Many organizations assume that performance management is basically a stand-alone program. In reality, performance management is a crucial element within many best practice standard government processes. In organizations that aren’t using performance management, finance officers are often asked to demonstrate the benefits of such a system relative to the costs. It isn’t especially difficult to estimate the costs of establishing and maintaining a system. This would include the cost of training employees and managers to build necessary skills; staff time to collect, analyze, and report on measures; and the costs of technology such as a business intelligence or dashboard system to help collect, analyze, and report on those measures. Additional costs could include the price of a Web site or printed reports to communicate information gathered by the program, or perhaps an additional employee or external consultants to coordinate the use of performance information.

Identifying benefits is more difficult, however, because it is almost impossible to place a dollar value on having better information for decision making and a better understanding of citizens’ needs and preferences. Or a method of allocating budget dollars to effective programs, based on evidence, accountability, and transparency. Or the ability to understand the strategic link between programs and goals. Even benefits that do result in savings, like greater efficiencies within a program, are usually mitigated somewhat by the likely increase in service level. If you take a hypothetical program and use performance management to cut transaction and processing costs in half, the actual budgetary savings might not be 50 percent. That’s because once staff time is freed up, employees are also able to provide better service that wasn’t possible before, and your organization might be able to provide a better service more efficiently, at, say, 33 percent less than before. The end result is a better benefit for citizens, but quantifying that improvement into return on investment (ROI) calculations isn’t easy.

PART OF THE PROCESS

In fact, doing an ROI calculation assumes that performance management is basically a stand-alone program, or perhaps an add-on program — a discrete investment, similar to a new capital project or technology initiative. In reality, performance management is a crucial element within many best practice standard government processes. It is misleading to ask if your organization does performance management. The best systems treat performance management as an integrated piece of an overall management approach. Performance management by itself accomplishes little, and many organizations have discovered that collecting and reporting on measures just
creates a lot of extra work if those measures aren’t useful for decision making or planning. To be successful and achieve real benefits, performance needs to be introduced as a means of improving existing processes, rather than as an entirely new process.

The National Performance Management Advisory Commission established seven principles that can be integrated with common processes to create benefits for your organization. For example, every government has a budget process. Decisions are made within that process, and each government has different approaches to making those decisions. The budget process can be improved by the following principles from the commission’s report on performance management, *A Performance Management Framework for State and Local Government: From Measurement and Reporting to Management and Improving:*¹

- Information needs to be transparent, easy to access, use, and understand.
- Goals, programs, activities, and resources need to be aligned with priorities.
- Decisions need to be driven by accurate and meaningful data.

To demonstrate how important these principles are to the budget cycle, one only need consider doing the opposite — keeping the budget process secret, not considering whether spending is coordinated with the community’s interest, and making decisions based on assumption or intuition. Therefore, even if performance management is not viewed as an all or nothing proposition, it is easy to see how developing a performance management system would contribute to a better process and a better end result.

**JUST GOOD MANAGEMENT**

Within a management context, focusing on performance measures helps an organization set expectations and reinforce what almost everyone would agree is a solid approach to decision making. Performance management is not a unique strategy, but simply an essential component of good management. The National Performance Management Advisory Commission’s principles also include the following:

- Organizations should have a focus on results.
- The information that is collected needs to be relevant.
- Practices must be sustainable over time and across organizational changes.

One of the most common management approaches that relies on performance management information is the Stat system, in which top executives meet regularly to discuss performance information and develop strategies for improvement. While the Stat system is a formal process that includes performance information to help identify problems and develop solutions, it does not expand the scope of management. It simply improves an existing process by having executives focus more regularly on results and take corrective action when necessary — two characteristics that would be included in any definition of good management. In other words, every good management approach should exhibit these performance management principles. Then, when organizational change occurs, and a new leader attempts to change the overall management approach, the question is not whether the performance management system will be discarded, since every system should have elements of performance management built in. Just as no new finance director would suggest that the organization stop following Governmental Accounting Standards Board standards, and no new procurement director would suggest that the organization stop competitively bidding out contracts, a change in top-level leadership should not undermine the performance management principles, which are best practice approaches to management.

**THE CASE FOR IMPROVEMENT**

Private-sector organizations have long understood the value of building these performance management principles into common processes. Competition requires that firms continuously seek out ways of improving efficiency, better aligning products and services with customer needs, and focusing on innovation to get ahead — or, really, just to survive. The private sector provides endless examples of the same performance management principles explained here. For example, they allow shipping companies to meet service level expectations efficiently, allow entertainment and service firms to understand their customer’s priorities and preferences, and allow casinos to determine how well promotions and programs are succeeding in maximizing revenue. These firms are driven to improve at levels that citizens have not historically demanded of their government. That may not remain the case,
however, as times change and many governments continue to face unprecedented fiscal pressures.

Many governments have the capability to improve efficiency. Most governments now have enterprise resource planning (ERP) systems that track immense amounts of data, related to both transactions and performance, as the private sector has had for many years. But unlike leading private-sector firms, which see value in using it for decision making, making it a part of key business processes, and ultimately turning it into profit, many governments still struggle with creating value from that information by using it to save costs or improve results. Many government managers also lack this focus on results and improvement, and are instead accustomed to thinking about control processes and repeating what has been done before. That is slowly changing, as business intelligence tools and performance dashboards become more popular, but most governments are still sitting on top of a valuable resource—information that could be used to significantly improve budgeting, planning, and management decisions, both the process and, more importantly, the results.

TRANSFORMING THE ORGANIZATION

Not all governments need an ERP system or a performance dashboard to improve existing business processes by applying the principles of performance management. Many processes can be improved by simply shifting focus and discovering what is truly important to the organization and its constituents. Thus, the National Performance Management Advisory Commission’s seventh principle states that performance management transforms the organization.

This transformation is the result of focusing on organizational outcomes, evidenced-based planning, goal setting, a constant spotlight on improvement, and innovation—which differs considerably from the traditional government model of compliance and control. Since performance management is not a stand-alone process or activity and must be incorporated into existing business processes and services, there are endless possibilities for governments to put these principles into action.

CONCLUSIONS

In addition to the seven performance management principles, the commission’s framework also identifies common performance management practices—examples of how the principles are applied to planning, budgeting, management, and evaluation. The report also provides examples of ways in which many leading governments have successfully applied these principles and are now realizing very real benefits from performance management. On a smaller scale, many of these principles are most likely seen in departments, programs, or other sections of most governments.

That’s because good managers and leaders will naturally move toward performance management. When you remove the notion that performance management is a new initiative and focus on improving existing processes, arguing against performance management becomes very difficult. It means opposing the improvement of existing processes to take a strategic focus on results; opposing the use of relevant data to make informed decisions; and opposing the alignment of resources with priorities.

Performance management is not just about collecting, analyzing, and reporting data; it is about improving results, improving efficiency, and providing better services to citizens by giving policymakers, managers, and others the information necessary to make informed decisions. Governments are facing increasing pressure from all sides, and the status quo will not work. Private firms face the same challenges in the form of competition, and in response, they have to innovate and improve to remain effective. Expectations for government are growing, as well, and governments will need to harness the same drive to focus on the customer and use resources effectively. The question, then, is not what the business case for performance management is, but rather how long government can afford to continue on the same path before the costs of not employing performance management principles make it impossible to deliver needed results.

Notes

MICHAEL J. MUCHA is a senior consultant/analyst in the GFOA’s Research and Consulting Center in Chicago, Illinois.