Do Performance Measures Improve Performance?

The Case of Texas State Agencies

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Strategic Planning and Budgeting System (SPBS)

- **Established in 1991.**
- **Budgetary line items are strategies, not objects of expense (later added as information items).**
- **Measures attached to strategies, except for Indirect Administration.**
- **Initial cycle established penalties, implemented at six months.**

	For the Years Ending	
	August 31, 2004	August 31, 2005

A. Goal: EFFICIENT AIRCRAFT TRAVEL

To provide safe, efficient aircraft transportation upon request to state officers and employees traveling on official state business.

A.1.1. Strategy: FLEET OPERATIONS	$	2,174,296	$	774,296

Operate a fleet of centrally scheduled aircraft to meet users' needs.

Output (Volume):

Number of Hours Aircraft Are Flown	2,400	2,320
Number of Flights	2,262	2,188

B. Goal: AIRCRAFT MAINTENANCE

To provide quality and economical maintenance, fuel and oil, hangar space, and line services for state operated aircraft.

B.1.1. Strategy: AIRCRAFT MAINTENANCE	$	2,172,640	$	2,172,640

Operate a state-of-the-art maintenance and avionics repair facility.

Output (Volume):

Number of Work Orders Completed	660	650

C. Goal: INDIRECT ADMINISTRATION

C.1.1. Strategy: INDIRECT ADMINISTRATION	$	216,286	$	216,286
Grand Total, AIRCRAFT POOLING BOARD	$	4,563,222	$	3,163,222

Method of Financing:

General Revenue Fund	$	1,400,000	$	0

The Biennial Budgeting Cycle

Texas' Strategic Planning, Performance Budgeting and Performance Monitoring System

Types of Measures

Types of Measures

Type	Measure	Examples of Measures
Outcome (Results/Impact)	Identifies the actual impact or public benefit of an agency's actions (results or impact)	- Percentage of Clients Rehabilitated - Percentage of Entities In Compliance With Requirements - Percentage of Licensees With Validated Complaints
Output (Volume)	Counts the goods and services produced by an agency (volume or workload)	- Number of Clients Served - Number of Inspections Conducted - Number of License Applications Processed
Efficiency	Identifies the cost, unit cost, or productivity associated with a given outcome or output	- Average Cost Per Client Served - Average Cost Per Inspection - Average Time to Process License Applications
Explanatory/ Input	Shows the resources used to produce services and displays factors that affect agency performance	- Number of Clients Eligible for Services - Number of Entities Subject to Inspection or Regulation - Number of License Applications Received

Key and Non-Key Measures

Use of Key and Non-Key Measures

How a Measure is Used	Key	Non-Key ABEST	Non-Key Non-ABEST
In Appropriations Request?	Yes	Yes	No
In General Appropriations Act?	Yes	No	No
In Operating Budget?	Yes	Yes	No
Reported Quarterly/Annually?	Yes	Yes*	No
Subject to Certification?	Yes	Intermittently	No
Used by Legislature?	Yes	Yes	Intermittently
Used by Budget Offices?	Yes	Yes	Intermittently
Used by Agency Management?	Yes	Yes	Yes

*Reported through appropriations requests and operating budgets.

Source State Auditor's Office, Guide to Performance Measure Management, 2000 Edition, p. 34

Reporting Schedules and Requirements

- **Quarterly:** Outputs and Efficiency
- **Annually:** All Measures Including Outcomes
- **Non-key measures:** Reported alternately in operating budgets and appropriation requests.
- **Variance:** +/- 5% requires an explanation of variance. A remedial action plan is required.
- **Failure to report:** makes an agency liable to "budget execution" (reductions).
- **New Measures:** may be added at any time by the LBB (usually when interim programs are established, e.g. Welfare-to-Work).

Measures are Audited

POSSIBLE OUTCOMES

- **Certified (Plus or Minus 5%)**
- **Certified with Qualification**
- **Factors Prevented Certification**
- **Inaccurate**
- **Not applicable (justifiably not reported)**

Special Note: Criminal penalties are associated with fabrication ("falsifying a government document").

Model of Performance Measurement System with Ideal Control Structure

Figure 5
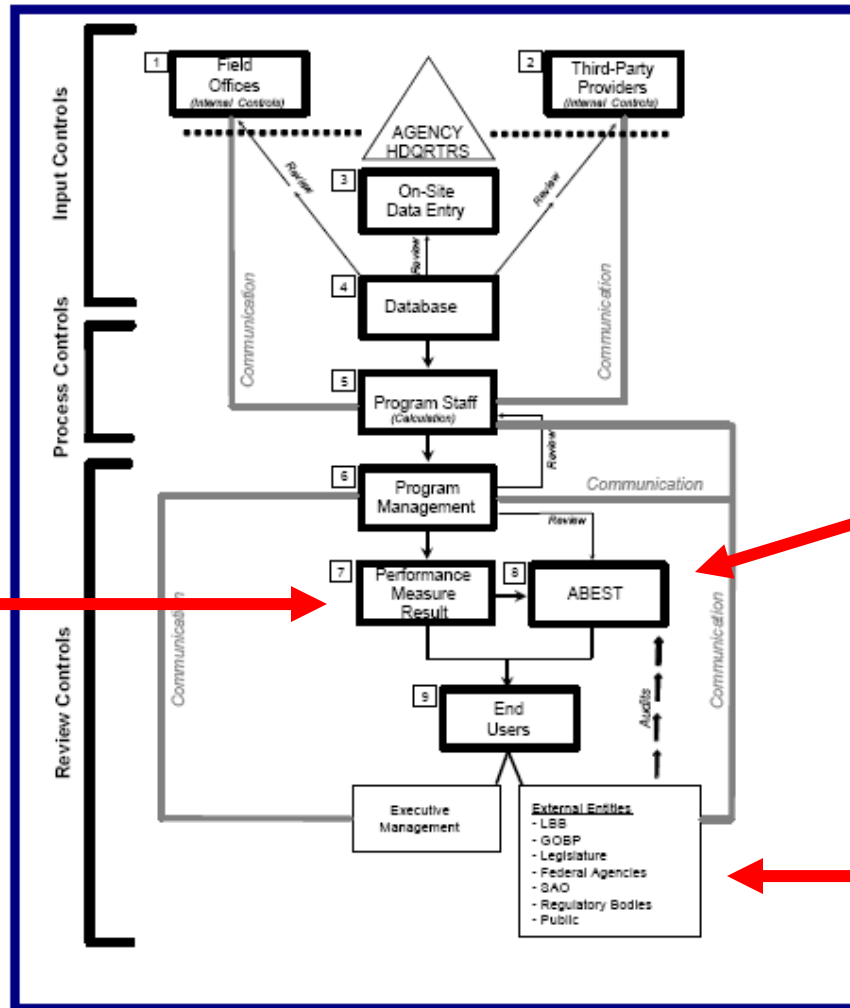
This graph illustrates the controls for a performance measurement system that the SAO believes would ensure that performance data is reported accurately and efficiently.

B

Personal Experience

A&B

A

Personal Experience

Source State Auditor's Office, Guide to Performance Measure Management, 2000 Edition, p. 47

System Costs

- TWC Activity-Based Costing (ABC) pilot indicated a per measure cost of approximately $2,500 per measure, per year (Key and Non-key) for the TWC Planning Department alone.

- The data set included 10,248 pairs of measures (observations) for five biennia, or more than 2,500 measures per year statewide across more than 200 agencies.

- Assuming only half are key measures, then 5,000 measures were being collected and reported statewide.

- Extrapolating these figures, the cost of the system for the decade was in excess of $125 million for the decade, or $12.5 million/year.
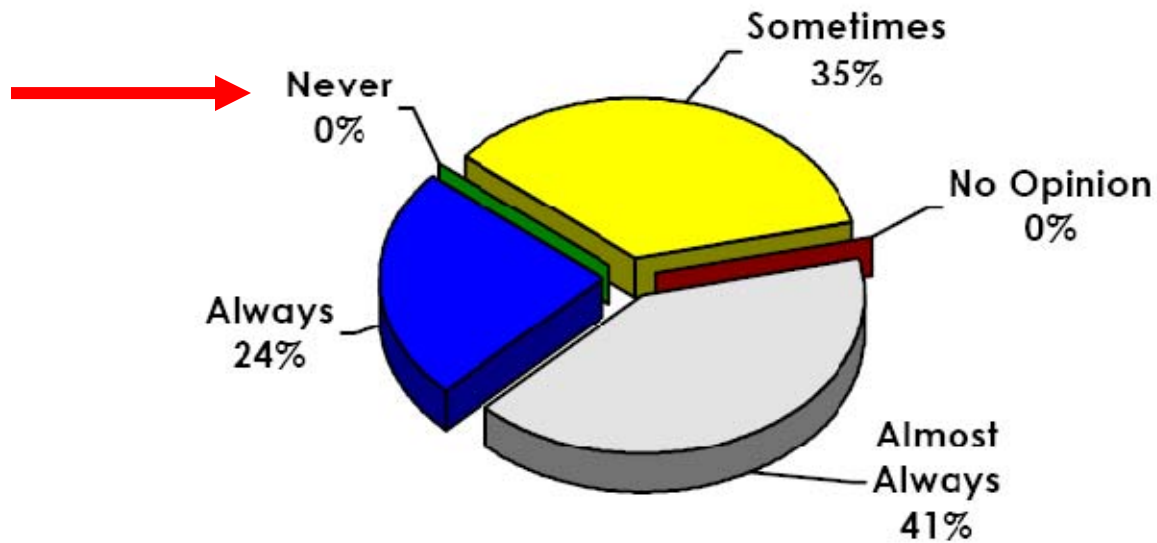
What Legislators Think about the System

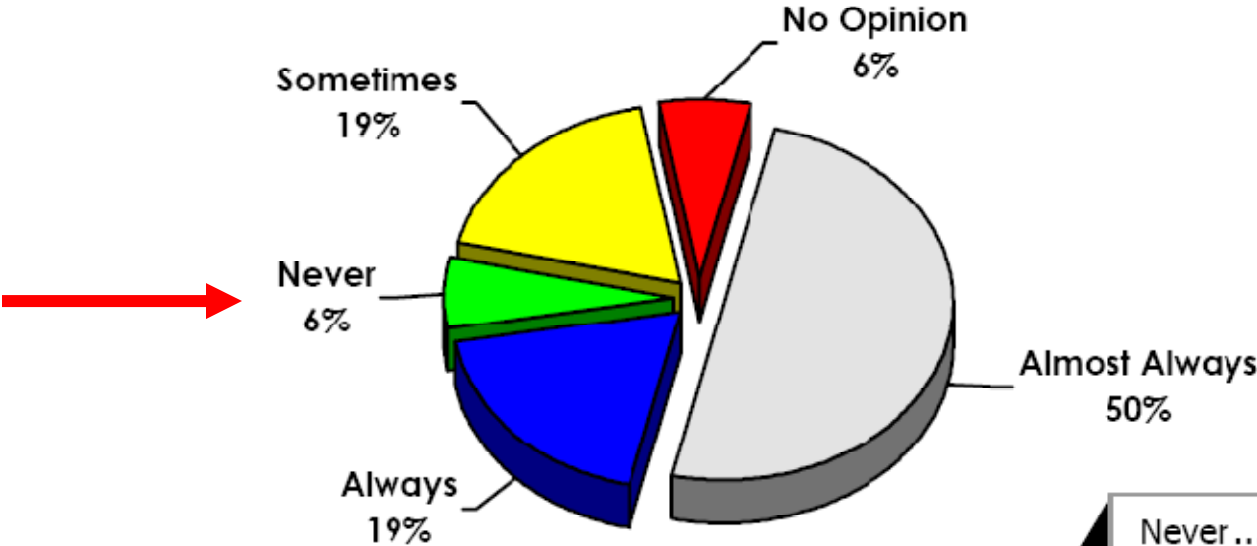## State Auditor Survey Results

Are Performance Measures Useful?
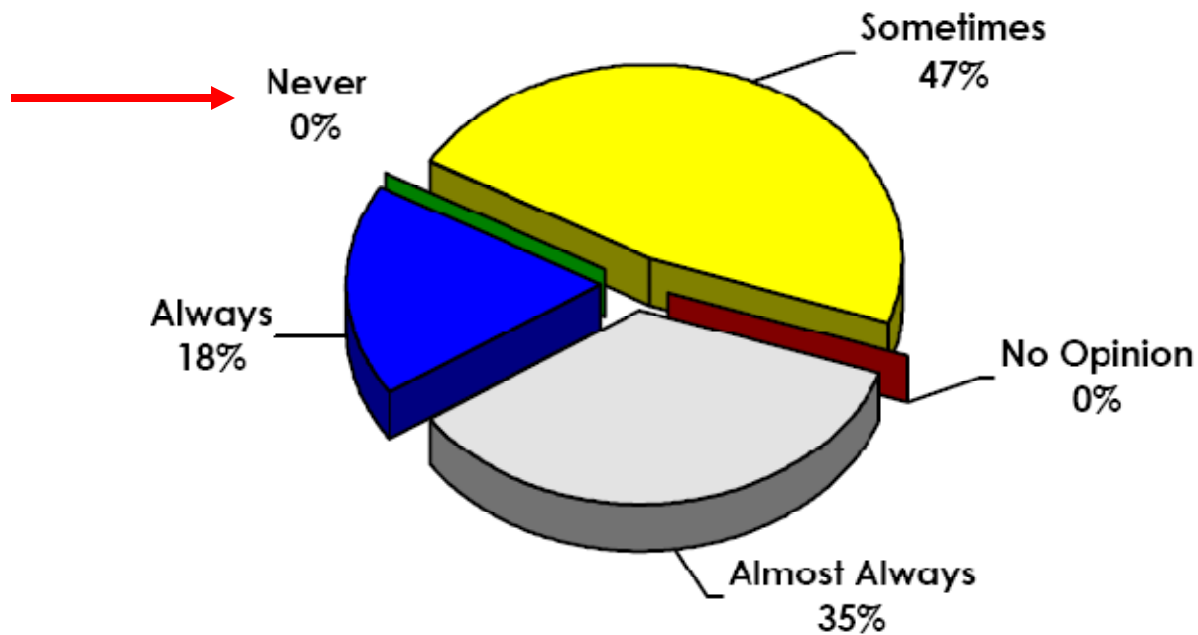
Never	0
Sometimes	8
No Opinion	0
Almost Always	6
Always	3

Does System Improve Accountability?

Sometimes 35%

Never 0%

No Opinion 0%

Always 24%

Almost Always 41%

Never	0
Sometimes	6
No Opinion	0
Almost Always	7
Always	4

Source State Auditor's Office, Member Perceptions of the Performance-Based Budgeting System (1998), p-12

PBB System Improved Information for Decision Making?

Source State Auditor's Office, Member Perceptions of the Performance-Based Budgeting System (1998), p-6.
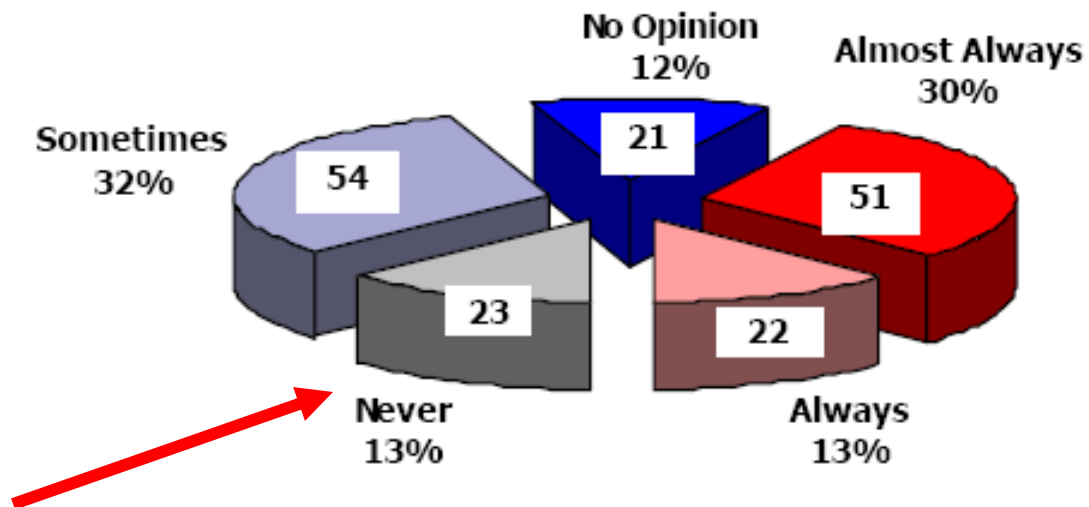
What Agencies Think about the System

State Auditor Survey Results

Are the goals and strategies in the General Appropriations Act suitable to the agency's enabling legislation, mission, etc.? n = 167

Yes 87%

145 Respondents

22 Respondents

No 13%
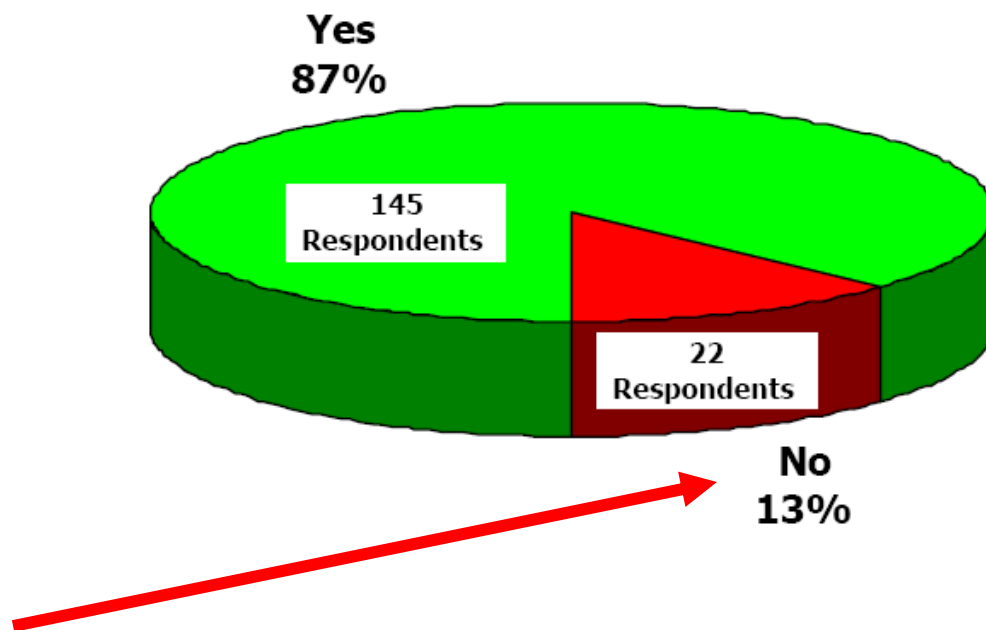
Does the inclusion of measures in you appropriation increase your accountability to the Legislature and the public?
n = 171

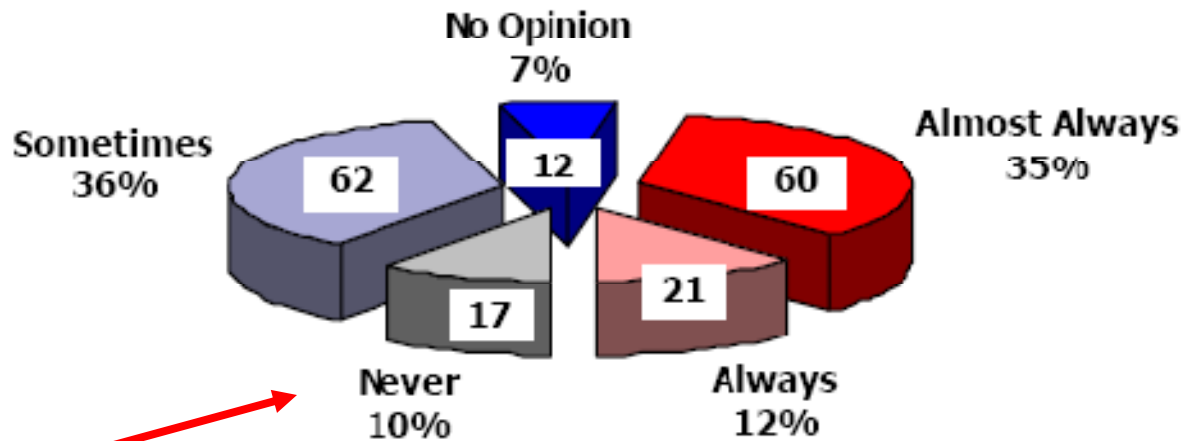Sometimes 32% — 54

No Opinion 12% — 21

Almost Always 30% — 51

Never 13% — 23

Always 13% — 22

Do the performance measures for your agency provide an early warning system for problems within the agency?

n = 173

Sometimes 46% — 80

No Opinion 5% — 8

Almost Always 28% — 48

Always 6% — 10

Never 15% — 27
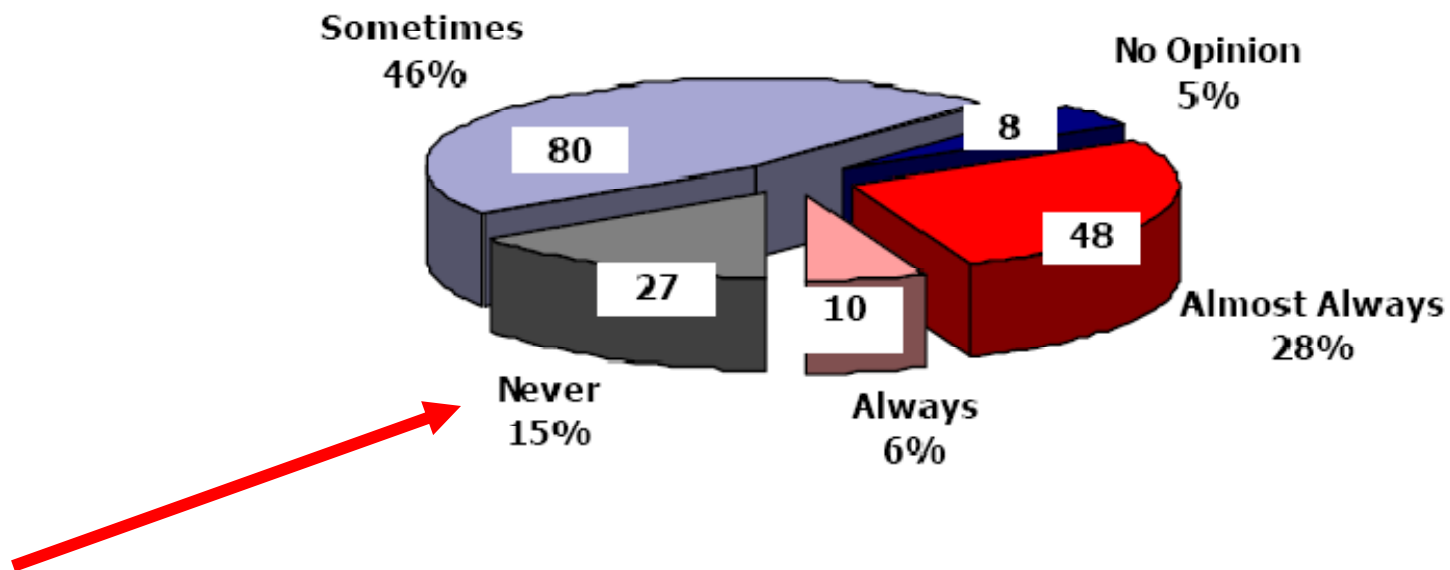
Are the measures from the General Appropriations Act used to manage your agency's performance?
n = 172

No Opinion 7% — 12

Sometimes 36% — 62

Almost Always 35% — 60

Never 10% — 17

Always 12% — 21

Source State Auditor's Office, Performance Based Budgeting Survey Results (1998), p. 24

Do the performance measures for your agency provide an early warning system for problems within the agency?
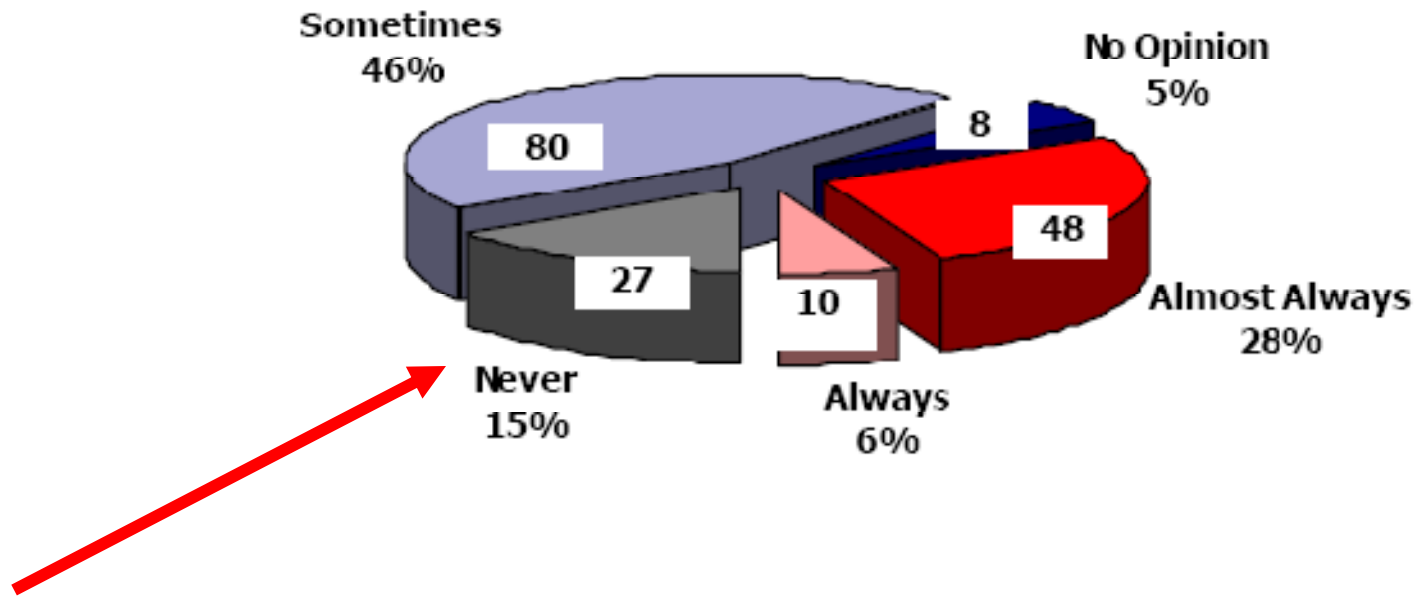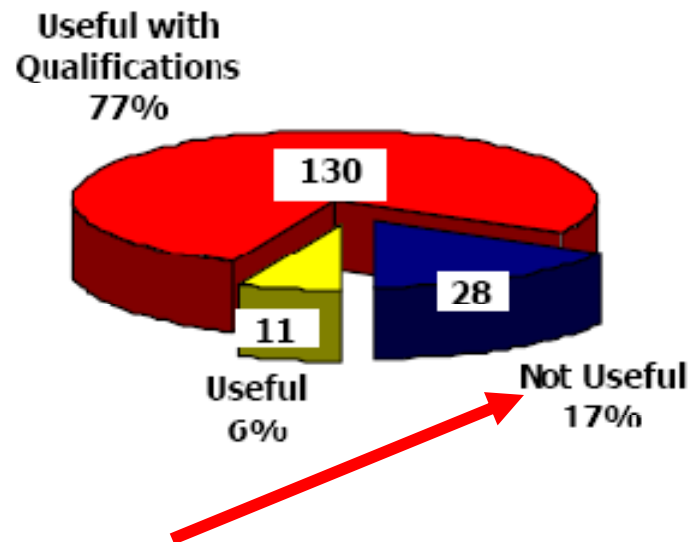## n = 173

Sometimes 46%

No Opinion 5%

80

8

Almost Always 28%

48

27

10

Never 15%

Always 6%

Some measures are influenced by factors outside the control of individual agencies (or of state government). Do you find these measures . . .

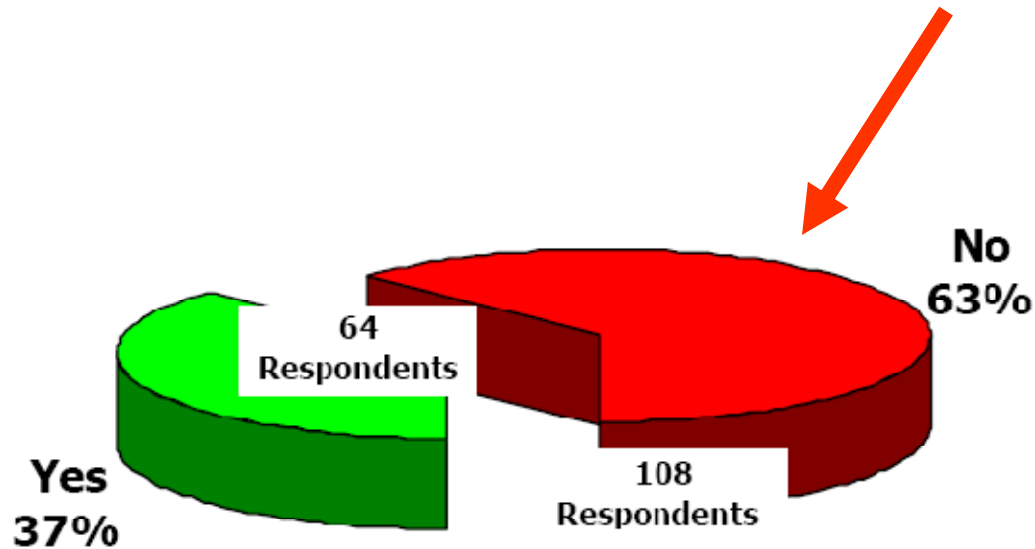Useful?   Useful with qualifications?   Not useful?

n = 169

Useful with
Qualifications
77%

130

28

11

Useful
6%

Not Useful
17%

Do you think the Appropriations Bill should:

A. Continue to appropriate on the basis of strategies?
B. Appropriate on the basis of objects of expense (personnel, capital outlay, travel, and supplies)?
C. Some combination of both?
D. Other

119 Respondents
69%

A

24 Respondents
14%

D

B

C

25 Respondents
15%

4 Respondents
2%
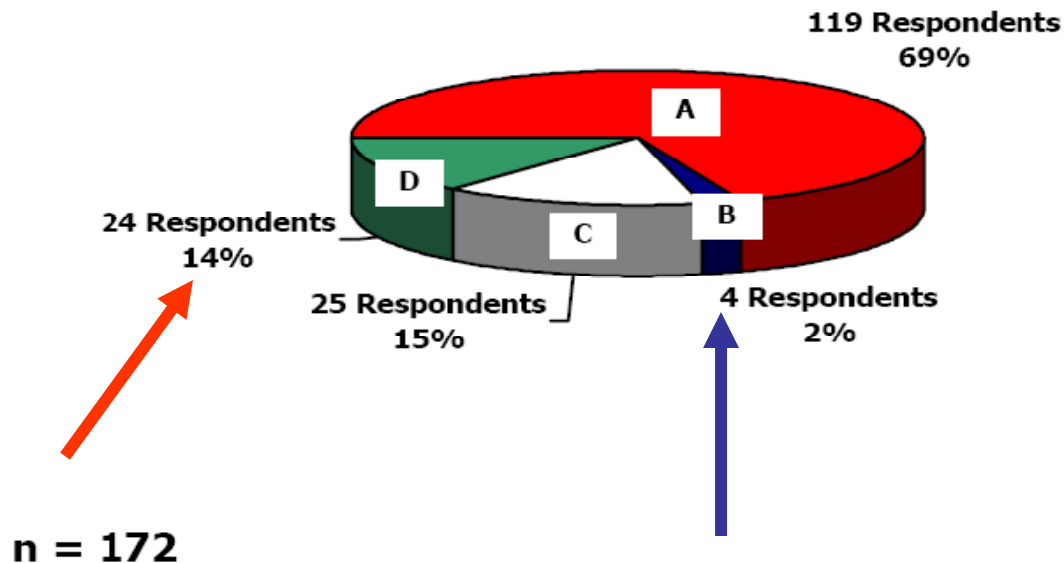
n = 172

Are there any internal penalties or rewards within the agency for meeting performance measures?

n = 172

No 63%

64 Respondents

108 Respondents

Yes 37%

Source State Auditor's Office, Performance Based Budgeting Survey Results (1998), p. 37

Do you think a system of rewards and penalties, tied directly to performance should be implemented?

Yes, [a] = 3%

No (Total) = 69%

Yes (Total) = 31%

Yes, [b] = 27%

Yes, [c] = 1%
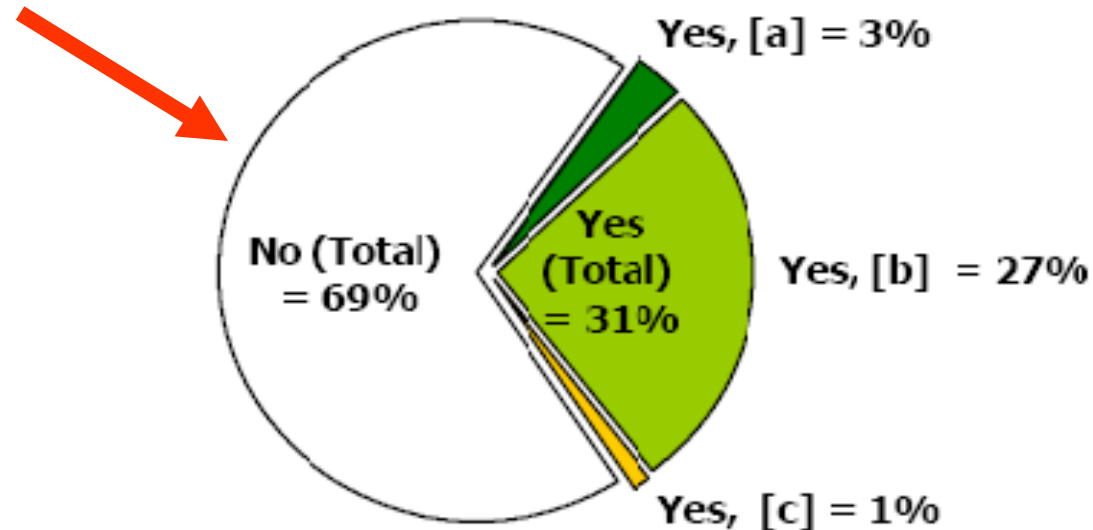
n = 171

□ No

■ Yes, [a]
rewards and penalties should be automatic.

■ Yes, [b]
the entity or entities should approve rewards or penalties...

■ Yes, [c]
no answer as to how rewards and penalties should be administered.

What do the Data Say?

Data Sources

- **Legislative Budget Estimates** (LBE)
  - Approximately 25,000 lines each
  - Shows last year previous biennium, and;
  - Current biennia estimates, and;
  - Requests and LBB recommendations
- **General Appropriations Act** (GAA)
  - Approximately 35,000 lines
  - Includes riders, additional articles
- **LBB Performance Reports**
- **State Audit Reports**
- **Activity Based Costing (ABC) Analysis at TWC**

Central Questions

- Are the reported performance data reliable?

- How confident can we be that the accountability system is working?

- Are agencies learning to do things better?

Accuracy of Reporting

Accuracy of Performance Measures in Audited Texas Agencies		
Release Date	**Percent of Measures Certified****	**Percent of Agencies at 100% Certified**
2/28/1996	**54**	**23%**
7/31/1996	**68**	**40%**
1/6/1997	**82**	**35%**
3/26/1997	**94**	**93%**
8/8/1997	**69**	**35%**
5/22/1998	**65**	**44%**
5/31/2000	**54**	**36%**
11/30/2000	**65**	**28%**
8/29/2001	**53**	**17%**
11/18/2003	**47**	**7%**

* Includes educational institutions.
** Certified or "certified with qualifications"
Source: Texas State Auditor's Office: Reports: Reports Affecting Multiple Agencies: Audits of Performance Measures

Analytical Problems

- No common metric
  - Outcomes rates, percentages, and number of
  - Outputs included number with natural limits or statutory work loads (e.g. banks audited)
  - Efficiencies included time, money, and sometimes people.
  - Explanatory measures "do not count."
- Limited Life-span for measures
  - Definitions changed between biennia.
  - Some measures were dropped, others added
  - Measures moved within the structure or were renamed for clarity, though not re-defined (They did not "line up" with old structures).
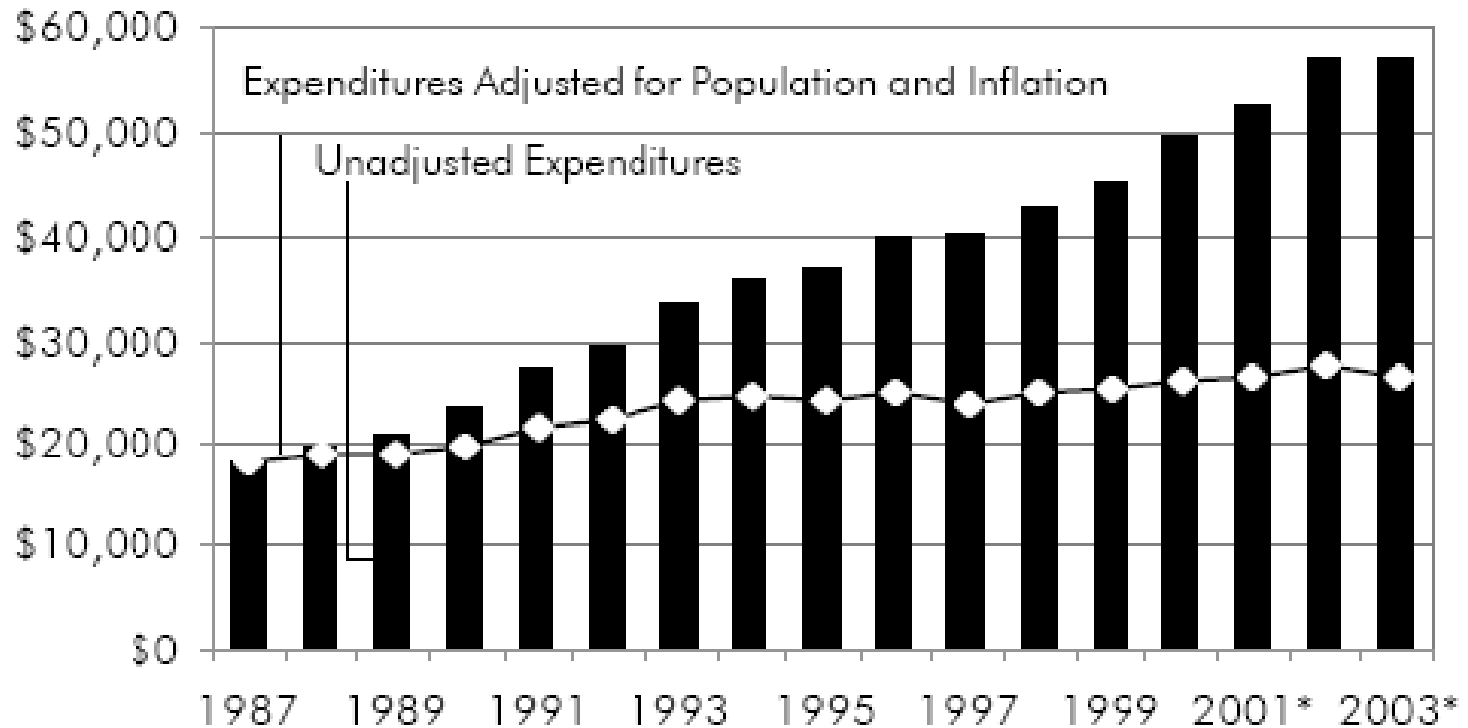
Defining Improvement

- *Outcome and Output Measures INCREASE* (with exceptions: e.g. teen pregnancy rates, traffic deaths, etc.)

- *Efficiency Measures DECREASE* (with exceptions: e.g. percent of compliance actions completed within 60 days; total federal funds committed per state match pool)
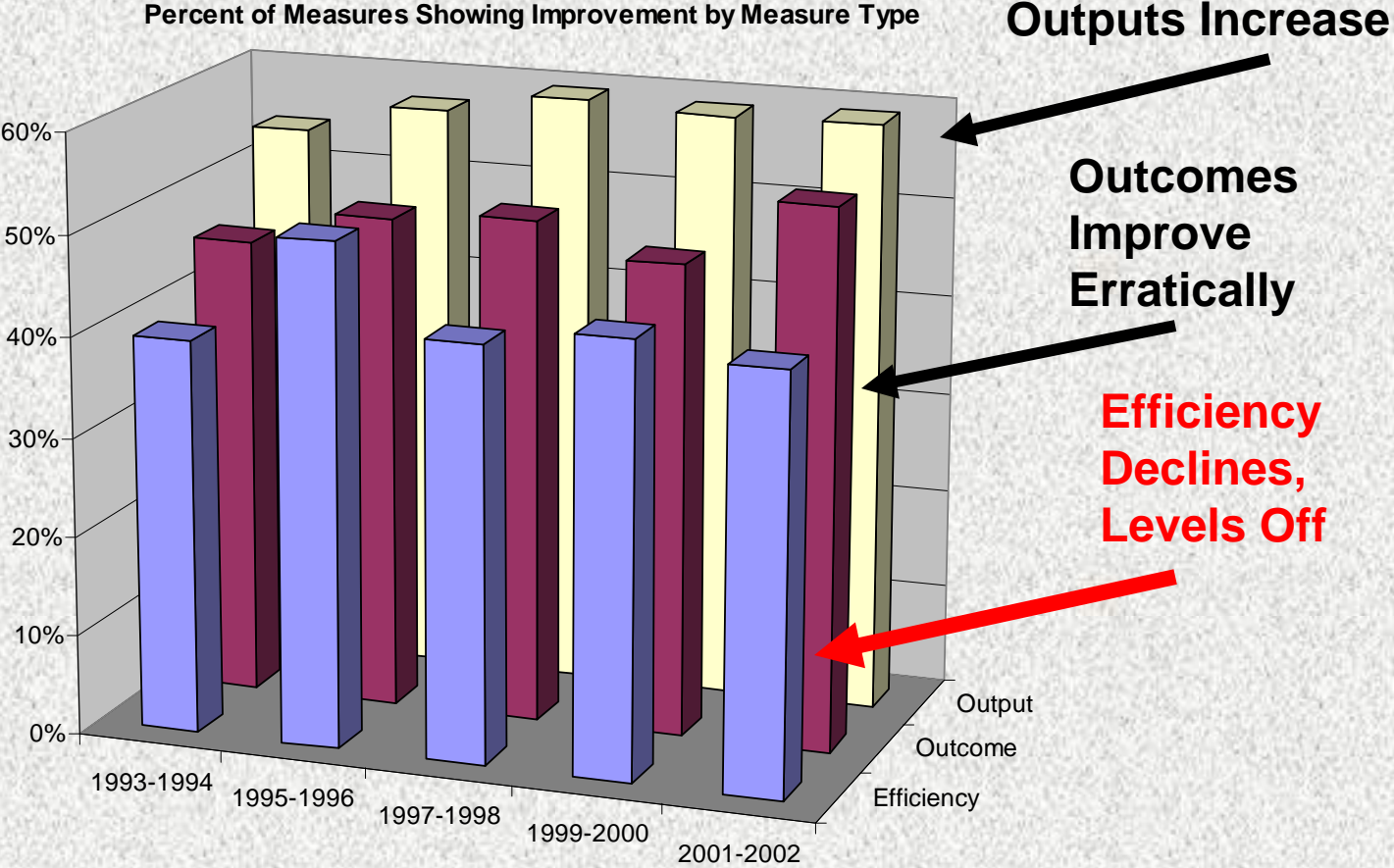
Trends in State Spending

TRENDS IN TEXAS STATE EXPENDITURES
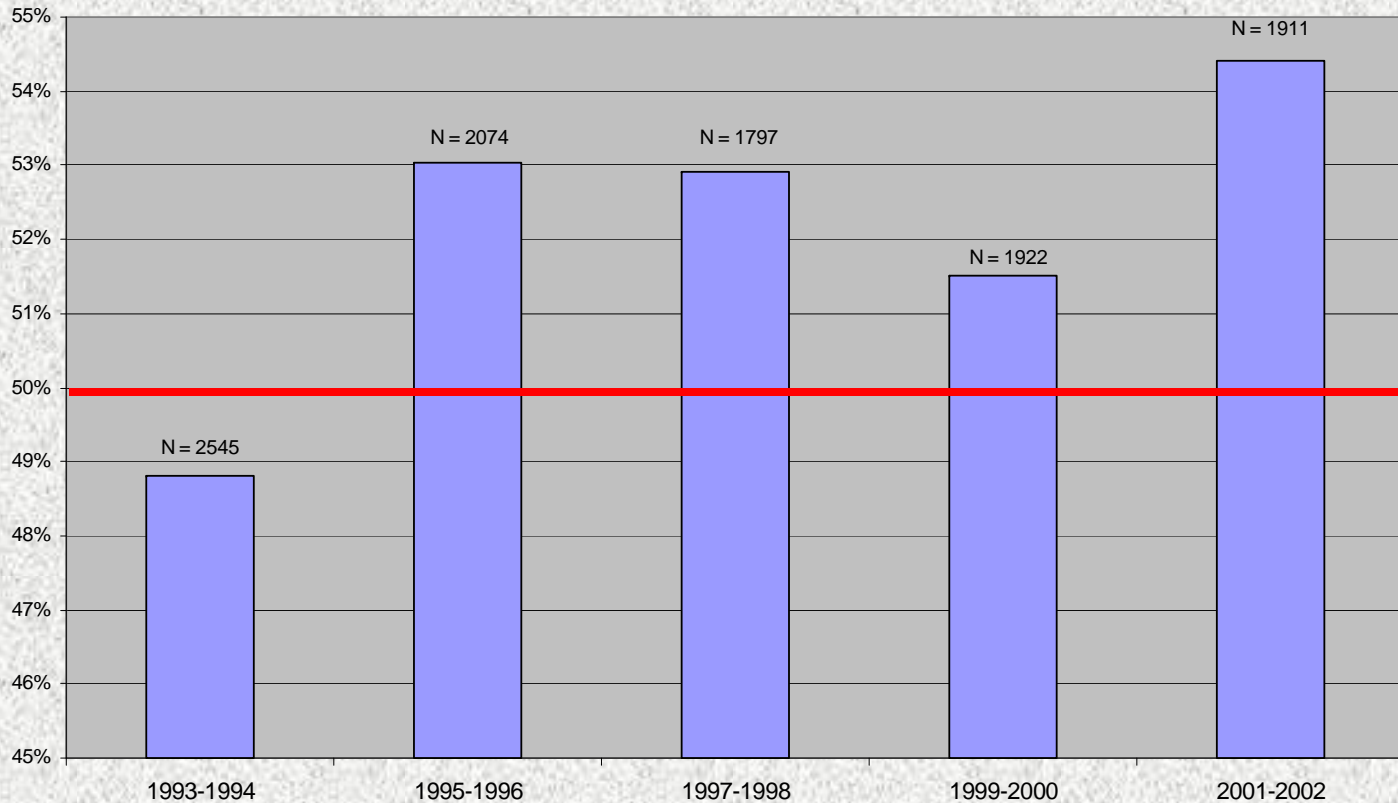ALL FUNDS

IN MILLIONS

Outputs Show most Consistent Improvement

Percent of Measures Showing Improvement by Measure Type

Outputs Increase

Outcomes Improve Erratically

Efficiency Declines, Levels Off

Trends in Improvement
(Overall 52% for the Decade)

Percent of Measures Showing Improvement

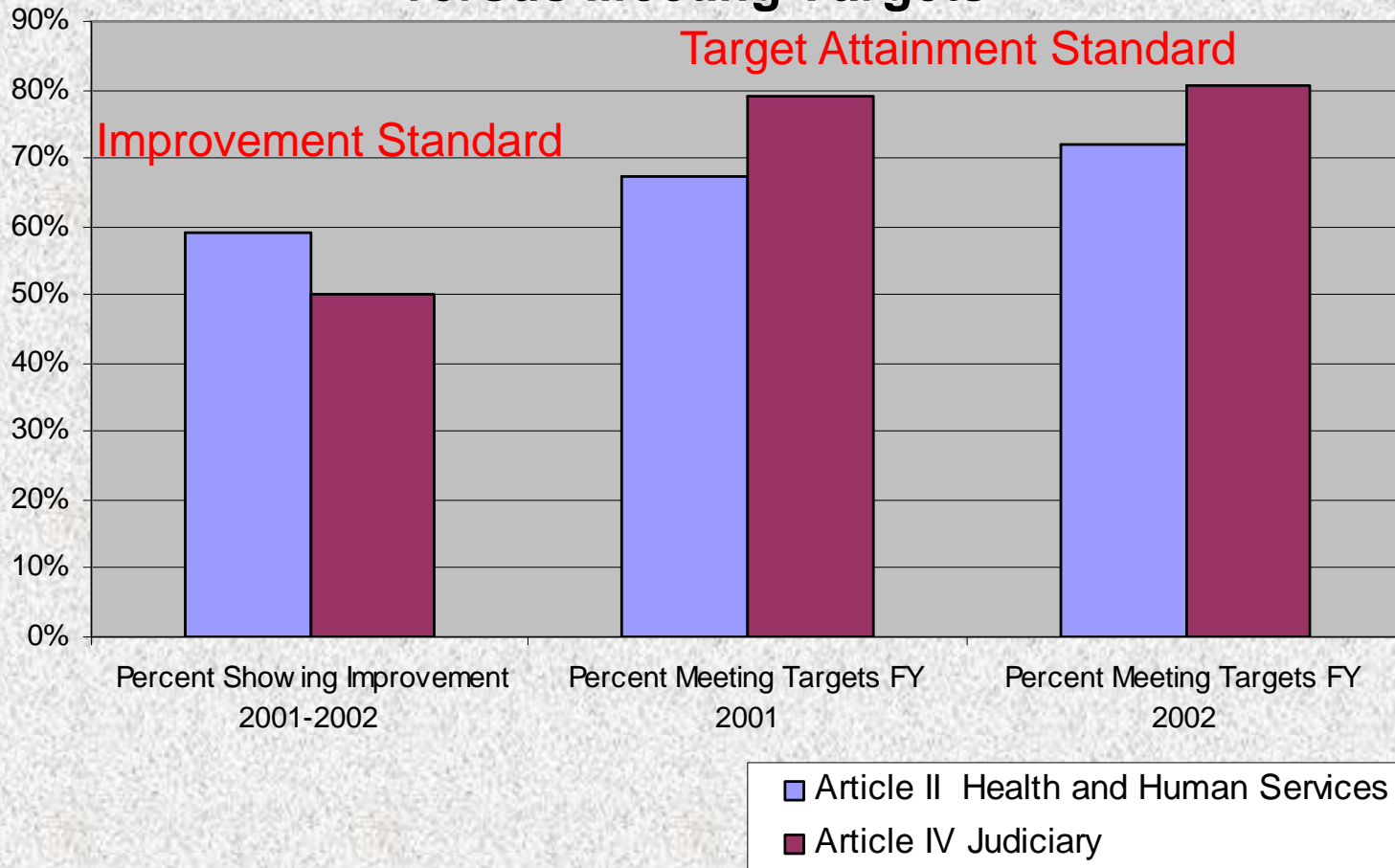
Source: Legislative Budget Board, Legislative Budget Estimates, various years.

N = 10,249

Improvement vs.Target Attainment

| | For the Years Ending | |
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C.1.1. Strategy: INDIRECT ADMINISTRATION	$ 216,286	$ 216,286
Grand Total, AIRCRAFT POOLING BOARD	$ 4,563,222	$ 3,163,222
Method of Financing:		
General Revenue Fund	$ 1,400,000	$ 0

Difference?

Source House Bill 1, Article I, as introduced. December 18, 2002 (LBB Recommendation)

Targeting Improvement?

Legislative Budget Board Recommendations

Recommendations for the Biennium	Number of Performance Measures*	Recommendations with No Change within Biennium	Percent Having No Change within Biennium
2000-2001	1,956	1,276	65%
2002-2003	1,984	1,334	67%
2004-2005	2,013	1,426	71%

Source: Legislative Budget Board, *Legislative Budget Estimates*, 1999, 2001, and 2003.
 * Excludes explanatory measures and missing targets.

Strengths

- Texas possesses a well-established system for performance reporting.
- The system has flexibility and adaptability.
- There are enforcement mechanisms for a performance system; and
- Public managers have a vocabulary of performance standards.

Opportunities

- Reporting and quality control systems are in place.

- These conditions offer the possibility of applying a performance improvement model, such as Malcom Baldrige, Six Sigma or a Balanced Scorecard.

- Generational turnover in management offers the opportunity to establish a new management culture.

Weaknesses

- Loss of major champions in the legislative branch.
- High error rates in reporting for some agencies.
- Lack of adequate training.
- Poor or non-existent analysis of root causes.
- Inadequate education of top executives in state agencies.

Threats

- Cynicism about performance system behaviors (carrots not used, sticks are).
- Public apathy, disinterest, or inadequate understanding of accountability standards.
- Piling on measures to address *ad hoc* concerns & loss of strategic vision.
- Lack of leadership.
- Failure to hold managers accountable.

Recommendations

- **Target improvement**.
- **Limit measures** to activities that can be managed and technologies that have a demonstrable impact on outcomes.
- **Focus** on only a handful of measures (Jim Collins, *Good to Great*, 2002).
- **Manage** with leading indicators that tie to operational drivers (e.g. MSU Pathfinders).
- **Monitor** and coach deployment and execution, not merely results.

Areas for Future Research

- Role of Leadership
  - Significance of character/personality/temperament
  - Significance of professional expertise
  - Significance of commitment to mission
- Role of Organizational Culture
  - Significance of professional calling
  - Significance of institutional mission
  - Significance of architecture/structure/transparency
- Agency Policies and Codes of Ethics
  - Alignment with professional domain
  - Alignment with institutional mission/public service
- Integrity
  - Alignment of Leadership, Culture, Policies, and Ethics.

Key Methodological Issues

- Measurement
  - Access to key data (perhaps a measure of transparency)
  - Corrective action
  - Commitment to mission
- Theoretical Nomenclature
  - Disciplinary parochialism
  - Significance of narrative, intentionality, context

Questions?

Comments?

Suggestions?