



The Road to High Performance in the Public Sector: Insights into Statewide Performance Management

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The public sector's appetite for tracking progress in a disciplined, visible way waxes and wanes in cycles as administrations change. With state budget gaps for fiscal year 2005 potentially exceeding \$35 billion,¹ interest in performance management is on the rise again in the United States. Many states are initiating statewide performance management initiatives to ferret out underperforming activities and find ways to stretch their resources.

With good reason. While robust statistics remain elusive, there is a growing body of evidence that performance management makes a difference. In 2001, at the start of the states' most recent fiscal crisis, a bipartisan group from the Kennedy School of Government exhorted public-sector executives to embrace performance management, calling it among the most powerful of a limited number of tools available to advance an organization's priorities.²

As the states' budget shortfalls have grown, they have begun to take this advice more seriously. Rainy day funds and moderate revenue measures closed early gaps; however, these funds soon proved inadequate to cover the deepening divide. By fiscal year 2004,

states faced painful spending cuts, often with particularly visible impact on health care, social services and education. Clearly, such cuts cannot go on indefinitely and most states have turned their attention toward performance management in an attempt to deliver more and better outcomes for less.

Despite growing support for performance management, many states are struggling with their initiatives. In our research, we found that the people who are closest to the performance management initiatives in their states hold a deep belief in and enthusiasm for the concept of performance management: clearly, these executives are passionate about what they do. Yet, almost as frequently, they expressed an undeniable frustration. In practice, performance management in government is not working out as envisioned. In fact,

performance management has not produced the promised benefits at a statewide level in any state we contacted.

Why is it taking so long for performance management to gain traction in the states? We undertook this research to understand the challenges and the pathways to success. Based on interviews with 29 state government executives (see the sidebar: Research Approach), we conclude:

Significant roadblocks impede states' efforts to adopt sound, comprehensive approaches to performance management. Many states lack the proper enabling technologies, a clear way to measure value and mechanisms for overcoming political resistance.

Sidebar 1: Research Approach

Other organizations have done an admirable job of exploring the details of performance management initiatives in the states. Among the most well-known of these, the ongoing Government Performance Project funded by The Pew Charitable Trusts provides a comprehensive look at all 50 states' performance in four key areas, along with a grading system that can be used for state-by-state comparisons. This survey was not meant to replicate that valuable baseline research. Instead, we chose a purely qualitative approach through one-on-one interviews, supplemented by extensive background research into the available literature and prevailing theories of public-sector performance management.

Our survey was not exhaustive; rather we chose a targeted group of executives from 13 states (see table) that we had identified as recognized performance management leaders, or whose particular situations led us to believe would have a particularly interesting or unique point of view. In all, we spoke with 29 public sector leaders.

Table: Number of interviews per state

State	Total
California	5
Florida	1
Iowa	4
Indiana	1
North Carolina	2
New Mexico	2
New York	2
Oregon	2
Tennessee	1
Texas	1
Utah	1
Virginia	5
Washington	2
TOTAL	29

Despite the challenges, many states have pockets of effective performance management. Through concerted effort, some agency-level executives have identified metrics and have begun to track progress against them.

The leaders will take a strategic position on value and aim for a statewide view of performance. Leaders set aspirations focused on creating value for their stakeholders. These aspirations guide performance activities toward the still-elusive goal of comprehensive, effective statewide performance management as a tool for high performance.

Roadblocks to Statewide Performance Management

Performance management in the states is an approach with theoretical benefits that, at least for now, has not worked out fully in practice. Again and again, as executives described their individual experiences, they highlighted challenges that we capture as five key roadblocks to statewide performance management (see Exhibit 1):

- 1. Executives have not found a clear, comprehensive way to measure value.**
- 2. The supporting measurement technologies are not in place for effective performance management.**
- 3. Gaining legislative support is challenging.**

- 4. A fundamental lack of understanding of the concept of performance management and inadequate management skills impede progress.**
- 5. When they do develop performance information, political realities sometimes prevent executives from using it.**

In this section, we discuss these challenges in greater detail, as an understanding of what most inhibits performance management in the states is the starting point for removing the obstacles in the way.

Roadblock 1: Executives have not found a clear, comprehensive way to measure value.

Performance management is the set of processes that executives use to ensure they are creating value for their constituents. Yet, the most basic roadblock to statewide performance management is that executives have not yet found a clear, practical way to measure value, and thus have no starting point for taking action to improve performance. One executive remarks, "I always get the feeling that what state government is trying to do is show a return back to the citizens and other stakeholders. And that's good, that's very, very good—but it needs to be something meaningful."

As we closed each interview, we asked respondents, "If you could get one question about performance management answered by your peers, what would it be?" Over and over the response was the same: How do you measure value? Close to half of all the respondents asked this question.

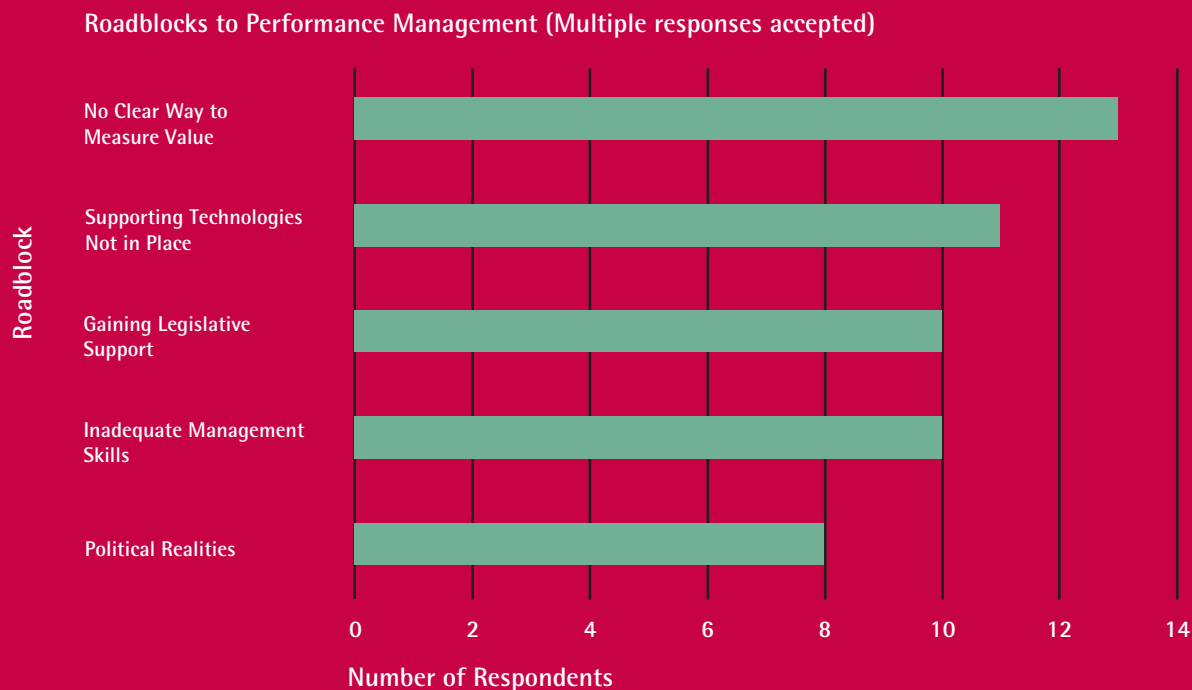
This seemingly straightforward question is difficult to answer in the public sector. Because most states do not have an articulated strategic plan, executives are unable to define their priorities. The diversity of state government stakeholders and the different (and sometimes far-flung) services provided within agencies may put the needs of different populations served by an agency at odds and drive the agency in completely different directions. Without a handle on the state's priorities,

decision-makers are ill-equipped to determine what better performance even means.

Further, different agencies often have conflicting missions—one striving to expand Internet services, for example, and another trying to cut technology spending.

Maximizing value means striking the right balance, which involves judgment. Once the very definition of success involves a subjective judgment of this sort, it becomes more difficult to measure and open to political manipulation. That is why, for instance, performance management is easier to implement in a general services agency, where successful outcomes are more well-defined, than it is in a human services agency.

Exhibit 1: Roadblocks to performance management.



States can easily mistake outputs—discrete and countable units—for outcomes. Outputs do not necessarily create value. Bill Leighty, Virginia's chief of staff of the Governor's Office, explains, "One of the examples that the state police gave me in their drug interdiction unit was, 'Hey, we're going to have a 20 percent increase in the amount of interdicted drugs next year.' Well, OK. In other words, your drug problem is getting bigger, so you'll be able to get more of them. That's not exactly what we're trying to do. What we're trying to do is stop drugs from needing to be interdicted."

Without a clear, comprehensive way to measure results and the value they produce, performance management in itself becomes a fruitless exercise.

Roadblock 2: The supporting measurement technologies are not in place for effective performance management.

Again and again we heard executives voice similar sentiments about the role of technology in performance management:

"It's very difficult to get objective measures to track performance and determine productivity levels. The legacy systems in North Carolina present challenges to us in developing the metrics and analytics we need to help us do this," says Tom Wright, director of North Carolina's Office of State Personnel. Greg Larson, chief deputy controller for California, echoes the theme: "The root cause of our lack of organization-wide focus on performance management is a lack of system-wide

technologies and data systems. That hinders our capacity to have standardized performance management metrics."

In many cases, the information that aging systems can actually provide to the legislature is insufficient to make budgeting really precise. No one knows, for example, how much was spent in a particular category, let alone what benefit that spending produced. In other situations, legislators are unable to implement detailed budget structures because complex legacy technologies and the high cost of changing them stands in the way.

States often lack the technological means to get at the very fundamental information that will allow them to baseline their current state of affairs, track the effects of changes on policies and practices, compare performance over time and report progress back to citizens and other stakeholders.

Roadblock 3: Gaining legislative support is challenging.

According to our research, executive support for performance management was strong; however, the legislative branch sometimes stymied meaningful performance management. This, obviously, is a major challenge, as the legislative branch controls the purse strings.

One executive describes the problem this way: "The structure that we're living with now is extremely bureaucratic, very cumbersome and, unfortunately, is not very successful, in my opinion. And the primary reason is that the members of the legislature have never engaged. They never picked up our performance process, so we're now scrapping some of its most significant parts little by little."

Given the condensed timeframes of most state budgeting processes, often the legislators simply do not have time to learn what performance management is all about and how it can aid more effective decision-making.

"We've proposed all kinds of changes to the statutes to make it easier," explains one frustrated executive. "We've changed formats. We've done workshops. We've tried policy papers. We've tried working through the news media. We've tried working through interest groups. We've tried working through the local governments. I mean, we've tried all kinds of different ways to get into the mindset of the legislature. But there's no way to get the whole legislature committed at once to something that has this much front-end effort. We haven't been able to get them to sit down long enough and watch it materialize before them."

In some cases, government executives have provoked legislative resistance. Some have taken up performance management haphazardly, without a carefully considered framework to make the information meaningful. For example, handing more than 7,500 metrics to an appropriations committee—as one agency did—is not helpful; it borders on harassment. Legislators in this case, quite understandably, pushed the whole idea of performance management aside.

The disregard for performance management then trickles down among the ranks of those who need to pull the performance management information together and ultimately, to act on it. One executive explains, "When every-

body's making demands on their time, one of the first things to go out the window is the performance report. They just don't bother to take the time to do it because the legislative members are not using it."

Even when they do buy in to performance management, individual legislators may want to use it to promote their own agenda. A senator or representative who sees a program that is important for his or her district may want certain metrics reported, even though these may be a poor proxy for value. The lack of connection between the required reporting and the inherent merit of the measure results in busywork and frustration.

Roadblock 4: A fundamental lack of understanding of the concept of performance management and inadequate management skills impede progress.

Performance management in the states is hampered by a host of management problems within agencies. The root of the problem often can be traced to the way agency leaders are chosen. In most states, the people who lead the organizations are political appointees who have been selected based on what they did, or what they will do, for the governor—not because they had specific expertise in leading and managing organizations. To assume these people will willingly embrace a performance management system, develop strategic plans and then monitor performance when their career track continues to be completely built on politics is, at best, optimistic. "Sometimes the people driving the politics aren't the same people who know best how to manage state government day-to-day, and it's an

interesting dynamic," explains Jim Chrisinger of the Iowa Department of Management. "It's hard to keep everything aligned when some of the key people toward the top don't accept it as a priority. I think there are some lessons to be learned from what's happened at the local government level, where there's been more of a split between the political side and the management side. I could argue there ought to be a professional COO of state government. I think it's an interesting model; we just haven't taken it to that level."

At times even language gets in the way of performance management. Wayne Roberts, senior advisor for higher education to the governor of Texas and former state budget director, gives an example of the need for simplicity: "When we integrated the strategic plan structure into the budget structure, for some reason, agencies and the legislature and their budget staff thought that it required flowery language—superfluous language. For instance, one of our line items of appropriation reads, 'provide security resources and a classification system that ensures an appropriate environment.' Got any idea what that means? It means 'jail crooks.' A \$1.8 billion line item, and that's what it says."

Roadblock 5: When they do develop performance information, political realities prevent executives from using it.

One of the most fundamental challenges to successful performance management at the statewide level is the fact that decision-making in government is based on power, not a rational analysis of the facts. The nuances of political relationships and the vital importance politicians and appointees place on managing perceptions make it difficult

to implement objective report cards. What to measure, how to measure, and what to do with the information are highly charged decisions. And these choices can inspire particularly intense debate when the results might not be good—precisely when performance management promises the largest benefit.

Performance reports have the potential to point out programs that are not succeeding, which can threaten the legislators who have nurtured them as pet projects. "You're going their ox," as one executive in Oregon explains it. "These are the programs they supported for years, and we're telling them that they're not effective, and there are other programs where we should be putting our money." Unfortunately, politics often overrides cold, hard facts.

Furthermore, the most senior leadership has no incentive to participate. As one executive says, "What would be the incentive for the budget directors to try to link up a process that would only make it more complex and time-consuming for them when they've already got control of all the money?" And performance management initiatives are often swept away as administrations change. As one executive explains, "There's no way an incoming governor wants to be held responsible for what a prior governor promised."

As a result, performance reporting becomes a public relations exercise, rather than a meaningful attempt at improvement. One executive describes it this way: "There's a fascination with performance management in that it presents the appearance of accountability. So, the performance management system itself becomes a political chit that everyone has to have, even though if you really dig deep underneath of it, almost no systems really work the way that they say

they're working." "What we do with the information is the weakest part of this thing," adds an executive from New Mexico.

Follow the Leaders: Successful Practices in Action

Despite the challenges, a number of organizations have made real headway on the road to effective performance management. Certain practices came to the fore among these successes, including:

Concentrate on performance management at the agency or team level rather than statewide level.

Focus on setting goals and performance expectations to guide measurement.

Support, but do not drive performance management initiatives with new technology.

Use legislative and regulatory mandates to create a consistent, cross-administration push.

Understand that performance management is an iterative process. In this section, we discuss each of these practices in greater detail and illustrate them with examples from organizations that have used them to build performance management initiatives with staying power.

Concentrate on performance management at the agency or team level rather than statewide level.

There is not a resounding example yet of an established and successful statewide performance management

process. However, we saw a number of states that were making progress. Usually, these states had broad performance management initiatives in the past that had failed; yet the concept had taken hold in one or two agencies. Those agencies took the approach to heart, even as it foundered and eventually died at the statewide level. And the few organizations in which performance management thrived took the lead for the rest of the state in subsequent statewide initiatives. "Older, wiser" states learned from the experiences of the early-mover agencies, and got off to a much stronger start the second time around.

Dr. Denzil Verardo, a member of California's Budgets and Revenue Maximization team, offers an example from his state. In the 1990s, Governor Pete Wilson began a performance management initiative. Over time, all of the agencies with the exception of the Department of Parks and Recreation dropped out. Even when it became clear that performance-based budgeting was not going to be adopted, Parks and Recreation held onto the rest of its performance management system, including strategic planning, poor program identification, performance measures and metrics for the entire department: "That brings us to today. When the California Performance Review started, and we began to look at performance budgeting, we not only looked at other states that were doing a fairly good job with performance management and performance budgeting, but we also used our own pilot experience [at Parks and Recreation] to point out what worked and what didn't work. We certainly didn't want to repeat mistakes that were made during those 1990s pilots."

One state Department of Revenue bought into the concept of performance management and did its own major

evaluation and restructuring that winnowed out redundancies, redirected resources to more valuable activities and gave the state a showcase process. "The head of the agency was probably 100 percent responsible for their success. It was in statute, but Revenue was the only agency who really took it seriously," says one executive who participated.

Focusing efforts on individual agencies builds a valuable base of information and minimizes the risk that the legislature will be overwhelmed by a more massive shift. California's Greg Larson talks about the difficulties in suddenly trying to track outcomes in a system-wide approach. "It's one of those things that may be best done as a guerilla tactic, planting the seeds and growing support here and there around a large organization. I worry about the scale and the legislative receptivity to doing something system-wide all at once. It would be great to start doing it all at once, but it arguably would be a workload increase that many departments would resist. It would take legislative direction to overcome that resistance, but I just can't see many legislatures going whole hog with long-term system-wide performance measurement over immediate service delivery."

Additionally, when agency heads can begin to see the value in a performance management approach, they will have more incentive to make it work in their own agencies. Concentrating on some early successes at the agency level builds confidence among legislators and agency directors alike.

Sidebar 2: Virginia Retirement Services

Virginia Retirement Services (VRS) gradually built a performance management framework that grew to be a basis of comparison not only with other states' programs, but also with programs in other countries around the world. They started with the basics—the nomenclature—and then established the nine items that are inherent in all retirement systems. From there, they were able to do point-for-point comparisons. Their arguments for funding became exponentially more effective, because they were now backed up with verifiable information, such as "The Virginia Retirement System is the second-lowest cost provider of retirement services in the world."

Next, they moved to a complexity reduction program that involved talking to the actual employees about the aspects of the agency that undermined productivity and good service. They were able to remove meaningless rules and effect changes to the law to remove some of the outdated offerings. For example, although Virginia Retirement Services offered 14 different options, 98 percent of the people chose only four of them. VRS had retirement options that had not been chosen in 20 years, and yet the agency was still programming for them, training staff how to handle them and marketing them. The organization effectively lobbied for a change in law that streamlined the service options to the four most popular.

Virginia Retirement Services' performance management experience was so successful, that it is now being used as a model in a number of other agencies, including the Department of Motor Vehicles, the Virginia Employment Commission and the Social Service Operations.

Focus on setting goals and performance expectations to guide measurement.

Performance management initiatives can get bogged down under the weight of extensive and detailed measurement—documenting exactly what happens at every single stage of the process and why. Agencies tend to fall into this trap when they view performance management as an externally imposed exercise rather than an effective way to make things better. When the focus is only on the process, any obstacles can become showstoppers.

In contrast, when agencies focus on the end goal—performance improvement—they begin to see that processes can be changed and obstacles overcome. That is why some leading states are making concerted efforts to develop concise, overarching statewide performance goals as a starting point. For example, The Council on Virginia, although still

"Performance management is not perfect. In fact, creating targets creates perverse incentives. Knowing that their performance will be measured against the target, agencies may become innovative—in the wrong way—to find ingenious ways to meet their targets. To combat such misdirection of effort, governments should focus more on transparency than on targets."

—"Missing the Point," *The Economist*, April 28, 2001, 22.

in its infancy, is attempting to craft a multiyear vision to guide strategic management and planning. Washington State's Priorities of Government has distilled the top eleven statewide priorities as a way to focus on results for budget decision-making.

Jeff Tryens, executive director of the Oregon Progress Board, explains how Oregon starts with the very basics: "Every agency has to attend these trainings that we do, because one of our problems was that our agencies weren't even speaking a common language: 'What do you mean by a goal?' 'What do you mean by an indicator?' 'What do you mean by a target?' None of those things was standardized." Oregon makes sure all agencies use consistent language and logic models, and it ensures that consistency by having a performance-measure coordinator in each agency. The state then instructs its agencies to "look up" to the high-level outcome they will use as their context measure of how well they are performing. This approach makes it clear to all that the results are what matter, and the performance measures are just a means to evaluate the ends

Support, but do not drive performance management initiatives with new technology.

Getting the agency's IT environment under control is clearly essential for performance management; it provides, in a timely manner, the kind of information people need to get the performance management job done. In fact, IT reform will often ignite performance management initiatives.

For example, putting in a new finance or human resources system with new capabilities gets people asking, "What

do we want to know? What can we do with this information?" *That* is the germ of performance management, and it is what makes performance management real.

Agency directors, then, should look beyond the technical implementation of new systems to the performance management possibilities. Jerry Simonoff, director of Strategic Management Services in Virginia, explains it this way: "As ERP gains traction in your organization, you find that there are capabilities within the package that will enable you to do more with performance measurement. You can use these capabilities to progress—to move up to the next level in the information you use and the way you use it."

However, that does not mean agencies should wait for a major technology implementation to begin performance management. It is simply another way to ignite performance management, particularly if the technology is being upgraded anyway. As California's Verardo says, "I got sick of everyone saying, 'Well, we can't do it because we have to wait for the IT'; it becomes an excuse not to do anything." Verardo advises that executives standardize their performance management formats, which allows them to take small steps forward. Over time, these can lead to an integrated system across functions that automatically pulls the information together.

Use legislative and regulatory mandates to create a consistent, cross-administration push.

When Iowa governor Tom Vilsack set five goals as part of his leadership agenda, the state's top priorities

suddenly became very clear to all state employees. He gave his agenda teeth by instituting "flexible performance agreements" with department directors, who committed to do what they could do to make the five state priorities happen. Through their performance agreements, directors of agencies understand that it is their job to make sure their agencies' activities are directly related to furthering one or more of the goals.

It is an interesting model. Jim Chrisinger of Iowa's Department of Management gives an example of one of the five goals: To eliminate all impaired [polluted] waterways. "Even if you're the director of Cultural Affairs," he remarks, "you have some obligation to try to eliminate impaired waterways. Not that you're going to spend a lot of resources doing that, but the whole idea is that it is an area of focus. For example, you might talk about clean water in your arts program and what it takes to keep it clean." As agencies begin to think about their crosscutting performance responsibilities in terms of the overarching goals of the state, the expectations become much clearer.

Chrisinger has also found that the state's Accountable Government Act—a performance management mandate—has given the state the management space to improve the actual process: "One of the things the Accountable Government Act did for us was to give us some legislative buy-in and signal to legislative staff and other people that yes, this is the system, we're all on board, this is the language, this is the conceptual framework. It insulates us from what happens when there's a new governor, what happens when there's new legislative leadership, what happens after each election. By putting performance management in a statute I think it made it clear to everybody

that this really is here, it is going to stay and we're going to do it. It helps us get the kind of buy-in we need to make it work," he says.

Understand that performance management is an iterative process.

Once the foundation pieces are in place—the goals, the expectations, the technology and the legislative and executive support—then states can begin to work on the process itself. California CIO Clark Kelso likens the start-up process to pulling off a bandage: "You've got to do it in one quick pull. You can't stretch this out over three to five years. You have to decide: 'We're going to do performance-based budgeting. We're going to start next fiscal year. We know that that first year's performance-based budget is going to be very rough. We're not going to have all the information we need. We're not going to have all the metrics. We're not even probably going to have a very good baseline completed. But we just have to decide we're going to do that.' And then, the second year, you know that it will get better."

The idea is to start small to effect change. Identify a few strategic priorities and find the indicators you can influence at a broad level. Recognize that wholesale agency transformation is unlikely to occur quickly, but over time small effects will add up. For example, Virginia Chief of Staff Bill Leighty has mounted his own grassroots effort to indoctrinate those running the state with sound management practices as a starting point. He says, "I have been addressing the Executive Institute on the topic of management principles for about five years now. At this point,

I've touched the lives of virtually every agency head, deputy and senior member of management teams in the state. I've also been a speaker for the Commonwealth Management Institute, which are the mid-level managers. And I've been converting people 30 at a time, because I believe that performance management is going to happen."

Several executives echoed the same theme: start now, do not wait. Set up performance management, tweak it and then ratchet up the scope.

Standing Up for Value

As states consider their own paths toward high performance, they will undoubtedly question how best to use performance management as a tool of greater efficiency and effectiveness. We identified a number of emerging practices among the leaders that we think will be critical:

Be explicit about value.

Set high-performance aspirations.

Use performance management practices to focus and energize the entire organization.

Remember that leadership at all levels is crucial.

Be explicit about value.

Many states have difficulty with performance management because they get lost in the tactics of measurement. Truly managing performance goes well beyond tracking metrics. And it starts with a clear, comprehensive statement of strategic goals.

To date, a basic tool has been missing from the management arsenal of the typical government agency: a consistent standard for performance measurement that would allow officials to assess how effectively resources are generating value. As Jim Chrisinger of Iowa says, "How many resources are available to make sure we don't misspend money? Think of all the accountants, auditors, and so on. Then, how many people are out there making sure departments produce the results Iowans want? Zero."

It goes back to executives' No. 1 roadblock: How do you measure value in a clear and comprehensive way? Accenture has created the Accenture Public Sector Value Model to address this fundamental challenge. It adapts the principles of commercial shareholder value analysis to a public-sector context from the perspective of the primary stakeholders for all governments—their citizens.

The Accenture Public Sector Value Model considers not just outcomes but also cost-effectiveness—the two major dimensions of value (see Exhibit 2). It does this by identifying a set of citizen-focused outcomes against which cost-effective delivery is measured. "Outcomes" are a weighted basket of social achievements. "Cost-effectiveness" is defined as annual expenditure minus capital expenditure, plus capital charge. The underlying hypothesis illustrated is that greater value is created through generating improved outcomes in a more cost-effective way.

By increasing either outcomes or cost-effectiveness, governments can be understood to be creating value. By increasing one at the expense of the other, governments can be understood

to be making a trade-off between their two fundamental means of creating value. A decrease in both represents a clear reduction in public-sector value. The Accenture Public-Sector Value Model aims to help agencies strike the right balance between pressure to raise their outcomes or performance levels and pressure to reduce costs.

For a team conducting this analysis, it is important to achieve consensus on the agency's key outcomes, based on its overall mission as well as on citizens' expectations for service delivery. A revenue agency's key outcomes, for example, will be far different than a human service agency's. Each of the agency's outcomes is weighted for importance. This helps the agency set priorities for apportioning fixed or limited resources.

Set high-performance aspirations.

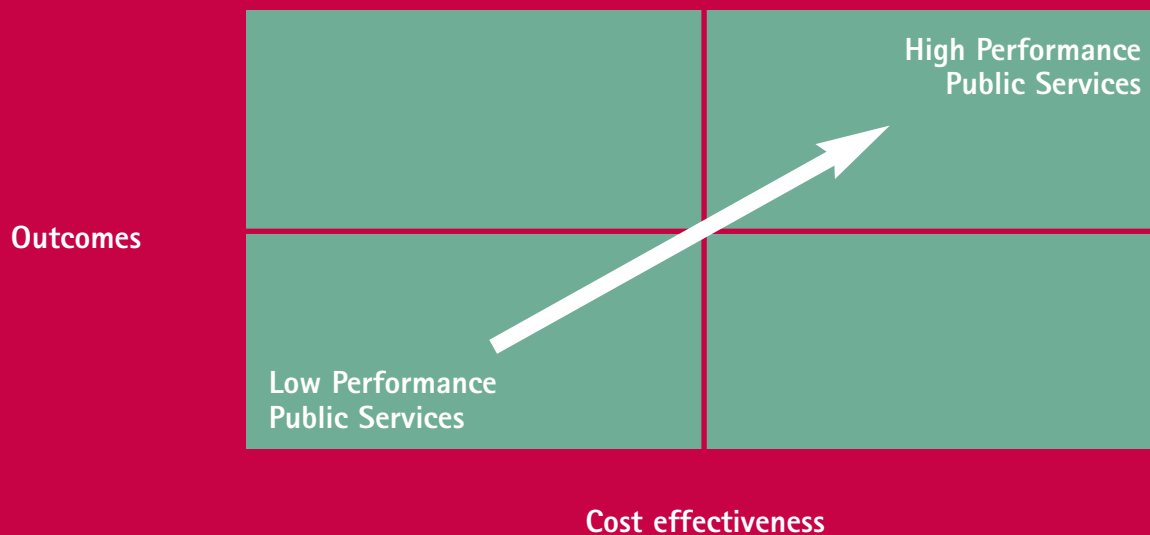
To achieve their objectives in spite of the obstacles they face, successful organizations aim high and define performance management broadly. They aspire to achieve long-term social outcomes like creating thriving communities by taking an "open system" approach. Instead of giving citizens fish, for example, they teach citizens to fish. States such as Iowa, Washington, Virginia and others aim for self-regenerating economies by attracting growing companies. They prevent crimes rather than solving them. They clean up their air and water to avoid the costly downstream effects of pollution on health. They provide high-quality education to create a

population of self-reliant and contributing citizens who take care of their own children and save for their own retirement.

For states that are tangled up in short-term, self-defensive tactics, these aspirations are completely unthinkable. And the consequences will ultimately show as citizens and businesses vote with their feet. The state governments that set their sights on high performance and adopt results-oriented management to achieve it will stand out as attractive places to live and work.

In order to pursue far-reaching outcomes, states think in terms of "managing," not just "measuring" performance. One executive defined performance management as "doing the right things and doing them well. State executives

Exhibit 2. The Accenture Public Sector Value Model



Outcomes are a weighted basket of social achievements

$$\text{Cost-effectiveness} = \frac{\text{Outcomes}}{(\text{Annual expenditures} - \text{capital expenditure} + \text{capital charge})}$$

Hypothesis = greater value is created through generating improved outcomes in a more cost-effective way

recognize the benefits of keeping score to focus and motivate an organization, but they use a wide variety of other management tools and techniques as well. Executives also leverage budget negotiations, organizational structure, management attention and many other mechanisms to keep priorities clear and guide progress (see Exhibit 3).

Use performance management practices to focus and energize the entire organization.

In making performance management pay off, the tools an organization uses are less important than the way it uses them. If public sector employees view performance management as an externally imposed requirement, they will comply, but not commit, exerting

a minimum of effort and no more. Success comes when a state takes performance management to heart—when executives use it to focus and energize the entire organization.

Performance management practices can be a powerful motivator. They give direction and purpose. “Once you establish goals, people will, in fact, perform towards those goals,” explains Virginia’s Bill Leighty. Further, involving employees in the process of setting the goals has the additional (and crucial) effect of building ownership in the outcomes. After all, they are the ones who will determine whether a performance management initiative takes flight—or languishes on the runway.

To further ensure performance management takes hold, executives invest

it with meaning. They not only make it part of the vocabulary for communicating externally and internally, they give it teeth. For example, within agencies, states oriented toward high-performance give managers the authority to make meaningful staffing decisions. When performance management works right, department managers have the latitude to take actions that make a difference—for example, rewarding employees for accomplishments and firing those who do not measure up.

Remember that leadership at all levels is crucial.

Despite the political risks associated with performance management, we found many examples of top-level executives—governors and agency

Exhibit 3: Selected performance management tools



heads alike—who have embraced performance management and made it a prominent part of their agenda. This is certainly not the easy route. For example, in Virginia, Governor Warner instituted executive agreements with the head of each and every state agency. "It was a fairly painful process," says Eugene Huang, Virginia's Secretary of Technology. "But the Governor insisted that if you are working for state government, and serving at his pleasure, you will have an executive agreement."

Performance management works in organizations with leadership that is consistent over time. That leadership can come from as far up as the governor's office, but it must also come from within the agencies themselves. In fact, reluctant managers will learn to use the valuable information from performance management only when it matters to the boss. That starts from the governor and works its way down through the ranks. According to one executive from New Mexico, "When senior leaders say, 'I'm going to use performance management with you, and I'm going to look at whether you use performance management with the people who report to you,' they can push it through."

Forward-looking leadership support within the legislature is equally critical. So while politics will always be part of the process, finding legislative champions and giving them the tools to show they can improve results adds momentum. Oregon's Jeff Tryens explains, "If you can sell a couple of your Ways and Means staffers that this is a way for them to do their job more effectively, you're way ahead of the game." To create lasting value, performance management needs enough advocates at all levels to give it legs regardless of changes in the political climate.

But most importantly, performance management is more likely to pay off when strong leaders use it to open new possibilities, not just reduce risks. They are willing to look openly and honestly at where things stand to establish a platform for real improvement. In Iowa, for example, Jim Chrisinger says, "The governor really has been very willing to take risks. He said, 'These are the things we're trying to accomplish, and the way we get there is by creating the expectation, being very public about it and sticking with it.' *And he's been true to his word.*"

Performance management is a difficult journey. The good news for performance management champions is that it gets attention in times of budgetary shortfall such as the states are experiencing now. The bad news is, once the financial situation improves interest tends to dissolve quickly. Leaders should grab the opportunity the current environment affords to begin performance management initiatives now. Taking that strong stand today will leave a lasting legacy.

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Notes

- 1 See <http://www.ncsl.org/programs/press/2004/040428.htm>
- 2 *Get Results Through Performance Management: An Open Memorandum to Government Executives* (State and Local Version) by the Executive Session on Public Sector Performance Management, 2001.

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