

## CHAPTER XIII

### PERFORMANCE MANAGEMENT

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Performance measures have always been a part of life, sometimes subtly, sometimes not so subtly. Sunday school teachers award gold stars to children who attend class. Report cards and merit badges are given to show completion of various tasks. Track coaches use a stopwatch to measure progress. Performance measures show us how we are doing – where we are strong and where we need improvement.

American government today faces a crisis in consumer confidence. Government's customers – taxpaying citizens – are expressing their concern about the quality and cost of public services. The recent trends in “downsizing,” “right-sizing,” and “devolution” all point toward a demand for more accountability for government units, where those government units are being required more and more to do more with less. However, one question must be asked: “Can anything be done to improve government's performance?”

Governments today are beginning to use the same management tools that have been used in the private sector, including strategic planning, benchmarking, performance measurement, and results-oriented management. These tools can help elected officials and public managers make better-informed policy decisions, determine the best uses of limited resources, enhance service quality, and improve communications with citizens.

These ideas are not new. As early as 1943, researchers have encouraged governments to measure what they do, rather than just what is spent to do it. Even as many professional organizations such as the American Society for Public Administration (ASPA), the Governmental Accounting Standards Board (GASB), and the International City/County Management Association (ICMA) endorse performance management, it is possible that managing for results could turn out to be just another exercise – done because it has to be done, rather than using the results for managing the organization.

#### PERFORMANCE MEASUREMENT

Why do organizations measure performance? For one basic reason: you get what you measure and reward. Harry Hatry of the Urban Institute notes, “Unless you are keeping score, it is difficult to know whether you are winning or losing. This applies to ball games, card games and

**Authors' Note:** The information presented in this chapter is based on a curriculum entitled “Results-Oriented Government” which was developed by the Southern Growth Policies Board and the Southern Consortium of University Public Service Organizations.

no less to government productivity . . .”<sup>1</sup> Measuring performance provides useful information to management and policy-makers; it shows organizational success; and it provides accountability to stakeholders. Performance accountability includes defining outcomes by setting goals and objectives, measuring performance, and reporting the results. These goals and objectives are set during the strategic planning process and can be amended and updated as needed.

Performance management can improve strategic planning, program management, service quality, resource allocation (budgeting), contract monitoring, personnel management, and communication with the public. However, developing performance measures is a useless exercise unless accompanied by a commitment to *use the results*.

### Types of Performance Measures

Performance measures have been classified in many ways over the years. The following four types of performance measures seem to be standard: output, efficiency, outcome, and productivity. Performance measures should be based directly upon the goals and objectives of the service or program being measured.

**Output measures** state “how much” or “how many.” One example is the number of water meters repaired. These types of measures show variations or stability in work activity over time.

**Efficiency measures** state “how efficiently” or “how well” something was done by relating output to resources consumed, such as cost per meter repaired. While these types of measures are important, they are not the only ways to measure organizational success. As David Osborne and Ted Gaebler note in their bestseller, *Reinventing Government*, “there is nothing so foolish as to do more efficiently something that should no longer be done.”<sup>2</sup>

**Outcome measures** state “how well” or give indicators of quality or progress toward the objectives. These measures may focus on individual clients or may assess an entire program.

### Examples of Performance Measures

Meter Repair and Filling Vacant Positions

#### Output (“how much” or “how many”)

- ▶ Number of meters repaired
- ▶ Number of job applications received

#### Efficiency (*cost per unit produced*)

- ▶ Cost per meter repaired
- ▶ Cost per job application processed

#### Outcome (“how well” or “shows progress”)

- ▶ Percentage of repaired meters still functioning properly 6 months later
- ▶ Percentage of new hires/promotions completing probation and performing well 6 months later

#### Productivity (*combines Efficiency and Outcome*)

- ▶ Cost per properly repaired meter (i.e., total cost of all meter repairs divided by number of meters needing no further repairs within 6 months)
- ▶ Cost per vacancy filled successfully (i.e., employee performing satisfactorily after 6 months)

From the *Reinventing Government* curriculum, SGPB/SCUPSO, 1996.

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<sup>1</sup>Harry Hatry, “The Status of Productivity Measurement in the Public Sector,” *Public Administration Review*, January/February 1978, p. 28.

<sup>2</sup>David Osborne, and Ted Gaebler *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector*. Reading, Mass: Addison-Wesley, 1992.

One example of an outcome measure is the percentage of repaired water meters that are still functioning properly after six months.

**Productivity measures** combine efficiency and effectiveness in a single measure. A productivity measure would be the cost per meter for repaired meters still functioning after six months. Productivity measures are what an organization needs to measure its performance for use in decision-making. However, productivity measures are rare in the public sector because they are difficult to develop and understand.

Managers also need to be aware that there is a significant difference between “outputs” and “outcomes.” For example, the number of vaccines given (output) is not the same as reduction in the incidence of disease (outcome). Organizations that are just beginning to measure performance in meaningful ways should start with output and efficiency measures before “graduating” to outcome and productivity measures.<sup>3</sup>

### Deciding What to Measure

Performance measurement should not just be a data-gathering technique, it should be a tool used to make better decisions. To help ensure that measuring performance is not just a paper exercise, managers should be selective in the measures that they choose and the number of measures that are put into place. Involving all of the stakeholders in that program or service will give a manager a good idea of how each stakeholder defines “success” and what types of measures could be used for that program.

There is no magic number of performance measures to be used for a program or service. What is important is that a balanced set of meaningful measures that give an accurate and complete picture of the program or service is developed. A good set of performance measures includes indicators that are:

**Meaningful.** The measures are directly related to the goals and objectives of the program or service.

**Comprehensive.** The measures are based upon the most important features of the program or service.

**Valid and Reliable.** The indicators show what they are supposed to and will continue to do so over time.

**Understandable.** The measures can be easily understood by managers, elected officials, citizens, and other stakeholders.

**Timely.** The data can be gathered, compiled, and reported in a time frame where the information will still be useful.

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<sup>3</sup>*Reinventing Government* curriculum, SGPB/SCUPSO, 1996.

**Resistant to Undesired Behavior.** Measuring performance can bring unintended consequences or strategies to “beat the system.” For example, program personnel might focus more of their attention on clients who will show success. Another example would be police officers overzealously writing traffic tickets.

**Nonredundant.** The measures limit “information overload” by assuring that each measure examines a distinctive area of the program or service.

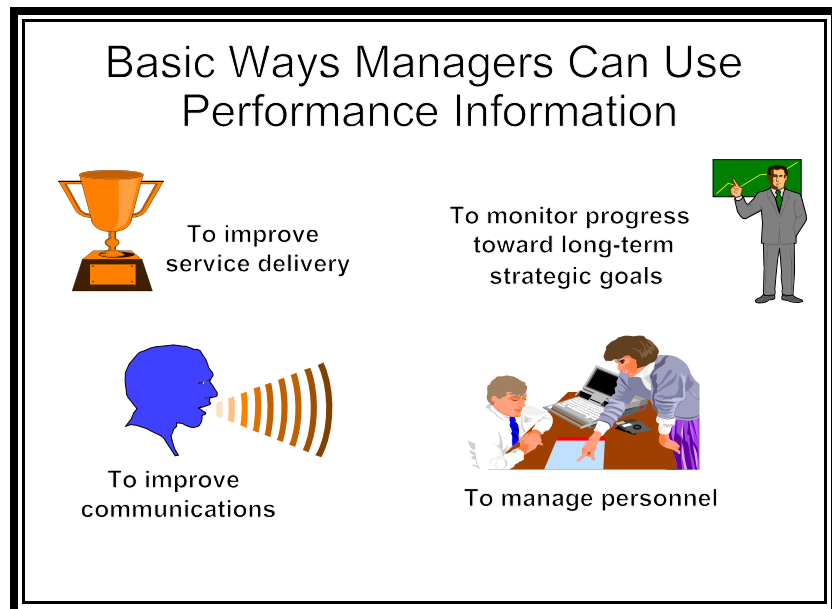
**Sensitive to Data Collection Costs.** It should not cost more time and/or money to collect and process the data than the information is worth. For example, if it takes a program manager two days to gather and process the data for one measure out of nine for a single program, the cost of that measure may not provide enough benefit to warrant the cost.

**Focused on Sphere of Influence.** Good sets of measures emphasize “success” where policy initiatives or management action can create change. However, few measures can be completely controlled by the organization. Narratives explaining each measure and its results should be used in conjunction with each measure when reported.<sup>4</sup>

## USING PERFORMANCE RESULTS

It is not enough simply to measure performance; the information must be used in order to be of some value. A wide variety of decision-makers can use performance measures, including the following:

- ▶ Chief executives
- ▶ Legislators
- ▶ Finance and budget analysts
- ▶ Auditors
- ▶ Department administrators
- ▶ Program managers
- ▶ Program customers and stakeholders
- ▶ General public



Managers can use performance information in four basic ways. First, it can be used to monitor progress toward long-term strategic goals and to plan for the future. Performance information

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<sup>4</sup>*Reinventing Government* curriculum, SGPB/SCUPSO, 1996.

can show that the organization is moving toward meeting its long-term goals or it can indicate that the goals need to be modified. Second, performance information can be used to improve service delivery. The rationale behind performance measurement is to help *make things better*. Performance measurement provides managers with information about productivity, effectiveness, service quality, or timeliness so that the manager can identify problem areas, reinforce areas that are performing well, and allocate resources to meet the organization's changing needs.

Third, performance measurement can be used to manage personnel. By incorporating performance measures into the employees' performance review system, managers can see where employees are helping the organization meet its goals, while also indicating if the employee is meeting his own goals within the organization. Fourth, performance measurement can be used to improve communication within and outside of the organization. They serve as a tool for relaying expectations, perceptions, and problems, and also as part of the feedback loop between stakeholders and managers to assure that the program or service is adequately meeting its goals and objectives.

Unfortunately, just because the information is available does not mean that it will automatically be used by those in the organization. There are a number of factors that influence the use of performance information. First, it is important to realize that different types of decision makers need different types of information. For example, a program manager needs much more detailed information than a community group. Another factor is the way that the information is reported. The information must be understandable – avoid jargon and technical details – if the information is being presented outside the organization. The validity and appropriateness of the measures are also factors in how performance information is used. The more often performance measurement is done, the more it will be accepted and its information used.

Another factor affecting how performance information is used is the clarity of the program goals and objectives. In cases where there are hidden agendas or conflicts within the program, the information is less likely to be gathered or used. Another factor is constraints within the organization that hinder the collection of data or the use of information. Bureaucratic red-tape may present a barrier due to inter-departmental conflict, difficulty in defining measurements, or resistance to providing relevant data about a program. Overcoming these obstacles must be done within the context of each organization and should include as many of the stakeholders involved as possible. Gaining commitment from those who must develop and use performance measures is an important way to manage the factors that limit the use of performance information.

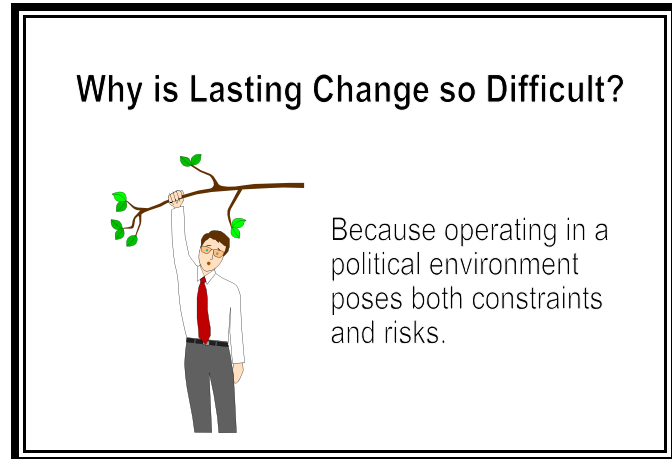
## CREATING AND SUSTAINING A SUPPORTIVE ENVIRONMENT

Over the years, many organizations have formed long-range planning groups, have participated in some type of strategic planning process, or have experimented with initiatives such as management-by-objectives or zero-based budgeting. Unfortunately, many efforts have failed to make a lasting difference. What makes the implementation of such a practice so difficult?

First, performance management cannot simply be imposed upon the current workings of an organization. Performance management as a process is likely to represent a challenge to most

organizations' "architecture" – their structure, management systems, work processes, communication, and reward practices, and most importantly, their work culture and people.<sup>5</sup> Resistance to change is a natural human reaction, especially where an individual feels threatened by the change.

Second, the political environment has an impact on the implementation process. Strategic planning and performance measurement may take years to show positive results, while many people focus on the next election. Long-term continuity is not always possible in government, but some type of long-term commitment is needed for performance measurement to be successful. Making failure visible through performance measurement may also bring additional pressure from constituents, the media, and other stakeholders.



In spite of these challenges, there is hope that initiatives taken today can be implemented where they might not have been as recently as five years ago, given today's pressing needs:

1. An urgent need to deal with public cynicism about government;
2. An awareness that this will not be easy to do, that it is not a quick fix, and that it will not succeed as simply a top-down decree; and
3. Bipartisan political support for the concepts.<sup>6</sup>

What is the key to guarding against performance measurement becoming a fad, the latest trend, the "pet rock" of governance?<sup>7</sup> The key is to instill performance management into the culture of the organization, rather than just implementing the performance measures and reporting tools.

### Where Should We Start?

Top management support has been identified as one of the most important factors in successful implementation of organizational change. This means showing active commitment in both

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<sup>5</sup>Southern Growth Policies Board Conference Board, *1996 Organization Effectiveness Conference*.

<sup>6</sup>Jonathan Walters, "The Benchmarking Craze," *Governing*, April 1994, p. 37.

<sup>7</sup>Southern Growth Policies Board. *Measure by Measure Proceedings*, RTP, NC: SGPB, 1994.

words and actions to the ideas and processes of performance measurement. Support also means assuring that all facets of the organization, including organizational structure, management styles, training, communications, and processes, reflect the organization's commitment to change.<sup>8</sup>

Top managers are not the only ones who can implement performance measurement, however. Success can still be generated at the lower levels of the organization on a smaller scale. In fact, starting small has its advantages. Success with one program or a number of services lends credibility to the process, and may convince others to use performance measures in their part(s) of the organization. It can also help to identify costs, potential barriers, and potential benefits before full-scale implementation.

Starting with one performance measure for one program can give a manager experience in developing performance measures, identifying useful information already being gathered, determining costs and benefits of collecting and processing data, reporting, and using the information generated. Performance measures could be instituted one at a time in each department, for example, with a new measure added every six months to a year. By doing this, in conjunction with a strategic plan, an organization could shift to full performance management within five years.

It is important to acknowledge that this is not a "quick fix." Even when implemented slowly, performance management requires changes in the organization to sustain the development, use, and growth of performance measures.

### Overcoming Resistance to Performance Measurement

Opposition to performance measurement is likely to come from people who feel overburdened already and dread the additional duty of data collection. Resistance can also come from managers who feel threatened by the additional management information the process will provide. They may fear that performance inefficiencies that had been hidden will now be visible. Managers sometimes feel that the information generated will not be used; others may be afraid that it *will* be used – to reduce budgets, staff, or in other negative ways.

One way to overcome resistance is to involve key personnel and clients in the design of the performance measurement system. Invite them in the early planning stages as a way to "get it right the first time." Another method for overcoming resistance is to establish organizational incentives to encourage managers to collect and use performance information. One incentive could be providing greater flexibility in operations management or budget management in return for greater accountability. Training of all employees and other stakeholders involved is also important in implementing a performance measurement process. Once everyone understands the importance and benefits of the process and its results, the manager may find that there is additional help and support from employees and stakeholders.

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<sup>8</sup>U.S. General Accounting Office. *Organizational Culture: Techniques Companies Use to Perpetuate or Change Beliefs and Values*. GAO/NSIAD-92-105, February 1992.

Performance measurement can be a valuable tool for managers, policy-makers, and other decision-makers. It can assist with making better-informed decisions, determining the best uses of scarce resources, enhancing service quality, and improving communications with citizens. Unfortunately, if not implemented properly, performance measurement has the potential to come and go like the latest fad – to become what one Southern governor has called “a pet rock of governance.” While performance measurement has the potential to act as an innovative force in organizations, the reality of this will be determined by the implementation of the processes into the day-to-day operations of the organization – in other words, by how the information is actually *used*.

### Implementation Tips

- ▶ Develop leadership support
- ▶ Train staff in the development and use of measures
- ▶ Build on your organization's strategic plan
- ▶ Focus on results
- ▶ Choose a limited number of meaningful measures
- ▶ Use performance information once collected

From the *Reinventing Government* curriculum, SGPB/SCUPSO, 1996.