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Staying the Course: The Use of Performance Measurement in State Governments

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Managing for Performance and Results Series

IBM Center for
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MANAGING FOR PERFORMANCE AND RESULTS SERIES

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FOREWORD

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On behalf of the IBM Center for The Business of Government, we are pleased to present this report, "Staying the Course: The Use of Performance Measurement in State Governments," by Julia Melkers and Katherine Willoughby.

Based on their extensive research efforts in recent years, Professors Melkers and Willoughby examined performance measurement in state governments and sought to find out whether these measurement systems are now in use and whether they have had lasting impact on state budget processes. The central finding from their research is that performance measurement is now pervasive across the states and that such systems are being continually enhanced. Thirty-three states have adopted legislation requiring performance-based budgeting for their state.

Melkers and Willoughby identify several important trends from their research. First and foremost, the integration of performance-based budgeting efforts has occurred along with other public management initiatives. Similar to what has occurred in the federal government, many of the most dramatic uses of performance information go beyond specific budget allocation decisions. It is now common to find performance budgeting efforts linked to other public management initiatives, such as strategic planning. One of their findings is that strategic planning is now cited as one of the most common uses of performance measurement.

Second, performance-based systems in states have withstood the test of changing leadership within states. While governors have changed in many states over the past decade, performance-based management systems have continued. States now appear prepared to stay the course and continue enhancing their performance measurement systems for broader and better application.

We trust that this report will be useful and informative to all public managers interested in the use of performance measurement and performance budgeting in government.

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EXECUTIVE SUMMARY

This report presents results from a body of research conducted over the last decade regarding the usefulness of performance measurement for budgeting and management in state governments. This report not only provides an update concerning performance-related requirements in the states. It also assesses results from a survey sent in 2000 to state government budgeters, administrators, and staff that asked for their perceptions of the applicability of performance measurement to the management and budgeting processes in their respective states. Appendix I lists the legislation related to performance measurement currently on the books in the states; Appendix II provides some background on the body of research discussed here and specifies the methodology for the survey of state government budgeters and agency staff that is addressed.

Public managers, and particularly federal managers, should find this report interesting and helpful, for a number of reasons. First, we provide an overview of what performance-related requirements exist at the state level, and how state budgeting systems have evolved to incorporate measurement of program activities and results. We delve into the reasons why performance initiatives continue to be touted by both legislatures and central leadership in the states. Then, we tease out the components of government management and budgeting in which performance measurement and performance-related initiatives have been most useful in the states. Finally, we assess the distinctive considerations of budgeters (those chiefly responsible for developing, monitoring, and auditing agency spending) and administrative staff (those chiefly responsible for managing public programs and services) concerning the usefulness of performance measurement to their work—specifically for budgeting and managing government activities.

While much of what we present may seem, at first blush, to be "old hat" (performance measures have been around for a long time), we believe many will find our conclusions a bit surprising. The existence of performance measurement applications and systems across the states is widespread. We find that performance measurement applicability and considerations of how to determine the value of the results of public programs remain very much on the minds of those working "in the trenches" of state government. In fact, it should be heartening to public managers, program clients and citizens alike to know that our research indicates that these civil servants consider very seriously how performance measurement can be applied to their work so that they can continually improve on the results of the programs and services for which they are responsible.

Although a focus on performance-based systems in the states has withstood the test of changing leadership, we find that most systems are still far from comprehensive in terms of applicability. The types of measures most used are still those that are more easily calculated. And, while states have been successful in integrating performance-related systems with other management initiatives—many indicate the use of performance measurement most frequently for strategic planning, for performance reporting, and for program assessment—we find less frequent application for specific or targeted decisions regarding personnel; for benchmarking across agencies, states, or with professional standards; or for holding local governments or other entities accountable.

On the other hand, while it may seem states have a long way to go in applying performance measurement to their budget and management activities, we do find modern efforts to be more adaptable than past reforms. States seem more amenable to developing and redeveloping measurement in order to support greater relevancy to the decision at hand, that is, to find out what works best. Our results that distinguish the perceptions of state budgeters and agency staff regarding performance measurement seem to reflect a greater patience with reform than has been exhibited in the past. That is, just because something does not "work" in its entirety, or "work" the same for different programs, does not mean you "throw the baby out with the bath water."

States seem prepared to stay the course and keep redeveloping their performance systems for broader and better applicability. This is a very hopeful sign for these governments and others in the United States.

Introduction

This report provides information about the use and usefulness of performance measurement for budgeting in state governments in the United States. We hope that this report successfully chips away at the "mystery" of performance measurement—that is, how governments use such data to inform budgetary decisions. This report presents results from years of research that both has assessed the foundations of performance-based budgeting systems in state governments, and—to decipher factors related to the effective use of such reform, system-wide as well as agency specific—has engaged stakeholders' perspectives on the use of performance measurement in their states. Our work complements recent work by Hatry, Morley, Rossman, and Wholey (2003) by providing detailed findings on the uses of performance measurement in public organizations.

We want to provide an avenue for those working in and for American governments to consider various approaches to the use of performance measurement that can encompass not only program results assessment and internal management practice, but also resource allocation. We hope that public managers will gain a better understanding of the factors that have led to the successful use of performance measurement for budgeting in the states.

This report is not meant to persuade skeptics to use performance measurement or performance-based systems for budgeting. We believe that this case has been won—the necessity of improved information from which to govern is a given. Governments at all levels in the United States are programmatically and fiscally stressed. States, especially, are squeezed between a federal government that continues to press responsibilities down to this level (with inadequate or no funding) and local governments that need money to provide services and programs to growing populations and to address challenging and stubborn problems. Efforts that engage state personnel in strategic planning, measurement development, results assessment and cost comparisons simply must be carried out. We hope to offer a window to those factors that best support such efforts.

On the other hand, we believe that governments in the United States and worldwide, for that matter, have never and will never "arrive" or "get there" in terms of finding the "one best way" to budget and manage. This is not a bad thing, just the reality of an ever-evolving process in which different systems will work at different times and for different functions. This report is an effort to provide the information governments need to support their "learned accommodation" regarding the effective use of performance measurement specifically for budgeting.

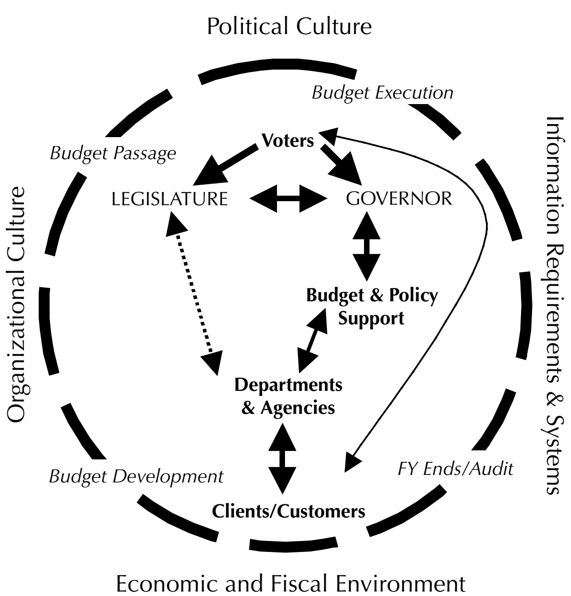
The State Budget Process: Contextual Influences and Where Performance Data Fits In

A typical state government budget cycle is a routine process made up of four phases:

- Budget development (executive driven)
- Budget passage (legislative driven)
- Execution (agency driven)
- Audit (legislative-executive)

As illustrated in Figure 1, a state can be characterized by its political and organizational cultures, its economic and fiscal environments, and the informational requirements and systems of the budget process.

Figure 1: Model of State Government Budget Process



Political Culture

The political culture encompasses characterizations of party traditions in a state, specifically party breakdown in the legislature and in comparison with the chief executive. States can be classified as strongly liberal or conservative, platforms that may be somewhat reflected in budget shares by function over time. More important, party split within a legislature (a house and a senate with different majority parties) and/or a legislative party split with the governor make for more contentious budget deliberations. If deliberations become especially combative, the budget process can break down entirely—the appropriation bill is not passed and fiscal crisis ensues, is sustained, or worsens. In fact, many a governor attempts to make significant budget changes to accommodate an ambitious policy agenda only to run into an intransigent legislature, directly, or a wary public, indirectly.

Organizational Culture

Organizational culture refers to the internal organizational climate in which government employees carry out their duties and activities. A government in which the budget process is transparent, guidelines for budget preparation and reporting are clear, and communication flow is unfettered among important actors (illustrated in Figure 1 as between and among the governor, the executive budget office, executive departments and agencies, and the legislature and its budget support, and extending to the public in the form of program clients, constituents, and/or citizens) provides a climate that can more successfully integrate data (performance measures) into budgeting and management decisions.

Communication Flows

Free-flowing communication among various levels in the state government is influenced by the location of budget and policy support to the governor and the legislature, the capacity of such offices to conduct budget and policy analysis, and the comfortableness exhibited by the chief executive and important members of the legislature in terms of working with such support staff (Thurmaier and Willoughby, 2001). Related to this, leadership is a sustaining factor for any budget reform, and performance-based initiatives are no different. Governors and/or legislators calling upon agencies to provide performance data for budget development purposes must champion the process and illustrate to agencies that they take advantage of the information when making funding decisions. Otherwise, agencies see little use in concentrating on the collection, preparation, and reporting of such data for budgetary purposes. On the other hand, such data can be used for management decisions if championed at least by agency heads, budget officers, and others internal to the agency.

Information Requirements

Informational requirements include budget timelines, the budget format, executive preparation guidelines, and other protocols that budget actors must ascribe to when involved in a budget cycle. Such requirements and systems influence the flexibility or constraints within which these actors must work. Requirements and deadlines will contribute to the ease with which actors are able to gather and present information, make comparisons and analyses regarding program operations and results, and manage funds to accommodate changing workloads, economies, or other circumstances.

Budget and Accounting Systems

The integration of the budget and accounting systems (or lack thereof) will influence how data is presented and used throughout a budget process. The source of budget information requirements can also influence the credence that different actors afford to data and how they make use of data throughout a budget process. As previously noted, if agency personnel believe that performance data required by the chief executive is not considered seriously by legislators when making allocation decisions, then they will undoubtedly concentrate their use of such data internally for management purposes and perhaps budget justification when preparing their budget request. During appropriation hearings, however, agencies would be more inclined to highlight the relationships between their programs and the parochial interests of legislators rather than measures of program performance or results.

Economic and Fiscal Climate

The economic and fiscal climate is closely linked to a state's political culture. The revenue capability of a state serves as the foundation for its program operations. Politics influence a state's revenue structure, which may or may not accommodate economic fluctuations easily. Unfortunately, traditional financing capabilities at this level of government in the United States are difficult to change and often hogtie states, in the short term, regarding budget balancing capabilities. Table 1 shows that state tax receipts, as a proportion of total receipts, remained virtually unchanged in the last decade. Individual income tax and general sales and gross receipts remain the largest proportions of tax receipts at the state level. Motor fuel sales tax receipts decreased slightly in the past decade as a proportion of total receipts.

Corporate income taxes also declined as a proportion of total receipts. The "All other taxes" category is a conglomeration of taxes that individually compose less than two percent each of total tax receipts in the states. None has increased significantly as a proportion of the total tax receipts pie at the state level, although collectively the data illustrates some attempt in the states to tweak typically antiquated tax structures.

Total state balances as a percent of expenditures have actually stabilized in 2004 (estimated 3.2 percent; in 2000 this ratio was 10.4 percent) (NASBO and NGA, 2003). However, in order to reach balance, most states exhausted their reserves and other contingency type funds and/or took advantage of all "one time only" financial management strategies, such as advancing tax due dates. Further, states cannot expect much relief from the feds in the future. In budget year 2004, the federal government provided $20 billion to the states, but for 2005, President Bush's budget calls for a

Table 1: State Tax Collections by Type of Tax, 1994 and 2003

Type of Tax	3rd Quarter 1994	3rd Quarter 2003
General sales and gross receipts	34.6%	31.4%
Individual income tax	31.5%	33.1%
Motor fuel sales	7.1%	6.3%
Corporate net income	6.6%	5.0%
Motor vehicles	3.3%	3.0%
Other sales and gross receipts	2.3%	2.5%
Tobacco products	2.0%	2.1%
Insurance	2.0%	1.9%
All other taxes Including: property tax, public utilities, pari-mutuels, amusements, beverage and other licenses, taxes on document and stock transactions, and death, gift, and severance taxes	10.4%	14.7%

Source: Table 3: State Tax Collections by State and Type of Tax. Data available in Excel files qtx033t3 and qtx943t3 at http://www.census.gov/govs/www/qtax.html. Accessed on March 4, 2004.

decrease of 4 percent in mandatory and entitlement spending (~$10 billion) and a decrease of 3 percent in selected grants-in-aid (~$11.6 billion) (NASBO, 2004).

Gubernatorial Politics

In 2004, most governors (60 percent) were new to their job and nervous about future budget balancing. In their 2004 state-of-the-state addresses, many advocated economic development and/or encouraged government collaborations with private and nonprofit sectors, including faith-based organizations, as well as pooling federal and private dollars with state funds to advance investment in industry and capital ventures.[1] Chief executives also mentioned initiatives that require public input, such as constitutional amendments regarding balanced budgets or the creation of new funding strategies (like a lottery) or funds.

Governors suggested tax reform, with cigarette and alcohol taxes common targets for increases. A recent survey of legislators found that elected officials in this branch of state government, like governors, "are only willing to consider the least painful kinds of tax increases to balance their state budget. The most popular options are raising 'sin' taxes on alcohol and tobacco (71 percent) and increasing tolls or user fees (66 percent). Various broad-based tax hikes are found acceptable by less than half of state legislators, including raising state taxes on gasoline (43 percent), state corporate income taxes (40 percent), and state sales taxes (39 percent)" (The Pew Center on the States, 2003).

Few chief executives were more zealous regarding their tax structures. One governor specifically called for a more equitable tax system by increasing the sales tax, lowering the income tax for all except ~8 percent of upper-income state citizens, and cutting taxes on cars, food, and those related to farms and small businesses. According to Virginia's governor, "It just doesn't make any sense that someone earning only $17,000 a year should pay the same tax rate as someone earning $500,000 a year."

Performance and Accountability Initiatives

It is not surprising, then, that state governors continue to hawk performance and accountability reforms to help balance state budgets. In their 2004 addresses, they emphasized reorganizations and performance and accountability measures. Vermont's chief executive talked of a significant reorganization of that state's human services department. South Carolina's governor mapped out a detailed reorganization plan in addition to changes that already have occurred in some of that state's departments. He also suggested advancing accountability in the state "through attitudinal change." Governors of Maryland, Rhode Island, Virginia, and Wisconsin also called for new restructuring or accountability measures.

The governor of Kansas utilized "efficiency savings teams" to save "tens of millions of dollars" in the state (Greenblatt, 2004, p. 30). Oklahoma's governor asked for the application of a zero-based budgeting approach to improve productivity and reduce costs, while Vermont's governor established an institute to conduct "a top to bottom review of government operations to root out waste and inefficiencies that cost taxpayer dollars." Georgia's governor recently appointed the state's first "director of implementation" to ferret out waste in government. "I'm serious about transforming the culture of state government from top to bottom. I'm just as serious about giving Georgians the value for their tax resources," stated this chief executive (Badertscher, 2004).

The continued attraction of performance-related initiatives in state governments attests to the lasting quality of this latest budget reform trend. Different from previous attempts in the mid-20th century to inculcate "rationality" into an otherwise political process, states' more recent ventures into performance-related reforms have "stuck." Given increased political divisiveness in the states and sustained fiscal malaise—and coupled with advancements in technological capacity and considered attention by elected leaders in both branches to data collection and reporting—state employees should expect a continuing focus on performance measurement and use in the future. In the next section, we review specific performance-based requirements in the states, illustrating the longevity of this recent trend.

Performance-Based Budgeting Initiatives in the States: 1990s and Today

In the late 1990s, we asked executive and legislative budget officers about performance-based budgeting initiatives in their state governments. Responses were received from all 50 states—usually from the budget director or deputy director of the budget office in either or both branches of government. We defined performance-based budgeting as "requiring strategic planning regarding agency missions, goals, and objectives, and a process that requests quantifiable data that provides meaningful information about program outcomes" (Melkers and Willoughby, 1998, p. 66).

We focused our analyses on state law or administrative requirements that indicated heavy emphasis on strategic planning and a focus on measuring the results of government activity, not just a dictum to report performance measures somewhere in the budget process. Strategic planning, the development of performance measures, and consistent application and reporting of measures throughout the budget process support integrating measurement with management and budgeting decisions.

A multiyear perspective that is part of any strategic planning process provides historical (albeit usually brief) perspective on agency program/service, as well as the possibility of benchmarking against chosen standards of practice—processes that help advance efficiency and effectiveness in government operations. In this research, we asked about state law, pending legislation, and administrative guidelines or executive mandates with performance-based requirements (as defined above). For every state indicating such legislation, guidelines, or mandates, we secured hard copy.

Findings in 1998 Study

Our findings in 1998 indicated widespread existence of performance-based budgeting requirements across the United States. Thirty-one states (62 percent) had legal requirements in place by 1997, 16 states (32 percent) had administrative requirements, and just one state, Missouri, had a performance-based initiative in the form of an executive order. At the time, most of the performance-based legislation was just five years old or less; most had been passed in the early to mid-1990s. Also, three states—Arkansas, Massachusetts, and New York—had no formal performance-based budgeting initiative.

This is not to say, however, that these states did not engage in developing performance measures for budgeting and management application. For example, from 1993 to 1997, "Massachusetts provided that performance requirements be renewed annually in the appropriations bill" (Melkers and Willoughby, 1998, p. 67). In the end, our study found no significant differences between legislated and administratively driven performance requirements in the states.

The explicitness of state performance-related initiatives certainly varied substantially, however. States exhibited distinctive levels of detail related to prescriptions for the developing and reporting of measures, and particularly any directly stated relationship between the provision of measures and program funding outcomes. Many states required that performance data be developed and published somewhere, but few provided specifics regarding the relationship between performance measures, program results, and state funding. At that time, Texas was one of the few states with well-defined integration of performance measurement into its budgeting system. Performance measurement guidelines in this state required agencies to include six-year strategic plans with budget requests. These plans outlined agency goals, objectives, output, and outcome and efficiency measures, as well as strategies for meeting targets (Melkers and Willoughby, 1998, p. 68).

Washington's performance initiatives in the 1990s provided a somewhat unusual example of a focus on government service quality. That state's Government Performance and Accountability Act of 1994 (ESSB 6601) did call for "clear measures of performance that will result in quality customer service, accountability for cost-effective services, and improved productivity." Other legislation (ESHB 6680) stated that "agency budget proposals must include integration of performance measures that allow objective determination of a program's success in achieving goals" (Melkers and Willoughby, 1998, p. 68).

Mention of benchmarking was sporadic throughout state performance requirements in 1998. This finding is of interest given that subsequent research supports this "sometime" use of benchmarking in the states and use mostly for comparing performance in individual agencies against prior periods (Willoughby, 2004B, p. 32).

Most prescriptions for implementing performance-based budgeting in our 1998 survey were less than comprehensive, incomplete, or pilot-based, and they laid predominant responsibility with agencies for performance measurement identification, development, and reporting. Just 14 percent of states in 1998 provided incentives and penalties related to applying performance measurement. Some states did create new oversight capacity to monitor the developing and applying of performance measurement. Generally, such capacity was created in the form of a council, commission, or external board or was added to an existing office within state government. Very few called for direct citizen oversight of the performance initiative.

At the time, finding that the majority of "new" performance-related initiatives arose from the legislative branch of state governments, we concluded that this was positive in supporting the applicability of performance measurement to state budgeting and management practices. If legislators were interested in the program results and data about performance, then, having a vested interest, agencies would take seriously the process of measuring and reporting development. In fact, what distinguished this performance-related trend in states in the 1990s from those promoted earlier in the century was evidence of the acceptability of, and even requirements for, the ongoing development of measurement, a willingness to revise measurement, integration of measurement with strategic planning, some mention of benchmarking, and an incremental approach to assigning responsibility in terms of oversight capabilities.

Performance Measurement and System Maturation: 2004

When we reanalyzed state performance-related requirements in 2004, much legislation remained in place. In fact, proportions of states that have either legislative or administrative performance-based budgeting requirements are almost identical to those identified in 1998. Table 2 illustrates the breakdown between states with a legislative requirement related to performance-based budgeting (as defined on page 11) and those indicating an administrative policy or executive mandate for the performance initiative.

By 2004, 33 states (66 percent) had maintained, amended, or added legislation that prescribes a performance-based application, while 17 states (34 percent) had an administrative requirement or executive mandate for such application. (Appendix I specifies state requirements.) Notably changed from the last survey, Arkansas, New Mexico, and Missouri passed performance-related legislation and moved into a new category regarding type of performance initiative.

It remains, too, that neither the legislated nor the administrative requirement necessarily calls for comprehensive application. For example, Alabama does not have a statutory requirement for the conduct of performance-based budgeting statewide. A pilot application was legislated, given that the state does not have the funds or the staff to implement

Table 2: Performance-Based Budgeting (PBB) Requirements in the States: 2004

Legislated PBB Requirement		Administrative PBB Requirement
Alabama	Missouri	California
Alaska	Montana	Illinois
Arizona	Nevada	Indiana
Arkansas	New Mexico	Kansas
Colorado	Oklahoma	Maryland
Connecticut	Oregon	Massachusetts
Delaware	Rhode Island	Michigan
Florida	South Carolina	Nebraska
Georgia	South Dakota	New Hampshire
Hawaii	Tennessee	New Jersey
Idaho	Texas	New York
Iowa	Utah	North Carolina
Kentucky	Vermont	North Dakota
Louisiana	Virginia	Ohio
Maine	Wisconsin	Pennsylvania
Minnesota	Wyoming	Washington
Mississippi		West Virginia

performance-based budgeting across all agencies. Each agency must list performance goals, although they are not tied to the funding process. Several agencies do use a performance-based budgeting approach internally, however, including the Department of Mental Health and Rehabilitation. Kentucky's performance-based budgeting law also prescribes a pilot approach to implementation.

Other initiatives can be found in a compendium of laws that point to measurement production and a performance approach in specific agencies. Utah's performance-based budgeting legislation encompasses State Code Title 36, which concerns a Strategic Planning Committee, and Title 62A, which concerns measures for human welfare services. Tennessee's Governmental Accountability Act of 2002 requires a staggered, phased-in approach to implementing performance-based budgeting across all state agencies. Although in New Hampshire the performance-based budgeting experiment was repealed in 2003, under Chapter 319: 41, Laws of New Hampshire, it is conducted in some agencies. Recent examples include the Bureau of Turnpikes in 2001 and the Department of Environmental Services in 2002 (accessible online at www.gencourt.state.nh.us/lba and at the Audit Reports and Performance Audits links).

On the other hand, some states have systems that have evolved since legislation was first implemented in the 1990s. For example, Wisconsin implemented pilot performance measurement in the 1999–2001 biennium through a 1997 law requiring that the Department of Transportation and Technology for Educational Achievement Board (TEACH Board) prepare budget requests using performance-based budgeting practices. Budget instructions to agencies for the 2001–2003 biennium require agencies to include performance measures, dictate the number of measures by size of agency (small agencies must include at least two measures for their activities; large agencies must include at least four measures), and require that budget requests include actual outcome data for selected measures for fiscal year 2000.

Other states have changed their approach to, if not the focus of, their performance initiative. Previous law in North Carolina (Ch. 18 HB 53 passed in 1996 at the second special session), notwithstanding the provisions of G.S. 143-16.3, Section 10(b) of Chapter 324 of the 1995 Session Laws, stipulated:

> [The] Director of the Budget may expend funds to continue to develop performance/program budget analysis for the 10 program areas of North Carolina State government that were identified by the Governmental Performance Audit Commission. The Office of State Budget and Management shall report to the Joint Legislative Commission on Governmental Operations by December 1, 1996, regarding the development of performance/program budget analysis of State departments and institutions, its effectiveness, whether it should be continued, and any modifications that should be made.

The most current budget manual, however, does not mention performance-measurement requirements specifically, although it does point agencies to the Executive Budget Act §143.8-10.1A regarding information and reporting requirements to the State Budget Office (see http://www.osbm.state.nc.us/files/pdf_files/2003_budget_manual.pdf). Assessment of Washington's budget process by 2004 indicates that the state "recently adopted a statewide results-based approach that complements the traditional focus on expected changes to the current expenditure base. This process starts by identifying the key results that citizens expect from government and the most effective strategies for achieving those results. Agency activities were reviewed in this statewide context and prioritized in terms of their contribution to achieving these statewide results" (Washington State's Budget Process, available at http://www.ofm.wa.gov/reports/budgetprocess.pdf).

It is clear in reading current state government performance-based budgeting requirements that, just as in 1998, few have statewide, uniform standards with which to measure every agency's performance and that movement continues to be slow in the use of benchmarking for budgeting purposes. According to Chi, Arnold and Perkins (2003, pp. 441–442), just 11 states indicate some sort of statewide application: Arizona, Delaware, Louisiana, Maryland, Minnesota, Missouri, New Mexico, Oregon, South Dakota, Virginia, and Wyoming. Maryland's "managing for results" administrative performance initiative has comprehensive standards for measuring agency performance. In Missouri, that state's Strategic Planning Model and Guidelines establishes a common strategic planning model that includes measures of agency performance.

Performance measurement requirements in the states certainly reflect a national trend toward performance *management*. In our view, state requirements are not dramatically different in purpose from what exists in either the 1993 Government Performance and Results Act (GPRA), at the federal level, or what is found in many local government requirements regarding performance measurement. At all levels, reforms related to performance measurement have sought to focus attention on outcomes rather than outputs and to link to budget and managerial decision processes.

GPRA, like many state performance reforms, requested the linkage of performance requirements with strategic plans and provided for a staggered implementation process with pilot application. GPRA is probably more comprehensive than many state initiatives—folding together strategic planning, performance measurement, management improvements, benchmarking, performance budgeting, and results oversight as well as a section that considers protocol for exceptions or waivers to requested reforms. GPRA also provided definitions to agencies along with reporting and other guidelines.

Changing Expectations

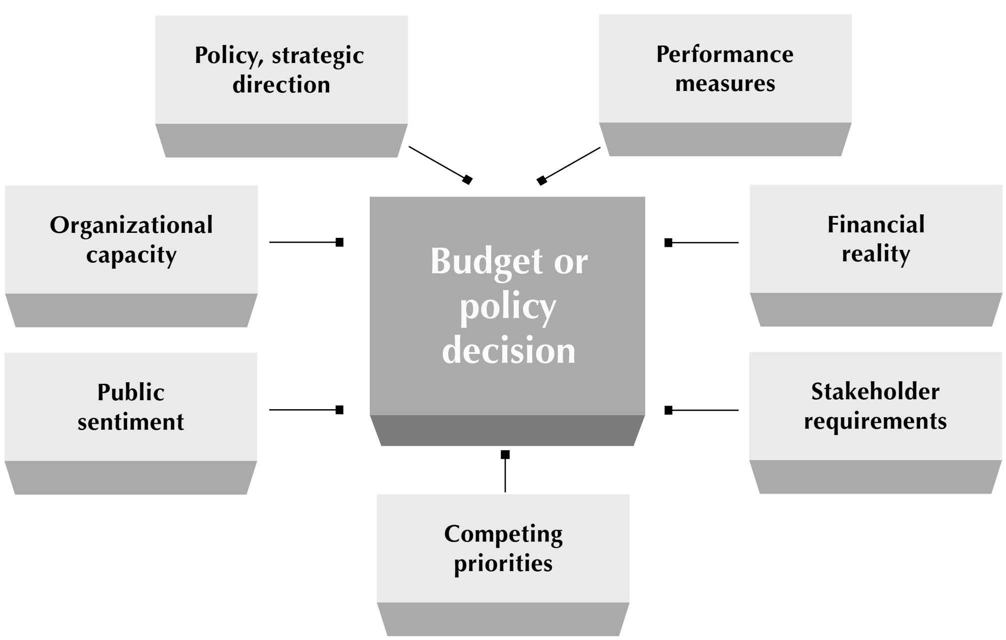
Performance-based budgeting requirements of the last decade or so are not that dissimilar to prior initiatives intended to rationalize decision making in the public policy process. While not always successful, integrating performance goals into budgetary decision making has been attempted in numerous prior reform efforts.

The efforts we witnessed throughout the 1990s and those of today include several important changes from earlier ones. First and foremost, the integration of efforts like performance-based budgeting has occurred with other public management initiatives. Today, it is more common for performance-budgeting efforts to be linked to other public management initiatives, most notably strategic planning. This integration creates momentum within organizations that can lead to a greater understanding of and support for the use of performance measures.

Related to this integration with other public management initiatives is a change in philosophy about the role that performance data plays in the decision-making process. In earlier efforts, the policy decision process was viewed as a more linear process. Today's reforms, however, acknowledge the complexity of not only public programs but also the budget process and its relationship to program performance. For example, in Washington the budget guidelines are clear that performance data inform, but do not drive, budgetary decision making. As shown in Figure 2, the actual budget or policy decision involves performance measures but also is affected by a variety of other factors, such as financial realities and public sentiment. This squares with our state budget process model presented earlier. In the operating budget instructions, the State of Washington, in fact, points to improved communication as one goal of advancing the use of performance measures:

> The budget is one of the most important tools for implementing policy and achieving results. In order to leverage this tool as much as possible, we use performance budgeting to ensure that financial decisions support ever-improving organizational performance by:
>
> 1. Targeting resources to the most important results and targeting resources to the most effective strategies;

Figure 2: Budget or Policy Decisions as Described in Washington State Operating Budget Instructions (Washington State, 2001)



2. To make performance information readily available to those who make resource decisions; and

3. To communicate performance accomplishments associated with the agency's enacted budget.

Also, the technological advances of the last two decades have dramatically changed the way performance data can be maintained and examined over time. User-friendly spreadsheets and databases have revolutionized our ability not only to maintain and track performance data, but also to integrate it with budget data and communicate it to stakeholders. This added capacity has enhanced expectations of what can be accomplished regarding measurement development and data manipulation.

Ultimately, the current trend in performance-based budgeting has embraced a more holistic view of performance measurement rather than simply an emphasis on changing appropriation levels. This orientation is evident in the language of requirements as well as in the attitudes of working practitioners. To integrate performance measurement across an organization and other management processes, information may be gleaned that is of use to management and stakeholders. In the language of performance measurement, information gained from the process and changes in communication patterns and relationships become somewhat of an interim outcome of using performance measurement. Measures and their supporting systems are developed concurrently with new and changing communication patterns and channels.

Other research (Joyce, 1993) finds that performance measurement in the budgeting process has had its greatest success as *a management* and *not a budgeting* tool. Joyce notes that performance budgeting and the information that results from its application help managers of public programs understand the activities carried out under their purview, thereby contributing to their ability to make more successful changes to programs. Compared to past reforms, modern technology supports these initiatives better, providing practitioners more choices in developing, massaging, tracking, and analyzing measures, more effectively and efficiently.

State Experience with Performance Measurement

Using Performance Measures in the Budget Process

The expectation that performance data plays an important role in budgeting decisions is consistent with the tone set by legislative and administrative guidelines in the states. And as performance measurement has become increasingly institutionalized at all levels of government in the United States, researchers and practitioners have looked for evidence of active use of performance data in appropriation and other fiscal decisions. Not only when information becomes available to public administrators and budgeters but also how they interpret it color how they make decisions and perform their duties throughout the government budgeting process (Thurmaier and Willoughby, 2001). Further, individuals' orientation to work is influenced by the organizational culture within which they function. The acceptance and institutionalization of performance legislation or requirements in a government naturally have some effect on the working culture.

Research shows that performance measurement use is considered advantageous to communication flow among budget actors—to increase awareness of the results of government activities, to highlight improved quality of service, and for managers to more easily discern and change strategies for realizing program results (Melkers and Willoughby, 2001 and forthcoming). On the down side, the use of performance information has not been found as effective (if at all) in changing spending levels of agencies. That is, while governments continue to strongly emphasize integrating budgeting with performance assessment, there is little recognition of how performance measurement applies to budget balancing.

In fact, research has demonstrated few active uses of performance data specifically for quantitative, fiscal decisions. Instead, such work has uncovered a range of other managerial and organizational uses of performance measures and data that is consistent with the overall goals of "performance management" and with "strategic management" philosophies (Melkers and Willoughby, 2001).

For example, at the local government level, recent research has found that performance measurement remains most essential for managerial decisions and communication purposes, while its impact on appropriation outcomes is quite limited (Willoughby and Melkers, 2000; Willoughby, 2004B, and Melkers and Willoughby, forthcoming). These expanded managerial uses of performance measurement are important to our understanding of the full impact of these requirements and activities on public organizations. And, while public administrators have attributed few budget allocation decisions directly to performance measurement input, they do report important managerial, communication, and long-term organizational effects and benefits.

Considering these findings, are there distinguishing characteristics of the performance measurement systems in state governments that could allow for greater integration of performance measurement into budgeting processes and decisions? Does the nature of a state government itself contribute in any way to the applicability of performance measurement? We present models in the "Thinking Broadly" section that move beyond purely descriptive context to a more complete picture of the relationship among various governmental, organizational, and individual characteristics with performance measurement use. We find that, contrary to sustained expectations and budgetary difference over the long term, uses of performance measurement for budgeting purposes have been limited though dramatically superseded by communication and other effects.

Expanded Understanding of the Use of Performance Measurement

An important objective of the institution of performance measurement at all levels of government in the United States is to enhance the nature and quality of decision making in the policy and budget environments. As previously noted, with the institutionalization of performance measurement in government, we can expect to witness important changes in the use of such information.

Our recent research points to strongly expanded uses of performance measurement in American governments. Although performance measurement is instituted in these governments to inform the budget process, we have learned that many of its most dramatic uses are relevant to but do not determine specific budget allocation decisions. Our 2000 survey data found performance measures to be used most prevalently for advancing communication among budget actors and for integration with other public management tools, as shown in Figure 3. We find this to be true for state budgeters as well as agency administrators and staff. Importantly, measurement applicability goes well beyond its use for "cutting the budget."

We also see in Figure 3 some fairly substantive activities for which performance measurement use

Figure 3: How Performance Measurement Is Used in the States

	State Budgeters	State Agency Staff
More Frequent	• Strategic planning (more than one-year time horizon)	• Strategic planning (more than one-year time horizon)
	• Reporting results to management and staff	• Reporting or accountability to elected officials
	• Reporting or accountability to elected officials	• Reporting results to management and staff
	• Assessment of program results	• Reporting or accountability to citizens, citizen groups, or media
	• Program planning/annual business planning/oversight activities/programmatic changes	• Program planning/annual business planning/oversight activities/programmatic changes
	• Budgeting, including resource allocation or discussion about resources changes	• Assessment of program results
	• Establishing or changing of policies	• Budgeting, including resource allocation or discussion about resources changes
	• Reporting or accountability to citizens, citizen groups, or media	• Establishing or changing of policies
	• Managing operations or daily decisions	• Managing operations or daily decisions
	• Specific performance improvement initiatives	• Evaluation to determine underlying reasons for results
	• In establishing contracts for services	• In establishing contracts for services
	• Personnel decisions, including staffing levels and evaluations	• Specific performance improvement initiatives
	• Evaluation to determine underlying reasons for results	• Personnel decisions, including staffing levels and evaluations
	• Benchmarking, or comparison of program results with other entities	• Determining which programs, local jurisdictions, or contractors to target for special studies
	• Holding local jurisdictions accountable for agency-funded or agency-regulated programs	• Benchmarking, or comparison of program results with other entities
Less Frequent	• Determining which programs, local jurisdictions, or contractors to target for special studies	• Holding local jurisdictions accountable for agency-funded or agency-regulated programs

is rather lackluster. Personnel and staffing decisions, benchmarking program results against other entities, and targeting or holding local governments and contractors more accountable are activities which both state budgeters and agency staff indicate are a less frequent use of performance measurement.

Performance Measurement's Role in Enhancing Communication Among Important Budget Actors

One enduring goal of the performance-related reforms evidenced in the states is to improve budgetary decision making. What does this mean? Most might consider this to mean reducing appropriations, cutting expenditures or debt, or, at the very least, indicating the means of operating government programs more efficiently and effectively. Undoubtedly, these goals have been prominent in innumerable previous budget reforms in American governments—reforms often tossed in part or totally holding to unrealistic objectives. Part of the lasting quality of performance measurement applications in the states today, however, is a refocusing of goals that consider reform for the purposes of advancing communication and understanding among budget actors in the decision-making process.

We recognize that public budget decisions are fraught with politics and other factors that will not change immediately with the introduction of new processes. Yet, in spite of the cynicism about (or lack of) these effects on the budget process, administrators today have acknowledged that developing and implementing performance measurement have resulted in some "spillover effects" on communication during the budgeting process. Again, considering the implementation of a performance measurement system through its own lens, communication and information effects may be viewed as "interim" or "initial" (positive) outcomes of the process itself.

Our 2000 survey of state budgeters and agency staff addressed a range of questions about how developing and using performance measurement affects specific communication and information needs. (See Appendix II for survey methodology.) Specifically, respondents were asked the questions presented in Table 3 on page 20. Respondents were also asked how effective the development and use of performance measures had been in their agency.

As seen in Table 3, some differences exist between groups of respondents. State agency practitioners are slightly more positive in their views about the effects of performance measurement on communication issues. They are also slightly more positive than state budgeters about whether performance measurement has resulted in any real appropriation changes. This is particularly true when asked whether performance measurement has "increased awareness of and focus on results." State agency practitioners also note more changes in the substance or tone of discussion among policy makers as a result of performance measurement.

Overall, state budgeters are less enthusiastic about communication effects. At the state level, budget officers generally agree about effects on communication and understanding of program activities that result from implementing performance measurement. On the other hand, budgeters willingly admit that communication has improved between agency personnel and budget officers through the implementation of performance-based systems. Slightly more than half the respondents "strongly agreed" or "agreed" when asked whether the implementation of performance measures had improved communication between agency personnel and the budget office and between agency personnel and legislators. Budget officers from states where performance budgeting is legislated tended to feel more strongly about improvements in communication efficacy (Willoughby and Melkers, 2001a). They also note a change in substance or tone of budget discussions as legislators focus more strongly on results.

Table 3: Perspectives of State Budgeters and State Agency Practitioners on the Effects of Performance Measurement: Mean Responses

	State Budgeters (n=60)	State Agency Practitioners (n=152)
To what extent do you agree with the following? (scale: 1=strongly disagree 4=strongly agree)		
Communication between agency personnel and the executive budget office has improved with the implementation of performance measures.	2.62	2.69
Communication between agency personnel and legislators has improved with the implementation of performance measures.	2.54	2.69
Because of the implementation of performance measures, the substance or tone of budget discussions among legislators has changed to focus more on results.	2.53	2.47
Overall, program staff is aware of the desired program/service results.	2.89	2.92
Using performance measures has enhanced the management of the programs in our agency.	2.76	2.87
In your opinion, how effective has the development and use of performance measures been in your agency regarding: (scale: 1=not effective 4=very effective)		
Improving communication between departments and programs?	2.19	2.39
Improving communication with the executive budget office?	2.38	2.41
Improving communication with the legislature and legislative staff?	2.29	2.38
Changing the substance or tone of discussion among legislators about agency budgets?	1.98	2.17
Changing the substance or tone of discussion among legislators about oversight of agencies?	1.92	2.10
Changing the questions legislators or their staff ask government managers or executives?	2.04	2.06
Changing appropriation levels?	1.55	1.94
Communicating with the public about performance?	1.98	2.21
Increasing awareness of, and focus on, results?	2.38	2.74

Thinking Broadly: Managerial Uses of Performance Measurement

An important aspect of current performance measurement initiatives in the United States is the consideration of these reforms as a *public management tool*. If current performance measurement efforts are part of larger public management strategies intended to not only inform budget decisions but also enhance managerial processes, we should expect to see other effects on organizational processes. The intention of many public management efforts, such as strategic planning and its integration with measurement processes, is intended to improve the operations, outputs, and results of public agencies. Therefore, we might expect to see more comprehensive, long-lasting, positive effects of performance measurement as a result of the adoption of these management tools.

While performance measurement has certainly *informed* budget decision processes and has significantly enhanced communication between budget and policy actors in the public environment, what effects might it have in the long run? Will there be changes in the effectiveness of agency programs? Is measurement data used to change strategies to achieve desired results? Have agencies witnessed changes in programs/service quality and responsiveness to customers? And, through implementing the performance measurement process itself, are there cultural changes that reflect an improved understanding of the relationship between processes and results?

Our results are encouraging as regards the sustained influence of performance measurement use. When asked about performance measurement effects, executive branch budget officers in the states indicate that performance budgeting has been most effective in 1) improving effectiveness of agency programs, and 2) improving decision making in government. Legislative budget officers indicate that performance budgeting had been about equally effective in each of these variables. It is interesting to note, however, that budgeters from states in which performance-based budgeting is legislatively rather than administratively required are slightly more positive regarding its effectiveness in improving decision making in government. Perhaps the (self-imposed) legal stimulus to conduct performance-based budgeting adds weight to expected outcomes of the process. A more optimistic explanation may be that the improved information produced by a such a system is more strongly incorporated into the naturally political decisions of this branch of government.

What Makes a Difference?

In order to peer into the black box of performance measurement use, we propose a series of models that may be used to move us beyond purely descriptive assessment of critical factors in the implementation process. This analysis provides us with a more complete picture of the relationship among various governmental, organizational, and personal characteristics and performance measurement use.

No doubt, understanding the factors for successfully applying performance measurement to state government operations and budgets is extremely important to these officials right now, particularly given current political and fiscal environments. And, agency staff require continued encouragement from important budget actors that the information they are required to provide is filtered into decisions about agency budgets. In order to explore the relationship among various characteristics of performance use in these governments, we constructed a series of multiple regression models. Multiple regression is an important statistical tool for identifying relationships between variables as well as the relative strength of influence of certain variables.

From our 2000 survey, we found that use of performance measurement results in three primary categories of effects—budgetary effects, communication effects, and management effects. In developing an explanatory model that would identify the factors that influence each of these types of use, we derived three distinct dependent variables from these different effects. Overall, multiple regression analysis allowed us to identify the factors that are most important in predicting *budgetary*, *communication*, and *management effects* related to the use of performance measurement in state governments. Figure 4 illustrates the variables and the relationships of these models.

The dependent variable of each of three core models is a continuous variable created as a summative index of items by type of effect. In the first model, the dependent variable is a *budgetary effects index;* in the second model, *communication effects index;* and in the final model, *management effects index.* As shown in Appendix II, Table A.1, the budgetary effects index reflects respondents' ratings of budgetary uses for performance measures, such as affecting cost savings and reducing duplicative services. The communication effects index reflects variables such as enhanced communication with legislators, executive budget officers, and other stakeholders. The management effects index reflects measurement of long-term organizational variables, such as enhanced efficiency, effectiveness, and program management, and encompasses the administrative activities of both planning and management.

Factors That Influence Performance Measurement Use

In any policy analysis, addressing questions of influencing factors is useful, yet knowing what is not influential is also important. Our regression analysis allowed us to identify the factors that significantly (positively or negatively) affect budgetary, communication, or management effects related to the use of performance measurement (see Tables 4

Figure 4: Developing a Model of Performance Measurement Use and Effects

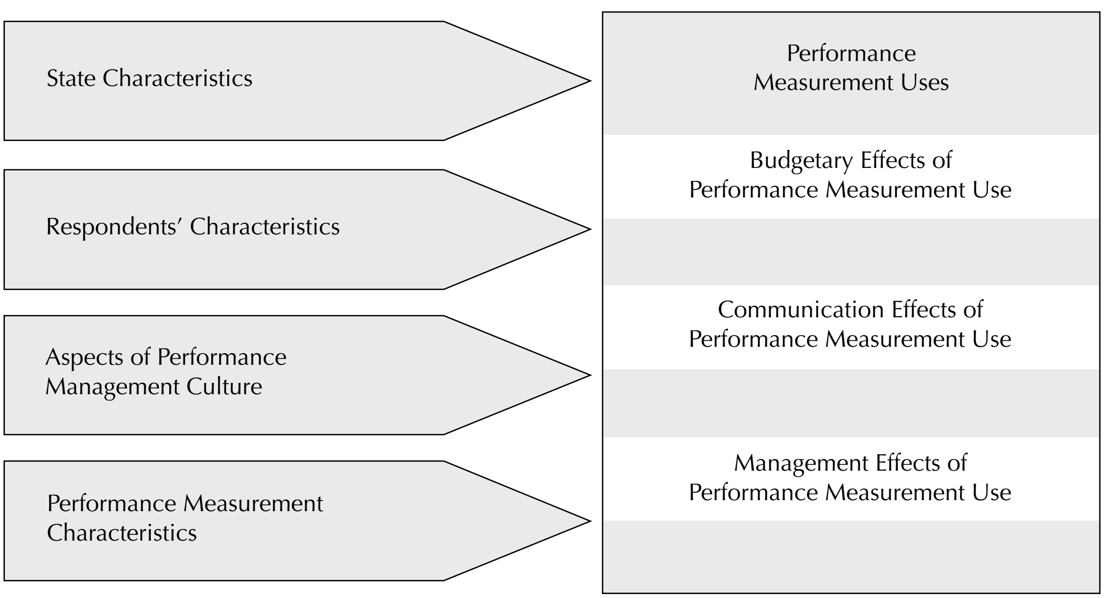


Table 4: Factors That Have a Significant Effect on Performance Measurement Use

Uses/Effects	Effect on Use	Factors
Budgetary Uses		**State Budget Staff**
	-	Respondents' experience with performance measurement
	+	Measurement density
		State Agency Practitioners
	-	Lack of leadership support
	+	Measurement maturity
Communication Uses		**State Budget Staff**
	+	Measurement density
	+	Measurement maturity
		State Agency Practitioners
	-	Respondents' years of experience in own government
	-	Lack of leadership support
	+	Inclusion of other government entities in measurement process
Management Effects		**State Budget Staff**
		None are significant
		State Agency Practitioners
	-	Respondents' years of experience in own government
	-	Lack of leadership support
	+	Formalized managing for results process
	+	Measurement maturity

and 5) and also allowed us to answer this important question: Which factors are *not* significantly related to these outcomes or effects?

It is interesting to find that neither respondents' government experience nor the number of years respondents were employed in their state government is significant for agency staff for the communication effects and management effects models. However, respondents' experience with performance measures is significant in explaining budgetary effects for state budgeters. Both for years of government experience and for reported years of working with performance measures, the reported effects decreased.

While at first this may be perplexing, anecdotal evidence suggests that practitioners become jaded regarding the value of performance measurement

Table 5: Factors That have No Significantly Statistical Relationship with Performance Measurement Use

State Government Characteristics • State general revenues • Government size (population) • Whether or not state has performance measurement legislation • Managing for results grade
Respondents' Characteristics • Years employed in current office
Performance Management Culture • Performance measurement-related technology problems • Current or prior use of program evaluations

and view new efforts through a lens of prior, often unsuccessful, experiences. This is particularly striking in the relationship between performance measurement experience and budgetary effects. These results do point out that various budget actors interpret such systems differently—that is, organizational perspective influences consideration of a budget process requirement.

Regarding organizational culture influences, leadership support is important in realizing the benefits of performance measurement, but only for agency staff. For this group, leadership support—although significant for each of the three dependent variables—was most significant to and had the strongest relationship in regard to budgetary effects, followed by management effects and, finally, communication effects. For budgeters, only measurement density and individual experience with performance measurement were useful in predicting the extent of budgetary effects, while measurement density and maturity were significant in predicting communication effects. No performance measurement culture variables were significant in the budgeter models, although cultural factors did emerge as significant for agency staff, including:

- Inclusion of other state units in the performance measurement process
- Formalization of a managing-for-results process

In terms of participation in the measurement process, state governments are not paying as much heed to client responses in the delivery of state services as has been found to be the case for local governments. The inclusion of citizens only showed itself as significant in predicting the management effects of performance measurement when all state respondents were grouped together, while the inclusion of other state organizations was significant in predicting communication effects of performance measurement for state agency staff. An explicit managing-for-results policy does seem to influence the management effects of performance measurement use for state agency staff. This supports the view that a participatory process yields more productive and longer-lasting reform.

The extent to which performance measures are shown in the budget process has some effects on use. Here, we find that measurement density (which we define as evidence of the use of performance measures in budget processes) is significant for both the budgetary and communication effects among state budgeters; however, measurement transparency (which we define as the presence of performance measures in budget documents) is not. These results seem to confirm that the institutionalization of performance measures may have some effect at the state level. In addition, measurement maturity—the extent to which performance measures are used in a range of management applications, such as benchmarking and planning—is significant for the budgetary and management effects for state agency staff, as well as for the communication effects model for budgeters.

We find little relationship between state characteristics and performance measurement effects. While it may not be surprising that the size or budget of a state may not help explain the effects of performance measures, it is somewhat surprising that a state's managing for results grade, as reported by Syracuse University, is not found to be significant for any of the models in predicting effects from using performance measurement.[2] We know that all states have either administrative or legislative requirements to conduct performance measurement. Yet, the source for this requirement has no significant relationship to the budgetary, communication, or management effects of performance measurement use.

Finally, our results illustrate distinctive perspectives of state budgeters and agency staff regarding performance measurement use. Findings show that the respondent's office was significant in predicting both the budgetary and management effects of performance measurement use. Agency staff are more likely to witness budgetary and management effects from measurement use. Examination of all responses points to the importance of leadership, the inclusion of other organizational units within state government in the measurement development process, and the extent to which measures have been integrated with other public management efforts. It is hopeful that including citizens in developing performance measures emerges as significant in predicting the management effects of performance measurement use. Although this is not a strong relationship, it does highlight the importance of external inclusion in the long-term viability of performance measurement systems.

Problems Implementing Performance Measurement Systems

While our research has pointed to important and expansive uses of performance measurement, our analyses have also teased out some problems with implementation. We know that instituting significant changes such as performance measurement applications can be a difficult and bumpy road. Table 6, on page 26, illustrates aspects of the use of performance measurement that budget officers and agency staff perceive as significantly problematic in their state. For this analysis, budget officers and agency staff were grouped by state and office to identify any bias that might result from multiple responses from one office or agency.[3] Significant problems for budgeters, in particular, include:

- Lack of weight in both management and budget decisions
- Lack of use by managers and elected officials
- Database incompatibilities
- Lack of interest by leadership
- Accuracy of performance measures

Overall, smaller proportions of agency staff consider any of these items to be problematic to measurement use. Database incompatibility is a significant problem for agency staff, followed by too many outside factors affecting results.

Comparison of the budget and agency perspectives yields interesting distinctions. For example, budget officers and agency staff have significantly different perceptions regarding the problems of the lack of regular use of performance measures by top management and elected officials, and the lack of interest in leadership in using performance measures. For both these problems, budget officers seem to recognize the necessity of having strong and sustained leadership to support performance measurement application for effective *budgeting* results. On the other hand, agency staff are significantly more likely than these budgeters to consider that too many outside factors affect the results trying to be achieved.

These results illustrate the differing perspectives. Whereas agency staff consider the problems related to performance measurement use to be more managerial (database linkage issues, collection of data, lack of training), the budget officers seem to consider the problems to be more related to politics—lackluster leadership and the weight that measurement carries in budget and management decisions.

It should be somewhat gratifying to consider the items that are not considered very problematic, if at all, by either group:

> Budgeters do not see reporting of measures to executive leadership, legislators, citizens, or the media as much of a problem. Again, budgeters are in the business of preparing materials for reporting purposes, and with the advent of the Internet, much reporting has become fairly automatic, or at least tremendously more accessible to all these groups. Somewhat similarly, agency staff relegate some reporting to the bottom of the list of problems related to performance measurement. On the other hand, considering budget role and orientation, agency staff do not consider that performance measures are not reflective of what their programs are trying to accomplish. Given their role in the collection of data and formal reporting requirements, even if not chiefly responsible for measurement choice, agency staff do have strong influence on the evolution of measures over time. Lack of cost information about programs is not considered a significant problem to this group either (just nine percent consider this a significant problem compared to a quarter of budgeters who view such information lacking) (Willoughby, 2004, 37).

Table 6: Budgeter and Agency Staff Perceptions of Significant Problems Related to Performance Measurement Use

Percent of states in which budgeters consider the following as a *significant problem* to successful performance measurement application		Percent of states in which agency staff consider the following as a *significant problem* to successful performance measurement application	
57%	Lack of regular use of performance measures by top management and elected officials (35)*	43%	Inadequate link between performance measurement database and accounting/budgeting database (47)
44%	Performance measures do not carry enough weight in budget decisions (34)	40%	Too many outside factors affect the results trying to be achieved (48)*
43%	Inadequate link between performance measurement database and accounting/budgeting database (35)	33%	Collection of performance data (48)
43%	Performance measures do not carry enough weight in management decisions (35)	30%	Development of performance measures that accurately reflect program activities (48)
43%	Lack of interest of leadership in using performance measures (35)*	30%	Lack of understanding of how to use performance measures (48)
40%	Development of performance measures that accurately reflect program activities (35)	25%	Performance measures do not carry enough weight in budget decisions (48)
39%	Lack of understanding of how to use performance measures (36)	25%	Lack of training of staff responsible for collection and maintenance of performance data (48)
34%	Lack of apparent link of performance measures to higher-level benchmarks (35)	25%	Maintenance of performance data (48)
31%	Collection of performance data (35)	23%	Lack of regular use of performance measures by top management and elected officials (48)*
27%	Maintenance of performance data (34)	21%	Lack of apparent link of performance measures to higher-level benchmarks (47)
27%	Lack of cost information about programs (34)	21%	Performance measures do not carry enough weight in management decisions (48)
26%	Lack of adequate technology to support performance measurement effort (35)	21%	Lack of adequate technology to support performance measurement effort (47)
26%	Performance measures are not reflective of what programs are trying to accomplish (35)	21%	Effectively reporting performance data to the media (47)
20%	Lack of training of staff responsible for collection and maintenance of performance data (35)	21%	Effectively reporting performance data to citizens (47)
14%	Too many outside factors affect the results trying to be achieved (35)*	17%	Effectively reporting performance data to the legislature (47)
14%	Effectively reporting performance data to the legislature (35)	13%	Lack of interest of leadership in using performance measures (48)*
12%	Effectively reporting performance data to citizens (34)	11%	Effectively reporting performance data to executive leadership (47)
9%	Effectively reporting performance data to the media (34)	10%	Performance measures are not reflective of what programs are trying to accomplish (48)
9%	Effectively reporting performance data to executive leadership (35)	9%	Lack of cost information about programs (47)

*Items are statistically significant at the 0.05 p-value or less. Note: The number in parentheses indicates the number of respondents.

Source: Willoughby (2004). "Performance Measurement and Budget Balancing: State Government Perspective." Public Budgeting and Finance *(Summer) 24, 2: p. 36.*

Conclusions for Public Managers

The assessment of a decade's worth of research yields encouraging results. That is, evidence shows that performance measurement can have important and influential effects on the management of public programs as it changes the focus of discussions and even the nature of communication and relationships among budget actors in state governments. As one administrator from Texas noted:

> Performance measures have helped communication with the state government by focusing on relevant issues. On the other hand, without communicating priorities, it would have been impossible to formulate meaningful performance measures that would improve the government. Communication is also a component of the leadership factor. Communication about the vision, purpose, and objectives occurs from the top of the government and must be clear and follow up on the objectives.

Our results show real and positive effects of performance measurement application in state governments—specifically regarding the management of agency programs, and a bit less so regarding budgeting for them. We summarize these findings as follows:

Finding 1: The use of performance measurement is pervasive across the states. Whether legislatively or administratively instituted, performance measurement systems in the states have evolved rather than withered in the last decade. Use of performance measurement is now entrenched in state management practices.

Finding 2: State performance measurement systems are continually being enhanced. State elected officials, budgeters, and agency staff remain interested in making improvements to their systems to broaden applications across agencies and to develop better measures that more accurately reflect program accomplishments. Research results illustrate a commitment to performance-based decision making as well as a continuing quest to advance performance measurement applications in the states.

Finding 3: The use of performance measurement in the states has improved communication among state government budget actors. Our findings show that performance measurement use has advanced communication between and among executive agencies, as well as between and among agencies, the executive budget office, and legislators and their staff (Willoughby and Melkers, 2001b). Although we cannot definitively point to the use of performance measurement as changing state appropriations, we can say that the *substance* and *quality* of discussion about government budgets and programs among many working within these governments has been improved because of such use.

Finding 4: The communication effects from using performance measures are not just internal to state governments. Rather, our findings indicate that communication with external stakeholders is often considered "effective" or at least "somewhat effective" by state budgeters, administrators, and staff. Specifically, communication with the public about government performance has improved in the states, albeit not as markedly as it has amongst those "inside" state government. Further, reporting to external stakeholders about government performance is not considered by state budgeters or administrators to be problematic. As those in government become even more adept at measuring and explaining program performance, we can expect that communication to those outside of government will continue to improve—both in the understandability of reported material, as well as the extent to which information is disseminated. This bodes well for advancing citizen input to budget and management processes in the states.

Finding 5: Concentrating on outcomes rather than outputs advances state management and budget practices. We should expect that the more substantive the measure, and the more entrenched the performance measurement system in the state budget process, then state managers and budgeters would realize greater understanding about government operations and the results of those operations. In fact, we found that respondents from governments that report more developed systems of performance measurement, where measures reflect more outcomes than activity-based measures, also indicate stronger, improved communication effects. This suggests that, although challenging to develop, sound outcome measures add value to the deliberations about government activities and programs.

Finding 6: The use of performance measures for benchmarking is still in its infancy. This is a bit surprising, though understandable. Our past research findings indicate that the most prevalent type of benchmarking conducted in states by both budgeters and agency staff is a comparison of agency performance with prior periods—97 percent of budgeters and 98 percent of agency staff noted to us that they "sometimes" or "always" conduct this type of benchmarking activity. The next most popular forms of benchmarking conducted are comparisons of agency performance with other similar agencies in other governments, and then with national standards or professional guidelines. However, the proportions of budgeters and agencies applying this type of benchmarking (~80–88 percent for both groups) indicate just "sometimes" and not "always" concerning the use of performance data (Willoughby 2004b). This is an area in which most states can do better, and probably will with time. Somewhat related to our fifth finding, as states become even more sophisticated in measuring agency performance, as more reliable and valid measures are developed, it will become easier to make comparisons across time periods, across agencies within the same government, with agencies in other governments, and with national, professional, and other established standards.

Finding 7: Measurement systems in the states are not comprehensive or comprehensively applied. Most states have applied a stepped or staggered approach to performance measurement implementation—not all agencies are brought on board at the same time and not all agencies must provide the same amount of information within the same time frame. This is to be expected and is no doubt recognition on the part of state administrators (and legislators) that real change, especially in government, occurs slowly rather than all at once. Pilot applications are laudable as long as the effort is sustained.

Finding 8: The use of performance measurement is improving, albeit slowly. This finding actually brings us back to our second finding (state performance measurement systems continue to evolve): They are progressing, but slowly. Given the multitude of budget and management reforms evidenced, attempted, and often discarded by American governments in the last century, the evolution of performance measurement use in state governments suggests a needed permanency.

The past decade of research about performance measurement in the states has been fruitful. As well, the current effort to present explanatory models of performance measurement use in the states provides greater specificity of the factors that influence successful use. We are able to point to much progress in the states in terms of advancing discussions and deliberations about the performance of government agencies and programs. Perhaps most importantly, we have found that the problems noted by state practitioners regarding performance measurement use are *not* insurmountable. That is, we conclude that focused, sustained, and visible organizational and leadership commitment to a performance-based management system is one avenue to institutionalizing performance measurement use for management and budgeting purposes.

Appendix I: Current Performance Measurement Legislation in the States[a]

State	Legislation	Year Passed
Alabama	State Code 41-19-11	1995
Alaska	State Code 37.07.010	2002
Arizona	State Code 35-113-115.5	1997
Arkansas	ACT 1463 of 2003	2003
Colorado	State Code 2-3-207	2001
Connecticut	Sec. 4-73(b) CGS	1985–1986
Delaware	State Code 70 Ch. 492 and Title 29 Part V Ch. 60B	1996, 1997
Florida	State Code Ch. 216	1996
Georgia	State Code 45-12	1993
Hawaii	State Code 101 Sec. 26.8	1970
Idaho	State Code 67-19	1994
Iowa	State Code Ch. 8.22	2001
Kentucky	HB 502 Part 3 Section 35	2002
Louisiana	State Code 39-87.2	2003
Maine	State Code Title 5 Ch.151-C, Sec. 17.10K-Q	1999
Minnesota	State Code Ch. 16A.10	2003
Mississippi	State Code 27-103-153 through 27-103-159	1996
Missouri	Revised Statutes, Chapter 33.210	2003
Montana	State Code 17-7-111	1999
Nevada	State Code 353.205	1996
New Mexico	MNSA 6-3A-1	2001
Oklahoma	State Code 74-9.11	1975
Oregon	State Code 285a.150	1993
Rhode Island	State Code 35-3-24, Section 16 Article 1	1996
South Carolina	State Code 1-1-820	1995
South Dakota[b]	State Code 4-7	1972; amended 1985; §4-7-35-38 enacted 1994; repealed 1999

(continued on page 30)

[a] It should be emphasized that legislation changes rather frequently. However, many states that have repealed performance-based law have held on to vestiges of some or all of the protocols established with their performance-related legislation.

[b] South Dakota has maintained the requirement that all budget units submit detailed plans of goals and program activities with budget requests to the Bureau of Finance and Management, despite repealing 1994 legislation specifically creating a performance budgeting system.

State	Legislation	Year Passed
Tennessee	Chapter 874 of Public Acts	2002
Texas	State Code 322.011 Under General Government	1993
Utah	State Code Title 36 and Title 62A	1997
Vermont	State Code Title 32, 307 c	1993
Virginia	State Code 2.2-5510 and 2.2-1501, -1509, -1511	2003
Wisconsin	Act 27 9156	1997
Wyoming	State Code Title 28, Section 28 115-116	1995

Appendix II: The GASB Initiative and Research Methodology

This research presents data from a component of the multiyear effort by the GASB regarding the Service Efforts and Accomplishments (SEA) research that was funded in part by the Alfred P. Sloan Foundation. In addition to the case research referenced earlier, the multiyear effort involved a follow-up mail survey of state and local government budget officers and specific agency and department heads and program administrators, conducted in the summer of 2000. Data from local respondents was not included in this report.

At the state level, questionnaires were sent to 121 officers in the executive and legislative budget offices of the 50 states and 434 questionnaires were sent to heads of selected state agencies, including Corrections, Education, Welfare/Economic Development, and Transportation. The 212 responses include those of budget officers from 36 states (60 of 121 budgeters contacted responded for a 50 percent response rate) and agency/program directors/staff from 48 states (152 of 434 agency staff contacted for a 35 percent response rate); and they represent both perspectives (budget and agency) from 35 states. For simplicity, budget personnel are referred to as budgeters and agency personnel are referred to as agency staff. In addition to the survey data, state-level statistics, including population and general revenues were obtained for the states and integrated in the dataset. Finally, recent work from the Government Performance Project—which provides "grades" for states' overall management, managing for results processes, and fiscal management—was also obtained. These data were merged with the survey data and used in the analysis presented here.

At the local level, the mailing list was constructed from a previous GASB survey of local administrators and budgeters, coupled with a list obtained from the International City/County Management Association (ICMA). Questionnaires were sent to 735 administrators and budgeters in city and county governments in the United States. The response rate of 37 percent includes 277 usable instruments, representing a response rate for city administrators and budgeters of 39 percent and 34 percent for county respondents. Overall, responses were received from administrators and budgeters in 47 counties and 168 cities. In addition to the survey data, community-level statistics, including population and the form of government, were obtained from the ICMA Municipal Yearbook (2002) and the U.S. Bureau of Census. Analyses of local respondents are presented in Melkers and Willoughby (forthcoming).

Table A.1: Measuring the Range of Performance Measurement Effects

Budgetary Effects: Reported impacts of performance measures on budget decisions.	**(In your opinion, how effective has the development and use of performance measures been in your agency regarding) (Very Effective, Effective, Somewhat Effective, Not Effective)** • Affecting cost savings? • Reducing duplicative services? • Reducing/eliminating ineffective services/programs? • Changing appropriation levels?
Communication Effects: Reported impacts of performance measures on communication between various policy and administrative actors	**(In your opinion, how effective has the development and use of performance measures been in your agency regarding) (Very Effective, Effective, Somewhat Effective, Not Effective)** • Improving communication between departments and programs? • Improving communication with the executive budget office? • Improving communication with the legislature and legislative staff? • Changing the substance or tone of discussion among legislators about agency budgets? • Changing the substance or tone of discussion among legislators about oversight of agencies? • Changing the questions legislators or their staff ask government managers or executives?
Management Effects: Reported future impacts of performance measures on various organizational processes	**(In your opinion, how effective has the development and use of performance measures been in your agency regarding) (Very Effective, Effective, Somewhat Effective, Not Effective)** • Improving effectiveness of agency programs? • Changing strategies to achieve desired results? • Improving responsiveness to customers? • Improving programs/service quality? • Improving cross agency cooperation/coordination? • Improving external government cooperation/coordination? • Increasing awareness of, and focus on, results? • Increasing awareness of factors that affect performance results?

Endnotes

1. State government chief executives report annually or biennially to their legislatures regarding the fiscal condition of their state, commonwealth, or territory. Governors often use their address to lay out their policy and budget agendas for their upcoming or continuing administration. The 2004 state-of-the-state addresses were accessed from January through March 5, 2004, at the National Governors Association website: http://www.nga.org/nga/legislativeUpdate/1,1169,C_ISSUE_BRIEF^D_6252,00.html. Five states did not have state-of-the-state addresses noted on this website during this time, including Arkansas, Montana, Nevada, North Carolina, and Texas. All quotes and data presented in this section are from the addresses accessed through this website or from Willoughby (2004A).

2. The managing for results grade is based on research by the Government Performance Project, conducted by the Maxwell School of Citizenship and Public Affairs at Syracuse University, which analyzes state government management capacities. This examination, conducted every several years, collects data about state government financial management, human resources, infrastructure, and information management traditions and capacities. States are then compared to each other and to various accepted standards of performance regarding these processes. An overall grade regarding states' abilities to "manage for results" is used here and can be found at http://www.maxwell.syr.edu/gpp/grade/state_2001/stategrades2001.asp.

3. These results were first presented in Willoughby (2004B).

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