation of performance management:

- **Set clear, measurable goals.** In their IBM Center reports, both Behn (2006) and Metzenbaum (2006) agree on the importance of measurable goals. Metzenbaum emphasizes that these goals be specific, challenging, and outcome-focused. She also emphasizes that some of the goals should be "stretch goals" and writes, "If individuals and organizations met all of their targets all the time, it would suggest that they had chosen timid targets and missed the performance-driving power of a stretch target."
- **Use measurement for feedback, insights, and decisions.** The success of your performance management system will ultimately depend on how you use the information it provides and how your use of that information is perceived within your organization. Used as an improvement tool, performance measures can motivate progress toward goals; illuminate by providing information on what might be the problems causing "performance deficits"; communicate progress to program managers, employees, customers, and stakeholders; and inform choices by consumers.
- **Provide one-to-one verbal feedback to unleash the power of goals and measures.** Your job is not just to receive information about performance, but to use that information to provide feedback to your management team. In many ways, you assume the role of coach by inspiring your team to keep trying to meet the specific, challenging goals facing them and making adjustments as necessary. Metzenbaum writes, "Well-delivered verbal feedback boosts confidence that a goal can be met, stimulates ideas and specific plans about how to meet it, and reinforces the importance of specific goals."
- **Use group feedback to encourage interactive inquiry.** During your meetings with your leadership team, performance information can be used to tackle three operational challenges: making mid-course corrections to goals, target, strategies, and commitments; making mid-year budget adjustments; and making mid-course staffing and skill adjustments.
- **Use externally provided incentives cautiously.** Metzenbaum argues that if improperly designed, incentives "introduce unhealthy fears that compromise discoveries that lead to performance gains."

You will also have to ensure that the management culture of the organization is open to using the above building blocks to support better performance. For example, ensuring that bad news leads to performance improvement is as much a cultural matter as it is an organizational matter.

What Is Accountability?

From *Performance Accountability: The Five Building Blocks and Six Essential Practices*
by Shelley H. Metzenbaum



What does it mean to "hold someone accountable"? What does it mean for government agencies and employees to be answerable to someone and for what and to whom do they need to account? Presumably, it means in part the desire of citizens and their elected officials to be able to identify who is responsible for an organization's outputs or outcomes and for its successes and failures. But then what? When people talk about holding someone or some organization accountable, what happens?

Unclear accountability expectations—who is accountable to whom for what and what consequences arise when accountability expectations are not met—are problematic because they introduce fear into performance management, which is the use of goals and measures to manage. That fear, in turn, creates problems such as measurement manipulation, timid targets, outcome avoidance (resulting in an affinity for output targets), and claim games where some rush to claim credit for accomplishments while others run from it, fearful of provoking resentment among their peers. Occasionally, measurement systems even implode, seemingly overburdened by their own weight.

These problems arise for three primary reasons: vague accountability expectations, inadequate feedback and inquiry to probe the insights revealed by performance measures, and misguided notions of how and when to use incentives. Past experience and research suggests that many of these problems can be averted, performance improved, and accountability strengthened, but only if agencies and their watchdogs adopt an inquisitive, non-punitive approach to performance management.

Four Categories of Accountability

Fiscal accountability: Government spends its money as authorized, with as little waste as possible.

Ethical accountability: Government agencies operate honestly, without conflict of interest, self-dealing, other forms of fraud, or abuse of the power of governmental authority.

Democratic accountability: Government agencies do what their citizens want and need, engaging citizens and their elected representatives in understanding trade-offs and making well-informed choices among competing priorities. Government agencies treat people civilly and courteously, unless there are strong justifications not to, so people do not resent or resist government because it has acted in a rude, slow, or inappropriate manner.

Performance accountability: Government agencies and their employees work intelligently and diligently to deliver effective and cost-efficient government programs.

Using Balanced Scorecards

Question: What is a balanced scorecard, and should I consider using it as part of my performance management system? Is it just a private sector tool?

Answer: In brief, a balanced scorecard is a family of measures that allow a 360-degree assessment of an organization. The balanced scorecard originated in the private sector as a tool for corporations to go beyond strictly financial measures to also consider customer, stakeholder, internal business process, and employee perspectives. In their report to the IBM Center, DePaul University's Nicholas Mathys and Kenneth Thompson summed up their view of the balanced scorecard as "a tool for translating an organization's strategy into action through the development of performance objectives and measures in order to fulfill its mission."

The use of balanced scorecards is increasing in the public sector. In the federal government, both the Defense Finance and Accounting Service (DFAS) in the Department of Defense and the United States Postal Service, for example, use balanced scorecards as management tools within their organizations.

In describing the usefulness of the balanced scorecard to DFAS since its implementation in 2001, Director Zack Gaddy said, "The balanced scorecard has turned our vision and strategy into a meaningful set of performance measures and targets. It has become a management and diagnostic tool that measures our performance at multiple levels, and we use it to assess the health of our organization and demonstrate our progress on completing key initiatives."

The United States Postal Service (USPS) has also had a positive experience with balanced scorecards. USPS began its current performance measurement system in 2003, now called the National Performance Assessment, which is a web-based measurement and reporting tool that consolidates performance data from across the organization. In their 2006 Annual Progress Report, USPS wrote, "These data are translated into balanced scorecards that report on corporate and unit indicators. The balanced scorecard serves as the foundation for engaging more than 73,000 executive and administrative employees in discussions around individual and organizational performance."

While the concept of the balanced scorecard began in the private sector, the experience of DFAS and USPS demonstrate that it can be a valuable public sector tool as well. While private sector bottom line "shareholder value" will clearly not be the primary focus of the balanced scorecard in government, Mathys and Thompson conclude that "program performance, efficient use of resources, and satisfaction with service by the public" are highly important and can be tracked by a balanced scorecard.

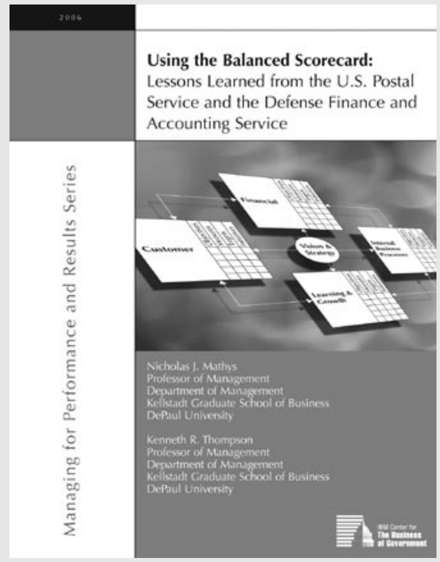
Comparing Balanced Scorecards in the Private and Public Sectors

Features	Private Sector	Public Sector
Focus	Shareholder value	Mission effectiveness
Financial goals	Profit; market share growth; innovation; creativity	Cost reduction; efficiency; accountability to public
Efficiency concerns of clients	No	Yes
Desired outcome	Customer satisfaction	Stakeholder satisfaction
Stakeholders	Stockholders; bondholders	Taxpayers; legislators; inspectors
Who defines budget priorities	Customer demand	Leadership; legislators; funding agencies
Key success factors	Uniqueness; advanced technology	Sameness; economies of scale; standardized technology

Source: *Nicholas J. Mathys and Kenneth R. Thompson, "Using the Balanced Scorecard: Lessons Learned from the U.S. Postal Service and the Defense Finance and Accounting Service," IBM Center for The Business of Government, 2006.*

Using Balanced Scorecards as a Management Tool

From *Using the Balanced Scorecard: Lessons Learned from the U.S. Postal Service and the Defense Finance and Accounting Service* by Nicholas J. Mathys and Kenneth R. Thompson



While many organizations use the balanced scorecard (BSC) as an *evaluative* tool, we strongly support the notion of a BSC as a *management* tool. What is the difference? As an evaluative tool, the focus is more on using the scorecard for the assessment of (individual) performance, which leads to many different sorts of behavioral consequences that may not support organizational performance improvement. For example, increased pressure to reach targets often will lead to increased pressure to reduce those same targets in order to increase the likelihood that targets will be reached. As a management tool, BSC focuses on improving organizational performance and clarifying where the organization should focus its efforts toward mutual problem solving. As a by-product, BSC acts as a guidepost that also helps to improve individual performance.

Poor Feedback Is a Chief Cause of Poor Performance

According to a Conference Board study, "poor and insufficient feedback" was the number one cause of poor performance in the workplace and resulted in 60 percent of performance problems. This factor was 20 percent higher than the next cause. The study further states that proper performance feedback requires performance expectations to be communicated and understood, and to lead to *mutual* agreement on problem solving. With BSC, there is a clear set of goals aligned to the vision and strategy of the organization. This allows management to communicate objective expectations for performance, while also allowing a greater understanding of those objectives. This empowers both management and staff to make agreed upon improvements.

BSC allows managers to get and give feedback from all units and all levels of the organization; this results in focusing resources where they are needed most and where they will be most effective in changing overall performance. BSC allows an organization to avoid such costly misallocations while reaping the benefits of proper allocation. Because of the focus of this approach, questions will be asked such as "How does this allocation or program expenditure relate to improving our key internal processes?"—which are then related to improve financial and customer satisfaction measures.

Scorecards Improve Feedback and Planning

In addition, because of the quantified measures and target of performance created in a BSC system, fact-based management can replace intuition or the educated guess. Management develops a greater ability to trace its actions, and the actions of a particular unit, to business outcomes. Conjecture and the causes of poor projections are reduced significantly. In fact, it has been found that when more non-financial measures are used, earnings projections become more accurate. This forward perspective shift contributes to a new management style, one in which future outcomes can be anticipated.

The BSC also allows best practices to be identified. As inefficiencies are uncovered, high-performance areas can be defined and the successful activities of these high performers adopted in areas where appropriate.

Understanding Balanced Scorecards

From *Using the Balanced Scorecard: Lessons Learned from the U.S. Postal Service and the Defense Finance and Accounting Service* by Nicholas J. Mathys and Kenneth R. Thompson

What Is a Balanced Scorecard in the Private Sector?

Reliance exclusively on financial performance measures is similar to "trying to drive an automobile by looking in the rearview mirror rather than the road ahead." The balanced scorecard, or BSC, is an attempt to achieve a more proactive, forward view to managing an organization while still taking into account traditional measures. It does this through a "balanced" perspective of measures that assess the effectiveness in meeting the organization's vision and strategy. Four areas are considered in David P. Norton and Robert S. Kaplan's model: Financial, Customer, Internal Business Processes, and Learning and Growth. Visions and strategies are translated into objectives, measures, targets, and initiatives that answer the questions in each of the four categories:

- For the *financial category*, the main question is: "To succeed financially, how should we appear to our shareholders?"
- For the *customer category*, the focus is: "To achieve our vision, how should we appear to our customers?"
- The *internal business process category* focuses on the question: "To satisfy our shareholders and customers, what business processes must we excel at?"
- The *learning and growth category* focuses on answering the question: "To achieve our vision, how will we sustain our ability to change and improve?"

Why Is Linking or Aligning Performance Measures Important in the Private Sector?

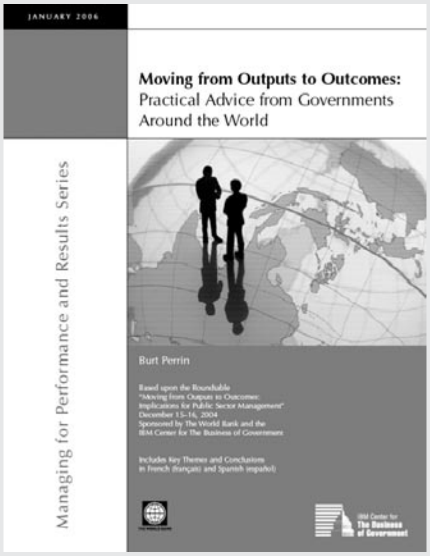
Performance measures provide the link between strategies and actions. Many businesses have strategic plans and business strategies. The real issue is how to implement these strategies in a meaningful way, in a way that is shown to affect the success of the business. However, that success has to be measured. To do this, the BSC links these strategies to organizational operations. Essentially, BSC serves to link the long-term goals of an organization with short-term operational control by means of a cause-and-effect model. It attempts to determine on a daily, monthly, and annual basis what is working to achieve organizational success (cause) and what, in fact, is limiting that success and should be changed. It not only does this at a high management strategy level, but also communicates this down to an operational level.

To do this, the balanced scorecard needs to be considered more in terms of a hierarchical relationship that aligns elements of the organization into a cohesive set of actions to meet the desired strategy. For a for-profit organization, this would place elements more in a hierarchical relationship.... [Kaplan and Norton] viewed that through strategic mapping, the scorecard items were hierarchically related.

- *Vision and strategies* are met through meeting *financial outcome goals.*
- *Financial outcome goals* are related to meeting *customer satisfaction measures.*
- Both improving *customer satisfaction and financial outcomes* are directly related to effective and efficient *internal business process management.*
- *Learning and growth* aspects are focused on improving *internal business processes* in order to improve output goals.

A Strategic Focus on Outcomes: A Global Trend

From *Moving from Outputs to Outcomes: Practical Advice from Governments Around the World* by Burt Perrin



Over the last decade, countries around the world have undertaken reforms with the aim of improving the relevance and effectiveness of public services and the quality of public sector management. A key aspect of most reform processes is a focus on results and, in particular, on outcomes.

Until recently, the performance of public sector programs, and of their managers, has been judged largely on inputs, activities, and outputs. This approach, however, has come into question. One of the major factors behind many reform initiatives is a concern that government too often is preoccupied with process and following rules, and it is not clear what *benefits* are actually arising from public sector expenditures and activities.

External influences also have played a role in stimulating movement toward a results orientation. An outcome focus increasingly is a prerequisite for financial and other forms of support. For example, as both Ireland and Spain have indicated, one pressure for a results orientation came from the European Union (EU). Leadership from the EU has influenced the administrative systems of the 10 new Member States, mainly from Eastern Europe, and is a major factor influencing reform in other countries that are interested in future membership or closer relations with the EU. Both Spain and Ireland touch upon the role the EU has played in influencing directions in their countries. The World Bank and other development banks, along with many multilateral and bilateral donors, are increasingly demanding an outcome orientation, along with appropriate monitoring and evaluation systems, as a condition of financial and other forms of support.

External pressure can come as well from the other direction, such as from civil society. A number of countries emphasized the importance of the demands of civil society for tangible results that helped lead to their outcome approach. Civil society attention has also been cited as an important factor in sustaining the efforts and in providing a democratic basis for reform efforts linked to the needs and desires of the citizenry.

A number of benefits to an outcome-oriented approach have been identified. For example, it can serve as a frame of reference to ensure that inputs, activities, and outputs are appropriate. It represents a means of demonstrating the value and benefits of public services to citizens and to the legislature. At least as important, an outcome focus is an essential component of a learning approach that can identify how policies and program approaches may need to be adjusted, improved, or replaced with alternatives. It is essential not only to demonstrate that outcomes have occurred, but that the interventions in question have contributed to these in some way.

Using Outcome Performance Information

Question: How do I get my program managers to use outcome information?

Answer: Your organization collects much information from a variety of sources. The challenge today is no longer in collecting information; the challenge now lies in using the information that is regularly collected. While you will be consuming some of this information, your job is ensuring that your program managers increasingly use this information. In their report to the IBM Center, Harry Hatry, Elaine Morley, Shelli Rossman, and Joseph Wholey write, "a major use, if not the major use, of regularly collected outcome information should be by program managers themselves to improve the effectiveness of the programs." The effectiveness of programs can be improved by taking corrective actions based on the information collected.

Hatry and his co-authors place much emphasis on program managers *collecting* and *using* outcome information. The authors define an outcome as "an event, occurrence, or condition that is outside the activity or program itself and is of direct importance to program customers or the public." Outcome data is clearly not new to the federal government. Over the years, the government has collected outcome data such as number and rates of traffic accidents; incidence of various diseases; rates of infant mortality; employment and unemployment data; number of reported child abuse cases; school dropout rates; and number and rates of reported crime.

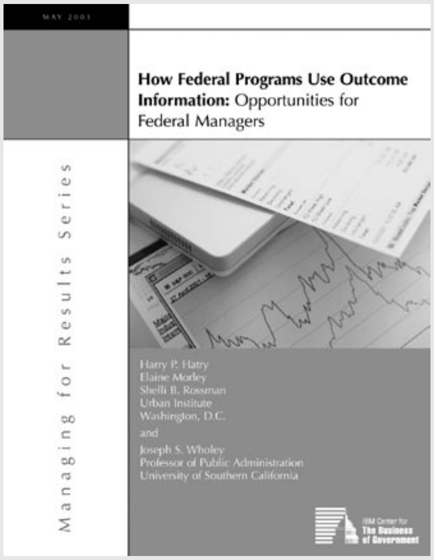
It is clearly easier to collect and use "output" measures. Output measures are defined by Hatry and his co-authors as completed products and services delivered, such as the amount of work done within the organization or by contractors. An example of an *output* measure is the number of childhood immunization shots given. In addition, your job will be to continually push your program managers to collect and use *outcome* measures, such as the reduction of childhood diseases prevented by immunizations.

None of this will be easy. While increased emphasis has been placed on outcome data in recent years, collecting and actually using outcome data is still a challenge. To increase the use and utility of outcome information in your organization, Hatry and his co-authors recommend that you ask your program managers to:

- **Break out (disaggregate) the outcome information you receive by important customer and service characteristics.** You could break out your customers by geographical location, age, gender, income group, race/ethnicity, educational level, and household size.
- **Provide data that is timely.** You should ask your managers to develop procedures to obtain outcome information more quickly after the period for which the data is being reported.
- **Present outcome data in user-friendly format.** Examples of user-friendly format include bar charts or other easily understood graphic presentations.
- **Include data from previous time periods (such as the last year or two) in outcome information reports.** This will enable you and your managers to see trends in outcomes over time, which will help you identify where outcomes are declining and what actions may be needed.
- **Provide training for your staff on the uses of outcome information.** Spend time understanding and evaluating the chain of causality between the outputs of your agency and the outcomes you want to achieve.

How Federal Programs Use Outcome Information

From *How Federal Programs Use Outcome Information: Opportunities for Federal Managers*
by Harry P. Hatry, Elaine Morley, Shelli B. Rossman, and Joseph S. Wholey



As outcome information increasingly becomes routinely available to federal program managers, they are likely to use the information routinely in their decisions, such as to help them allocate their inevitably limited resources.

Uses of Outcome Information by Federal Agencies

Trigger corrective action

- Identify problem areas and modify service provision/operational practices
- Identify root causes of problems and develop action plans to address them
- Trigger enforcement activities
- Identify grantee technical assistance and compliance assistance needs
- Develop training or guidelines for regulated entities
- Identify staff training needs and provide training
- Reduce or de-fund poor performers (grantees or contractors)
- Require grantees to provide corrective action plans
- Evaluate the extent to which changes in practices and policies have led to improvements in outcomes
- Identify the need for policy or legislative changes
- Identify underserved "client" groups

Identify and encourage "best practices"

- Identify successful grantee practices
- Disseminate good practices information

Motivate

- Motivate staff
- Develop employee performance agreements
- Use as basis for "How are we doing?" meetings
- Recognize and reward high-performing federal offices or employees
- Recognize and reward high-performing grantees or regulated entities
- Motivate grantees or regulated entities

Plan and budget

- Allocate resources and set priorities
- Develop plans and set targets
- Justify requests for funds
- Determine grantee funding
- Inform budget projections

Using Program Evaluation

Question: What is program evaluation and how does it differ from performance measurement? How can I use program evaluation?

Answer: Here is how the Government Accountability Office defines performance measurement and evaluation:

- **Performance measurement** is the *ongoing* monitoring and reporting of program accomplishment, particularly progress toward pre-established goals.
- **Program evaluations** are individual systematic studies conducted *periodically* or on an ad hoc basis to assess how well a program is working. Program evaluation typically provides a more in-depth examination of program performance than performance measurement and allows for an overall assessment of whether a program is working and identifies adjustments that may be needed.

In their report to the IBM Center, Kathryn Newcomer and Mary Ann Scheirer write that program evaluation studies can be used by you and your team in support of the following components of performance management:

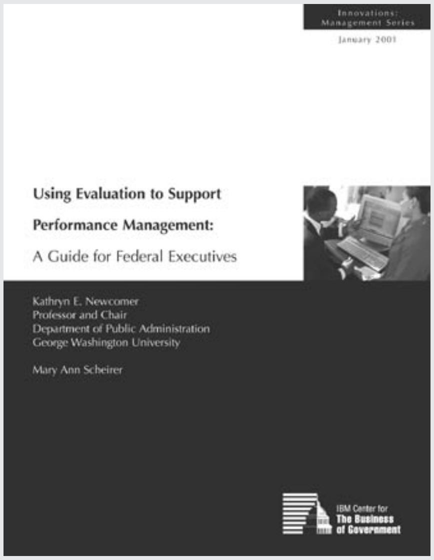
- **For strategic and program planning.** Program evaluation can support your implementation of the Government Performance and Results Act, specifically in developing strategic plans and annual performance plans.
- **For improving program delivery.** Program evaluation can assist in your program management activities by using strategies and data feedback to inform decision making on delivering existing services and designing and implementing new services.
- **For accountability.** Program evaluation can be used in reporting performance data in GPRA annual performance reports and other reports to oversight bodies, such as Congress and the public.
- **For attributing results to the agency's programs.** Program evaluation can provide research and evaluation to analyze the causal effectiveness of the programs and strategies whose "results" are reported in other documents.

Your program evaluation staff can be instrumental in: (1) designing and providing you with ongoing performance information, and (2) designing and overseeing in-depth evaluation studies. In your new position, Newcomer and Scheirer recommend that you and your management team:

- **Conduct an inventory of the evaluation skills within your organization.** By conducting this inventory, you should find out where your performance management skills are located and whether their efforts are being coordinated. For example, is your performance evaluation staff also involved in preparation of your organization's GPRA strategic and annual plans?
- **Assess whether your organization is allocating adequate resources to performance management.** Does your organization have adequate resources (staff and money) to produce both ongoing performance information and special program evaluation studies for you? This assessment might also include collecting resource information on activities related to "evaluation," such as statistical units, research units, and information technology groups.
- **Institute and support ongoing teams that bring together evaluators from technical offices, program management, and performance planning and reporting staff.** These groups should be used to transfer knowledge throughout your organization about feasible uses of evaluation methods, as well as performance success stories.

Using Program Evaluation to Support Performance Management

From *Using Evaluation to Support Performance Management: A Guide for Federal Executives* by Kathryn E. Newcomer and Mary Ann Scheirer



A central theme of performance measurement is to collect useful evidence, usually quantitative data, about the delivery and results of agency actions. This process is often called evidence-based management in the health services context. The tools of program evaluation and the skills of program evaluators can contribute substantially to the multiple steps needed for institutionalizing useful performance measurement systems.

Federal agency officials suggested that evaluation is not only a set of specific, discrete studies of programs, but is an ongoing function served by both performance measurement and more targeted studies. Interviewees acknowledged that focused evaluation studies are needed to provide more in-depth understanding of program implementation, to supply evidence of the causal links assumed to connect outputs with intended outcomes, as well as to examine the contextual background for ongoing performance data. Performance measurement provides the central core of routinely collected evaluative data about program operations and outcomes. Additional evaluation studies provide complementary evidence and logical frameworks for increasing the depth of knowledge for interpretation of the performance data.

Performance management involves more than simply recording measures of program performance and reporting them upwards to oversight bodies and public stakeholders. Several steps are needed to develop and collect performance measures that can be useful to management in decision making:

- Programmatic stakeholders must come together to reach agreement on strategic and performance objectives and the strategies for achieving them.
- Indicators must be defined for program components that capture program outputs (e.g., the extent of services provided) and/or outcomes (e.g., behaviors of beneficiaries influenced by the services).
- Data sources must be developed or discovered for those indicators.
- Data must be collected with systematic methods, often in multiple jurisdictions (e.g., states, grant-funded projects, etc.).
- Data must be aggregated and reported in user-friendly formats.
- The data must be used by program managers and decision makers to assess and improve results.
- Data quality must be addressed at every step of its journey from original collection to final reporting.

All of these steps are taken in relation to an agency's program strategies and activities to address the problem or content domain targeted in the agency's mission.

Understanding the Performance "Stat" Movement

Question: I've heard about CompStat and CitiStat. What exactly are these programs and can they be applied to the federal government?

Answer: Throughout this section, we have discussed the challenges of linking performance information to performance outcomes. The performance "stat" movement is an excellent example of how public sector organizations have successfully linked the two. The movement started in the New York City Police Department (NYPD) under the leadership of then-Commissioner William Bratton. Commissioner Bratton, with the assistance of the late Jack Maple, created CompStat (which originally stood for computer statistics) in 1994. In his report to the IBM Center, Iona College's Paul E. O'Connell describes CompStat "as a highly sophisticated performance measurement system … based on the compilation, distribution, and utilization of 'real time' data to allow field managers to make better-informed and more effective decisions."

O'Connell reports that Bratton concluded that he needed data to be collected and analyzed in a timely manner if effective crime-reduction strategies were to be implemented by the NYPD. Over time, meetings to discuss the crime data collected by precinct evolved to formal twice-weekly meetings in which all levels of the department participated to identify precinct and citywide crime trends, which resulted in the redeployment of resources and the assessment of crime control strategies. The CompStat program received nationwide publicity, resulting in numerous visits to CompStat meetings by public sector leaders from across the nation.

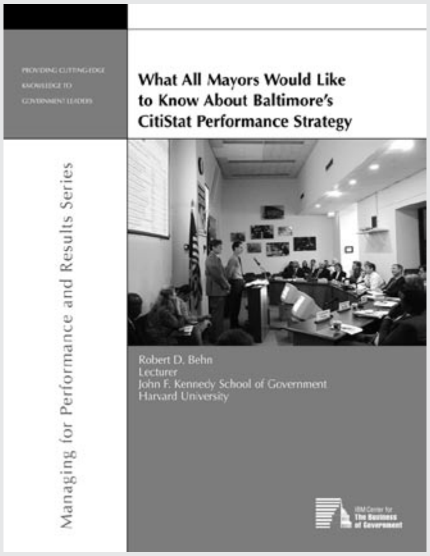
The CompStat concept, characterized by the collection of data discussed and analyzed at the regular meetings, spread quickly to other jurisdictions in the 1990s. In New York City, the Corrections Department, the Department of Parks and Recreation, and the Department of Health all created their versions of CompStat. In 2000, the newly elected mayor of Baltimore, Martin O'Malley, hired a former NYPD official as his police commissioner who implemented a CompStat program in the Baltimore police department. The success of this initiative led Mayor O'Malley to seek the assistance of Jack Maple to help develop a CompStat-like program for the entire city of Baltimore, which was termed CitiStat.

CitiStat, like CompStat, also received much attention from managers across the nation. Mayor O'Malley, now governor of the State of Maryland, developed four tenets for CitiStat: accurate and timely intelligence; rapid deployment of resources; effective tactics and strategies; and relentless follow-up and assessment.

The concept of the stat model is clearly applicable to the federal government and to you as the leader of your organization. In his 2007 report to the IBM Center, Robert Behn emphasizes that a stat program should be viewed as a leadership strategy in which the organization's leader uses performance measurement "to focus the personal attention, the management energy, the operational tactics, and the creative talents of the people" in the organization to produce clearly specified results. The common feature of all the stat programs is the organization's leader meeting with his or her management team to focus attention and assess progress toward the organization's goals.

What Exactly Is CitiStat?

From *What All Mayors Would Like to Know About Baltimore's CitiStat Performance Strategy*
by Robert D. Behn



CitiStat is a leadership strategy that any leader can employ to mobilize agencies to produce specific results. The obvious and operational components of CitiStat are its meetings and questions, its targets and data. But these visible features are only the vehicles by which the mayor focuses the personal attention, the management energy, the operational tactics, and the creative talents of the people in individual city agencies on the task of producing clearly specified results.

Consequently, one way for a mayor to think about CitiStat might be: A city is employing a CitiStat performance strategy if it holds an ongoing series of *regular*, *periodic meetings* during which the mayor and/or the principal members of the mayor's leadership team plus the individual director (and the top managers) of different city agencies *use data* to analyze the agency's past *performance*, to establish its next *performance* objectives, and to examine its overall *performance* strategies.

This characterization is not a very demanding one. Technically, all that it requires is "an ongoing series of regular, periodic meetings" plus the actual "use" of some "data"—all designed to improve the "performance" of city agencies. Given, however, that these meetings are "ongoing," "regular," and "periodic," one subtle feature of CitiStat is often missed by casual observers: This ongoing discussion of performance involves much persistent follow-up on past performance deficits and previous commitments to fix specific problems, as well as follow-up on decisions, commitments, and established expectations for future performance improvements.

In practice, however, CitiStat is much more complex. The key aspect of this way of thinking about public management is the clear, express, detailed focus on performance. This focus is revealed in the effort to learn what the data reveal about the achievements and deficiencies of past performance; in the establishment of specific targets for future performance; and in the development, testing, evaluation, and adjustments of operational tactics that can build on past achievements, remedy past deficiencies, and bring about future improvements. Thus, CitiStat is more than meetings and data. It requires:

- **Targets** (which provide benchmarks for judging successes and failure)
- **Tactics** (which focus organizational efforts on achieving the targets)
- **Data** (which track the performance of agencies and subunits)
- **Analysis** (which, using the data, identifies the causes of both success and failure)
- **Question**s (which reveal what agencies are doing and not doing to achieve their targets)
- **Learning** (which comes from these analyses, questions, and answers)
- **Collaboration** (which helps the mayor's staff and the agency's director and managers to determine what to do next)
- **Experimentation** (which creates new ways of achieving success)
- **Meetings** (which regularly review agency progress, targets, analyses, and strategies)
- **Thinking** (which can suggest how the entire approach can be improved)

Strategies for Collecting Information from Grant Programs to States

Question: My organization makes grants to state governments. How can I best engage them in collecting and using performance information?

Answer: If your organization works closely with the states, you will face the challenge of developing an appropriate and effective working relationship with them. This relationship may include the submission of performance information to you. Working across levels of government always involves a political dimension. You should be aware of the politics of the state with which you are working and the state's political relationship with the federal government. In her report to the IBM Center (2003), Shelley Metzenbaum presents the following key questions that need to be answered by you and your organization:

- Should your agency adopt clearly defined outcome goals for states or require states to adopt them?
- Should your agency require public reporting on progress toward those goals? Should your agency require performance reporting that is comparable for all states?
- Should your agency enter into formal performance agreements with each state encompassing these goals and measures? What should your agency do with the performance measures, once reported? How should your agency handle goals that states have already set for themselves?

Based on her analysis of the use of state performance data by four federal agencies, Metzenbaum reaches a positive, though cautious, conclusion, "While often politically controversial at the state level, federally mandated goals for states can be powerful motivators when linked to the promise of significant rewards or the threat of significant penalties. The promise of a reward or the threat of serious penalties linked to goal attainment can add to the motivational value of measures as long as those being measured do not feel so strongly threatened that they try to have the goals repealed or destroy the measurement system, either by dismantling it or by undermining it with inaccurate and untimely measurement submission."

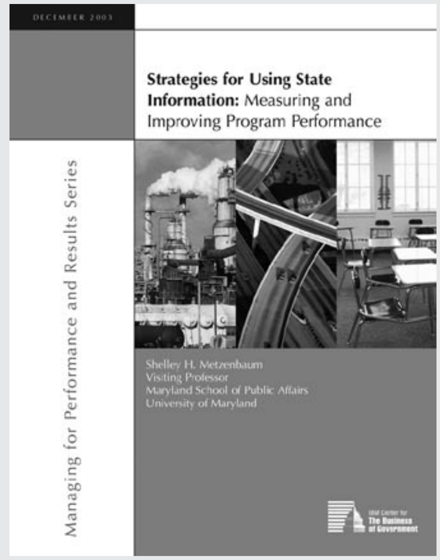
Metzenbaum provides a series of recommendations for organizations that are collecting performance information from states:

- **Collect, organize, and make information readily available.** You should annually compile state information into a single compendium that is available in print form, accessible online through a single portal, produced on a regular schedule, and broadly disseminated.
- **Create robust measurement systems and use data that are standardized and normalized across states.** The goal is that information submitted from each state has the same meaning and is characterized in units that enable appropriate comparison.
- **Require measurement.** Standardized state performance measurement is most likely to happen if Congress mandates its generation, collection, and dissemination.
- **Involve those being measured.** You should routinely engage states as co-owners of performance data and as decision makers in developing tools to enhance the use of data.
- **Encourage analysis.** You should conduct your own analysis of state data and encourage third-party analysis.
- **"Market" the results.** You should make information dissemination a priority and make data available in a customer-friendly and audience-focused format.
- **Motivate with comparison and rewards, but carefully.** Your organization should hone its skills to provide balanced presentations of comparative performance information.
- **Share best practices.** Finally, you should serve as a valuable expert resource for state and local governments by assisting them in the search for effective practices.

Case Studies in Using State Performance Information

From *Strategies for Using State Information: Measuring and Improving Program Performance* by Shelley H. Metzenbaum

Environmental Protection Agency: Shifting from Activities to Outcomes



This case study looked at an agreement crafted between the U.S. Environmental Protection Agency (EPA) and the states, called the National Environmental Performance Partnership System (NEPPS). NEPPS was adopted as an overlay to over a dozen separate federal environmental laws, many of which establish specific environmental goals as well as measurement requirements for states. Over time, EPA's management of these laws, with the exception of the mandate that all states attain national ambient air quality standards, had evolved in a manner that emphasized processes over environmental performance. NEPPS was embraced by EPA and state environmental agency leaders as a way to make clear that, instead of EPA's historical emphasis on assuring state completion of a negotiated number of explicitly specified activities, the federal agency could use environmental progress and compliance outcomes as the dominant criteria for program accountability. Further, state leaders were encouraged to do the same in their own program management.

Department of Transportation: Sharing Information and Balancing Mandates

Two agencies of the U.S. Department of Transportation (DOT), the Federal Highway Administration (FHWA) and the National Highway Traffic Safety Administration (NHTSA), established themselves as expert resources for state and local governments. They collect and disseminate written materials on state practices and progress. In addition, they identify more effective practices worthy of replication. Compilation of state information in an easy-to-find and easy-to-use format; analysis tailored to meet the needs of specific audiences—especially the states and others whose actions directly affect the rate of progress; problem and success identification; aggressive packaging and dissemination of the raw information, analysis, and materials supporting programs demonstrated to be effective; ongoing evaluation at multiple levels; and co-ownership of decision-making responsibilities characterize the successful work of FHWA and NHTSA with the states.

Department of Education: Federal Report Cards Motivate and Analysis Illuminates

In the U.S. Department of Education (ED), the department's release of the "Wall Chart" in 1984 and, more recently, reports released by a nonprofit association using data assembled with ED funding illustrate the power of comparative measurement across jurisdictions whether within a state, among states, or internationally. The first example demonstrates how comparative measurement can motivate improved performance. It also underscores the power and possibility of state political leaders collectively endorsing comparative measurement after years of opposition. The second underscores the value of the federal government gathering and organizing state performance data. It shows how, just by gathering and organizing information and making it easy to use, the federal government can stimulate external analyses to find effective government programs worthy of replication.

The Challenge of Cross-Agency Measurement

Question: Should my organization take the lead in creating a cross-agency measurement system involving several organizations all dealing with a common problem?

Answer: Thus far in this section, we have been focused primarily on the role of performance measurement in the management of your own organization. A major challenge for the next administration is the federal government's ability to measure progress toward administration goals, which include measuring the contribution of individual agencies toward larger government-wide goals. Baltimore's CitiStat initiative discussed on pages 38–39 is a good example of cross-agency measurement.

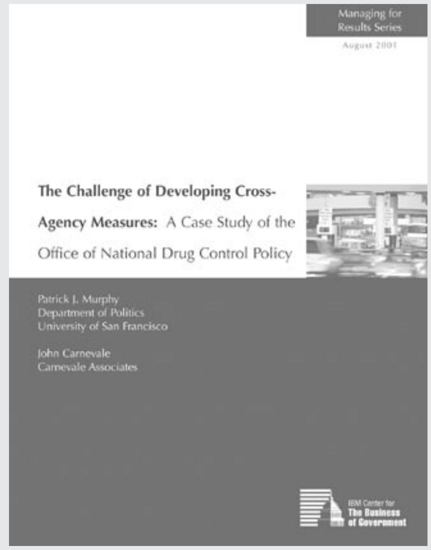
The government's most extensive experience with cross-agency measurement systems to date was the use of a Performance Measurement and Evaluation (PME) system in the late 1990s by the Office of National Drug Control Policy (ONDCP). In their report to the IBM Center, Patrick Murphy and John Carnevale write, "This ambitious undertaking would require coordinating with the more than 50 agencies and departments involved in drug control efforts. In the end, the process would utilize the input of over 250 people representing numerous government agencies and other organizations. To organize the effort, the ONDCP constructed a complex set of steering committees and working groups designed to address the specific tasks of developing a performance measurement system."

While the ONDCP experience was cumbersome and time-consuming and had its share of critics, government-wide performance data was collected and shared by the executive and legislative branches of the federal government, as well as state and local governments. The imposition of "stretch goals" and intergovernmental goals proved controversial. A compromise was struck. Murphy and Carnevale write, "The ONDCP agreed to present the PME system and its performance targets as part of the *national* strategy. Responsibility for reaching the targets, therefore, would not fall solely on the federal agencies. Instead, state and local governments would have to cooperate as well if the objectives were to be realized. This realization, in fact, led to the ONDCP beginning to reach out to state and local governments in an attempt to more completely integrate their efforts. Consequently, the federal office formed performance partnerships with the states of Oregon and Maryland and the city of Houston. These partnerships focused on monitoring specific outcomes in these jurisdictions."

Much was learned from the ONDCP experience that can be applied by a new administration. While highly challenging, a government-wide performance management system was put in place that can be replicated in the future by other agencies working together to track national progress on achieving national goals.

Understanding Challenges Facing Cross-Agency Measurement

From *The Challenge of Developing Cross-Agency Measures: A Case Study of the Office of National Drug Control Policy* by Patrick J. Murphy and John Carnevale



By most accounts, the Performance Measurement and Evaluation system has been deemed an impressive and credible attempt to introduce accountability into the management of federal drug policy. It is clearly the most extensive and institutionalized effort to measure performance for a crosscutting program in the federal government. To create it, the ONDCP had to face substantial challenges with measuring performance in general, as well as the added complication of working across organizational lines.

The ONDCP set out to develop a performance measurement system. In addition to the systemic problems of building performance and accountability systems, however, the office had the additional challenge of constructing a system that cut across traditional organizational and functional lines in the federal government. Accountability in this context means that programmatic responsibility extends beyond departmental lines.

Challenge One: Breadth of Effort

First, the absolute breadth of what constitutes the federal drug control effort is impressive, complicating efforts to measure performance. Federal drug control policy is a conglomeration of agency programs in several functional areas (treatment, prevention, domestic law enforcement, international, and interdiction), for which many different agencies are responsible. Included under the rubric of drug control are law enforcement programs designed to investigate, arrest, prosecute, and incarcerate individuals violating drug laws.

To implement this collection of programs, federal anti-drug activities involve over 50 different federal organizational entities. Twelve of the 14 Cabinet departments are represented as well as two independent federal agencies.

Challenge Two: Little Formal Authority

A second factor making the task of performance measurement more difficult is that, despite its "czar" designation, the office possesses relatively little formal authority. The Congress has charged the ONDCP with drafting a strategy that establishes policy goals and priorities for the nation's drug control efforts. The office is also responsible for coordinating and overseeing the implementation of that strategy. To carry out these responsibilities, however, the office is granted rather limited authority (P.L. 105-277). The role of the ONDCP director in the formulation of a drug control budget is the most clearly defined of the office's powers. The ONDCP is required to certify agency budget requests as to their adequacy in support of the national drug control strategy. The director can also request the reprogramming of funds from one agency to another.

Challenge Three: Diffuse Federal System

A third element complicating the ONDCP's development of a performance measurement system stems from the fact that illicit drug control is a national program—that includes states, localities, and nonprofit partners—that is relying upon a federal structure for much of the program implementation and service delivery. Drug control efforts are not unique in this regard, as many federal programs are structured similarly. Nevertheless, trying to assess the performance of government efforts over which federal control is limited serves to compound an already difficult problem.

Understanding Lean Six Sigma

Question: What is Lean Six Sigma and how should I use it?

Answer: In his report to the IBM Center, Rensselaer Polytechnic Institute's John Maleyeff describes the evolution of Lean Six Sigma, a process improvement methodology that combines tools from both Lean (also called Lean Manufacturing) and Six Sigma. Lean has traditionally been associated with reducing waste in the system, while Six Sigma is associated with improving quality and reducing defects. Lean Six Sigma encompasses common features of both, such as an emphasis on customer satisfaction, a culture of continuous improvement, the search for root causes, and comprehensive employee involvement. In each case, a high degree of training and education takes place, from upper management to the shop floor.

Defining Lean

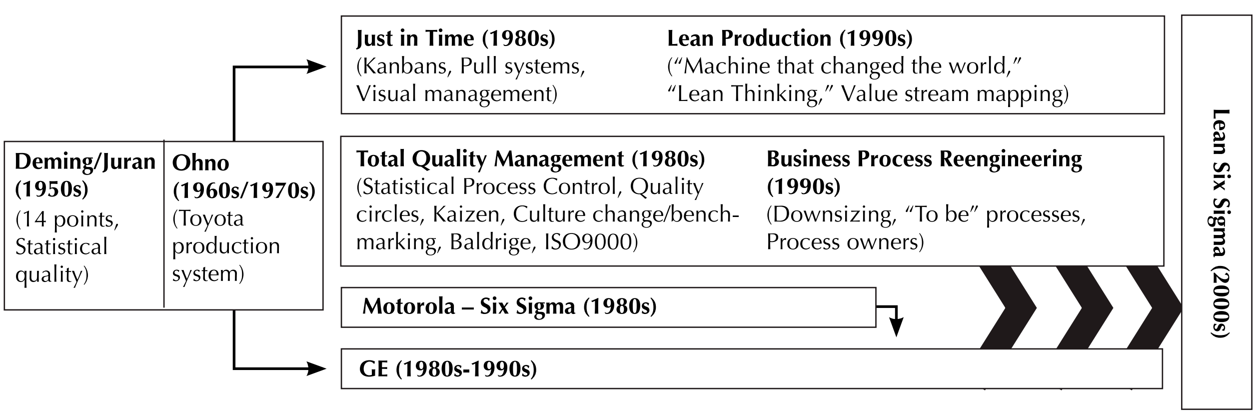
According to Maleyeff, Lean can be defined as a management approach that seeks to maximize value to customers, both internal and external, while simultaneously removing wasteful activities and practices. Maleyeff writes, "It is based on the management system used at Toyota Motor Corporation, with Shigeo Shingo and Taiichi Ohno generally considered to be its architects. Womack, Jones, and Roos, in a world-wide study of automobile manufacturing, used the term Lean to describe the activities that seek to minimize waste, such as excess inventory and defective products. Their study concluded that Lean was preferable to 'mass production' prominent in the United States and Europe." Lean focuses on the separation of "value-added" work from "non-value-added" work.

Defining Six Sigma

The goal of Six Sigma is to apply scientific principles to reduce variation and thus eliminate defects in products and service offerings. The term "sigma" refers to a statistical measure of variation and the number "six" refers to the relationship between process variation and product specifications. When first applied as a metric by Motorola, the goal was to achieve Six Sigma quality by limiting defects to no more than 3.4 defects per million products.

Maleyeff writes, "The statistical roots of the term Six Sigma have become less important as Six Sigma has evolved into a comprehensive management system. Many practitioners, however, continue to view Six Sigma as a set of techniques that promote variance reduction."

Lean Six Sigma Builds on Practical Lessons Learned from Previous Eras of Operational Improvement



Source: *IBM Institute for Business Value,* Driving Operational Innovation Using Lean Six Sigma.

Getting Started on Lean Six Sigma Initiatives

If you decide to implement a Lean Six Sigma initiative, your personal commitment is crucial. If it is clear that you are committed to the initiative, participation and support for the initiative within your organization is likely to be much higher than otherwise. In his report to the IBM Center, Maleyeff writes, "Management commitment to a Lean Six Sigma process improvement program must go beyond slogans, banners, or motivational speeches. The leadership team should exude a constancy of purpose, along with discipline and patience that allows the program to take root."

Maleyeff found that there are two crucial steps in launching a Lean Six Sigma program: (1) creating the infrastructure, and (2) implementing the initiative. You must be involved in both steps in order to ensure the success of the initiative.

During the creation of a Lean Six Sigma infrastructure, you must:

- **Build trust.** The creation of a Lean Six Sigma initiative is likely to create concern, perhaps even fear, among employees due to job insecurity and the anticipation of change in the organization. You must communicate directly the importance of the initiative and your willingness to engage employees in the process. If your organization has a union, you should work closely with them in launching the initiative. (See page 68 for a discussion of working with unions).
- **Institute culture change.** This is clearly a long-term initiative. By focusing on program improvement, you will be starting to change the organization's culture to become more results-oriented.
- **Communicate the vision to all stakeholders.** As noted above, communication will be crucial to the success of the initiative. In addition to communicating with employees, you must also communicate with all of your organization's stakeholders.

During Lean Six Sigma implementation, you must:

- **Create a centralized focal point.** A key to the success of the program will be your selection of a program administrator dedicated to firmly establishing the program within your organization and working directly with you on it. You do not need to create a new "office" to run the initiative, but you might create a steering committee that you chair.
- **Encourage involvement across the organization.** You are the only one who can do this. You must ensure that there is a good working relationship between all the units within your agency. You may wish to have liaisons from each of your units who will serve as the "champions" for Lean Six Sigma within their organizations.
- **Ensure staff capability.** You will need to rely on staff that have been trained in Lean Six Sigma or you will have to send key individuals in your organization to receive such training. External consultants are also an option. In addition, you should consider agency-wide training in Lean Six Sigma so that your entire organization understands the key concepts involved.

Strategic Analytics in Government

Question: What is analytics? Can it be used in my organization?

Answer: In brief, analytics is the extensive use of data, statistical and quantitative analysis, explanatory and predictive models, and fact-based management to drive decisions and actions. Strategic analytics, as described by Tom Davenport and Sirkka Jarvenpaa in their report to the IBM Center, are useful inputs into decisions. Analytics is a subset of what has come to be called *business intelligence*: a set of technologies and processes that use data to understand and analyze organizational performance.

Analytics can be a useful tool for you in managing your organization. There are now a variety of analytical applications, or tools, which can be grouped under the term analytics. Some of these applications are used for internal analytics (financial, research and development, human resources) and some for external analytics (customers, suppliers). Your organization is already collecting much data, but may not be using or analyzing that information to its fullest extent.

Analytical applications range from relatively simple statistical and optimization tools in spreadsheets (Excel being the primary example) to statistical software packages (e.g., Minitab), to complex business intelligence suites (SAS, Cognos, Business Objects), predictive industry applications (Fair Isaac), and the reporting and analytical modules of major enterprise systems (SAP and Oracle).

In earlier incarnations, analytics was called operations research and has long been used in the Department of Defense for military analysis and supply chain analysis. In addition to continuing to use analytics in those areas, the military today is using analytics to analyze the military recruitment process and using geodemographic data to identify potential recruits.

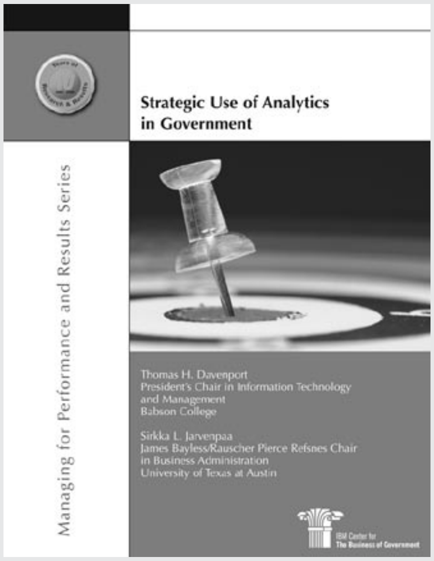
Two other diverse arenas in government that are using analytics are health and government revenue management. In the health arena, the Department of Veterans Affairs is now using analytics extensively to study the quality of patient care, as well as applying evidence-based medicine to diagnosing and treating patients.

In the government revenue arena, extensive use of analytics is now being seen in both state government and the U.S. Internal Revenue Service. Tax organizations are using analytics for revenue analysis, compliance reviews to discover nonfilers and make audit and collection decisions, fraud detection, and customer services for taxpayers. In the *Money* section, two other areas ready for analytics are discussed: identifying risks in federal credit programs and analyzing the life cycle and costs of managing federal assets.

Your job will be to assess the state of the use of analytics in your organization. Analytics can be an effective component of your performance management system. You will have to make sure, however, that your organization has a well-trained cadre of analysts ready to use analytics. Davenport and Jarvenpaa write, “Analytical professionals—those who can develop new algorithms and quantitative models—are already present in some data-intensive agencies, such as the Bureau of Labor Statistics…. And as analytics becomes embedded into key governmental processes, those who work with them on the front lines—for example, call center agents who discuss tax returns—will need to be generally aware of, if not expert on, the analytical tools used to carry out an agency’s work with citizens.”

The Use of Strategic Analytics in Government: Fraud Prevention

From *Strategic Use of Analytics in Government* by Thomas H. Davenport and Sirkka L. Jarvenpaa



Since health care payments are among the largest government payments to citizens, they are also often the domain for fraud. While Medicare fraud prevention is to some degree a focus for the federal government in the United States, prevention and reduction of Medicaid fraud is a much greater focus at both the federal level (the Deficit Reduction Act of 2005 increased penalties for Medicaid fraud and required organizations receiving substantial Medicaid payments to describe their policies for preventing fraud), and particularly at the state level, where Medicaid programs are administered. Many states have fraud prevention initiatives under way, and analytics is a key tool for identifying payments that may be fraudulent.

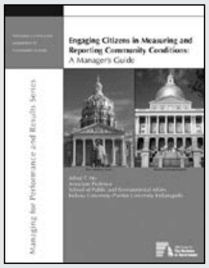
As a prominent example, New York State is the largest provider in the U.S. of Medicaid services, at $44 billion per year, and has a strong focus on analytics for fraud prevention. The New York State Office of the State Comptroller identified more than $150 million in Medicaid claim overpayments in 2005 and 2006 after analyzing historical claims data in the eMedNY data warehouse. These analyses identified duplicate payments, overpayments to health care providers, non-billing to Medicare, and miscoding of diseases and payments.

Because Medicaid payments in New York State are distributed through county governments, particular counties also have analytical fraud prevention initiatives under way. Onondaga County, for example, is using business intelligence and analytics tools to identify patients whose Medicaid prescription totals warrant fraud investigation. Nassau County on Long Island has launched two multimillion-dollar investigations based on data compiled using business intelligence tools to identify potential Medicaid fraud by county residents. County officials believe that they have saved millions of dollars in savings since 2003, when they began to use the software tools to analyze Medicaid claims. Nassau County is also using analytical software to identify fraudulent transportation claims for Medicaid reimbursement and saw claims decrease by $1 million after the initiative began.

Stephen Acquario, executive director of the New York State Association of Counties, believes that business intelligence and analytics are confirming that fraud and misuse are contributing to the substantial growth of Medicaid claims. "Anecdotes are no longer going to be the norm," he said. "Now, through statistical-driven reporting … we're able to back up what we had suspected in ways we were not able to do in years past."

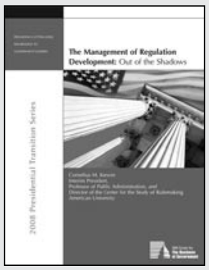
The Department of Veterans Affairs also employs analytics for fraud reduction through the Veterans Benefits Administration (VBA). The VBA matches income data with the Internal Revenue Service and the Social Security Administration to ensure the people who receive VA pensions (which are dependent on having low incomes) aren't getting more income than they are reporting. The VBA also analyzes high-value claims checks, which typically go to people who have had long-standing disabilities but have recently filed a claim. The organization produces a dashboard that the heads of regional offices use to adjust resources, and also has a dashboard that managers use to evaluate performance and manage their parts of the business.

For Additional Information on Performance



Engaging Citizens in Measuring and Reporting Community Conditions: A Manager's Guide (2007) by Alfred T. Ho

This report presents two case studies (Des Moines, Iowa, and Boston, Massachusetts) where government agencies and citizen groups reported on government's performance. Each of the cases reflects different strategic approaches to reporting government performance. The report discusses how government officials can engage the public more directly in performance measurement and reporting initiatives.



The Management of Regulation Development: Out of the Shadows (2007) by Cornelius M. Kerwin

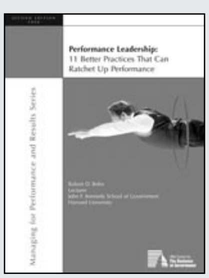
This report examines the use of regulations in government. The report provides an overview of how individual policy tools such as regulation operate, how to measure their performance and effectiveness, which actors participate in implementing them, and what features are necessary to ensure accountability and oversight.

Improving Service Delivery in Government with Lean Six Sigma (2007) by John Maleyeff

This report is a comprehensive review of how public sector managers can use Lean Six Sigma to improve the execution and delivery of results. The report sets forth specific actions that public sector managers can take in starting and implementing Lean Six Sigma projects.

The Philadelphia SchoolStat Model (2007) by Christopher Patusky, Leigh Botwinik, and Mary Shelley

This report presents a case study of Philadelphia's SchoolStat program. The program is an adaptation of the successful CompStat model, developed by New York City's Police Department. The report describes how the model was adapted for a school district, what improvements occurred in the performance of the Philadelphia School District after it was implemented, and which features of the approach contributed to improvement.



Performance Leadership: 11 Better Practices That Can Ratchet Up Performance (2006, 2nd ed.) by Robert D. Behn

This report offers an approach to performance leadership that encompasses 11 "better practices" that have been used by successful public managers over the years. The approach focuses not on individual attributes and virtues, but rather on leadership activities or practices that can spur improvements in program performance.

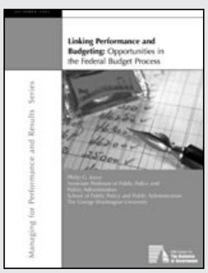
For Additional Information on Performance

Implementing OMB's Program Assessment Rating Tool (PART): Meeting the Challenges of Integrating Budget and Performance (2006) by John B. Gilmour

This report examines how the Office of Management and Budget's Program Assessment Rating Tool (PART) has been implemented in the federal government. The report discusses how federal agencies have responded to the requirements of PART and the strategies that they have employed. The report presents four challenges that confronted both agencies and OMB and describes approaches that agencies took to meet these challenges.

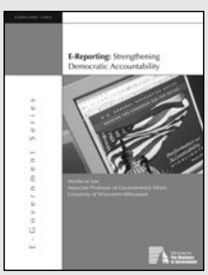
Collaboration and Performance Management in Network Settings: Lessons from Three Watershed Governance Efforts (2004) by Mark T. Imperial

This report describes how performance measures and monitoring processes were developed and implemented in three watershed management programs. The report includes a description of the collaborative approach used by citizens and government in coming to agreement on the performance measures to be used.



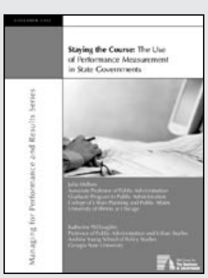
Linking Performance and Budgeting: Opportunities in the Federal Budget Process (2004, 2nd ed.) by Philip G. Joyce

This report presents an overview and history of performance budgeting in the federal government, including a description of how performance information can be used at the various stages of the budget process: preparation, approval, execution, and audit and evaluation. The report describes how performance-based information is used at the department and agency level.



E-Reporting: Strengthening Democratic Accountability (2004) by Mordecai Lee

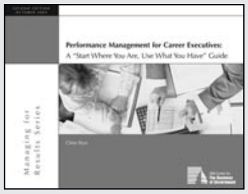
This report traces the history of public reporting on government performance and how technology now allows government leaders to dramatically expand citizen access to government performance. The report presents criteria for assessing how well federal, state, and local agencies report their performance to the public, as well as providing examples of best practices in e-reporting. The report includes recommendations on how public managers can assess their own reporting and how they can emulate best practices.



Staying the Course: The Use of Performance Measurement in State Governments (2004) by Julia Melkers and Katherine Willoughby

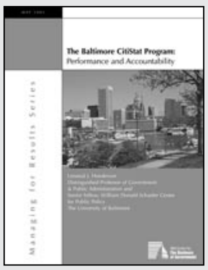
This report provides an overview of performance management in state government. The report describes how state budgeting systems have evolved to incorporate measurement of program activities and results. The report also describes which components of performance measurement and performance-related initiatives have been most useful in state government.

For Additional Information on Performance



Performance Management for Career Executives: A "Start Where You Are, Use What You Have" Guide (2004, 2nd ed.) by Chris Wye

This report describes how career executives can overcome common problems in the design, alignment, use, and communication of performance measures and information. It provides a series of antidotes to the problems frequently encountered by career executives in implementing performance management. The report offers specific advice on actions and approaches career executives can take.



The Baltimore CitiStat Program: Performance and Accountability (2003) by Lenneal J. Henderson

This report examines Baltimore's CitiStat program in the area of housing and community development. The report describes how Baltimore developed its performance goals, objectives, and outcome measures with the cooperation of federal and state agencies that provide additional funding for municipal programs.

The Potential of the Government Performance and Results Act as a Tool to Manage Third-Party Government (2001) by David G. Frederickson

This report describes the implementation of the Government Performance and Results Act in five federal health care agencies. The report addresses the ability of the federal government to effectively hold third parties accountable for performance. Third parties are organizations outside of the federal government that have responsibility for implementing federally funded programs, such as state and local governments, nonprofit organizations, and universities.

Using Performance Data for Accountability: The New York City Police Department's CompStat Model of Police Management (2001) by Paul E. O'Connell

This report examines the New York City Police Department's model of police management known as CompStat. The report identifies the management practices that are associated with CompStat and documents the process of dissemination and adoption of CompStat by other police departments across the nation.

Corporate Strategic Planning in Government: Lessons from the United States Air Force (2000) by Colin Campbell

This report analyzes and evaluates the corporate strategic planning initiated by the United States Air Force. The report discusses the legacy left by the inception of corporate strategic planning in the Air Force in the 1990s and identifies how Air Force leadership adapted to change in a dynamic world.