Convincing Legislators with Performance Measures

XiaoHu Wang
Department of Public Administration, University of Central Florida, Orlando, Florida, USA

Abstract: This study uses an analysis of public managers’ own words to increase legislative use of performance measures in budgeting. Using data from a survey designed from a content analysis of local administrators’ descriptions of effective approaches, it shows that high quality budget analysis, political consideration, and effective communication can increase the chances for effective performance-based legislative funding. The findings can help managers effectively prepare and present their performance-based budget requests. The findings also speak to budgetary decision-making theory.

Keywords: performance measures, performance measurement, performance budgeting, accountability

INTRODUCTION

Budgeting is a highly interactive process for public managers and legislators. Managers prepare and present budget proposals for the approval of legislators, who make resource allocation decisions in funding levels and funding priorities. Because of the interactive nature of the budget process, managers’ budget presentations and communication may significantly influence legislators’ funding decisions. In performance budgeting, managers present information about program performance to legislators. Legislators may use economic values such as program efficiency and effectiveness to evaluate budget requests. This study explores when legislators use performance measures in funding decisions. Besides its attempt to contribute to the budgetary decision-making literature, this study has a specific purpose: it aims at helping public managers effectively prepare and present their performance-based budget requests in budget negotiations and formulations. The paper first examines the rationale
of performance-based legislative funding decisions, then discusses the methodology of this research and presents findings and a summary.

WHEN DO LEGISLATORS USE ECONOMIC VALUES IN FUNDING DECISIONS?

A number of theoretical models have been adopted to explain how decisions are made in organizations. One prescriptive approach rationalizes decision-making by using economic values (such as economy and efficiency) as criteria to assess decision alternatives. A ramification of this model in public budgeting is presented by Verne Lewis, who claims that economic values should be used in making resource allocation decisions. According to Lewis, as resources are limited in relation to demands for public programs, funding decisions must be made on the basis of efficiency and effectiveness of public programs so that the “return from every expenditure must be worth its cost in terms of sacrificed alternatives.”[1] The history of budgetary practices in the U.S. is replete with efforts to apply economic values to the evaluation of the merit of budget proposals. In zero-based budgeting (ZBB), the costs of decision packages are evaluated for their funding possibility. In program budgeting, economic analyses such as cost-benefit analysis are used to evaluate decision alternatives and to make funding decisions.

Another rationale for funding decisions is found in a model that emphasizes social, legal, and political context of public budgeting. According to this model, a funding decision is a result of a series of budget considerations that include previous year’s funding basis, stakeholders’ perceived significance of a funding decision, expected responses of other stakeholders, and the quality of the analysis that supports a funding proposal.[2] The political process that involves stakeholders’ competition and compromise on limited resources determines funding outcomes.[3] Some empirical evidence seems to support this explanation.[4] For example, Thurmaier’s study of budget analysts concludes that technical and economic calculations are necessary but not sufficient to make reasonable budget recommendations. A political context is also needed.[5]

Nevertheless, empirical studies have so far focused on executive administrators who prepare budget drafts. The role of legislators who are the final budget decision-makers is less systematically examined in this literature. Although, as suggested in the literature, legislators often adopt the majority of executive budget recommendations, they are by no mean passive in funding decisions.[5] Legislators may focus on large budget items with significant funding implications. They may be more interested in significant year-by-year budget differences or focus on budget deficits that may cut deep into budget reserves. They may enthusiastically attempt to bring the largest
budgetary windfalls to their political consistencies. What, then, determine legislators’ actions in allocating budgetary resources? It can be argued that legislators are political representatives of interests. Their instinct for political survival propels them to mobilize resources, including budgetary resources, to meet their constituencies’ demands. In this line of thought, a legislator’s decision to fund a program is mainly determined by the political benefit the program can bring.

Nevertheless, legislators may also use economic values as criteria in their funding decisions for several reasons. First, economic values can be converted into political support. A program that emphasizes efficiency through spending cutbacks can be portrayed as saving taxpayers’ money as a means of obtaining political support. A program that reduces crime rate (an effectiveness measure) may be welcomed by voters. This value conversion allows legislators to simultaneously apply political and economic valuation in funding decisions, which can maximize the possibility of success in their budget agenda.

Second, public managers may exert their influence in the budgetary process. Public managers’ professional training and their possession of information make use of economic valuation in budgeting possible. Although legislators make final funding decisions, public managers can exert significant influences on the decisions. Managers are trained professionals who are directly involved in the production process and day-to-day management. They are responsible for presenting and defending their budget requests with justification for the level of service provided. This is an economic justification, as it requires estimation of the economic value provided by a funding decision.

When do legislators consider economic values in funding decisions? The recent move toward performance-based budgeting allows researchers to observe legislative use of economic criteria in funding decisions. In the so-called “new performance budgeting,”[^6] funding decisions should be partly supported by performance measures, which may include such economic values such as efficiency and effectiveness.[^7] The results from performance-based funding decisions are emerging. A survey of U.S. county governments shows that about 57 percent of performance measurement users “use performance measurement in deciding on funding levels for individual programs.”[^8] Individual instances of using performance measurement in budgeting are also prevalent in the literature.[^9]

Jordan and Hackbart believe that “the linking of performance to the allocation or distribution of appropriated funds may be emerging as the next iteration of performance budgeting.”[^10] Clearly, performance budgeting allows managers to use the economic value of programs to justify budget requests. This article analyzes managers’ views about the use of performance measures to discover when legislators are most likely to employ performance numbers in funding decisions.
METHODOLOGY

This research is based upon two phases of activity, including:

1. a content analysis of a dozen of Governmental Accounting Standard Boards (GASB) case studies and
2. a content analysis of comment letters from 101 U.S. city governments.

In 2000, the GASB published case studies conducted in twelve U.S. state and local governments. These studies consisted of interviews, field observations, and document examinations used to examine performance budgeting practices in these governments. The first step of the current study was to perform a content analysis on these GASB cases with the eventual purpose of developing questions for a survey instrument. The result of this initial analysis shows that of 12 governments in the GASB study, four had performance-based legislative funding (33%), three may have (25%), and five do not (42%). Since the number of cases using performance-based legislative funding cases was less than 50 percent, the prevalence of legislative performance funding in these governments is not evident. It is not clear, therefore, that legislators have used performance measurement to determine funding priorities and funding levels. Nor is it clear that departments or programs have used performance measurement to successfully increase their budgets or defend their spending.

In the second phase, a questionnaire focusing on the use of performance measures was sent to chief executive officers of all 545 U.S. municipalities with populations over 50,000 in summer 2001, after a pretest of the instrument. These officials were asked to comment on the finding described above in light of their own performance budgeting experiences. Specifically, they were asked to comment on whether their cities had used performance-based legislative funding, and were requested to present examples to substantiate their views. One hundred and one (101) cities returned the instrument with substantial comments and examples. Responding cities report the use of performance measurement for an average of 7.5 years, with a majority of using outcome and citizen satisfaction measures. These cities seem to represent more sophisticated performance measurement users with relatively extensive performance measurement experience.

These comments and examples were next classified and coded. In this process, words and sentences were analyzed and coded according to the categories of “Yes,” “No,” and “Inadequate response.” “Yes” was assigned when a respondent explicitly indicated that his or her city experiences performance-based legislative funding and examples were provided to support this view. “No” is assigned when a respondent explicitly indicated that a city does not experience performance-based legislative funding and comments were provided to support this view.
“Inadequate response” was applied to the following situations:

1. when a commentator expressed a view on performance-based legislative funding, but failed to provide supporting examples. (For example, several responses indicated legislative use of performance measures but failed to address whether that affected funding decisions;
2. when a respondent expressed an opinion but provided examples that did not directly support the view.

Several procedures were used to ensure the validity and reliability of classification and coding, as recommended by Berg.[16] First, as mentioned above, examples were examined for consistency with each respondent’s stated opinion about the use of performance measures and the “inadequate response” category was used to eliminate invalid comments. Second, telephone follow-ups for clarification were conducted to the commentators whose comments were ambiguous. Third, the results of these telephone interviews were used to select commentators for in-depth discussions.

This comment letter analysis is qualitative and exploratory in nature. It lays a heavy burden on respondents by asking them to write comments and examples. This may explain why the response rate (101/545 = 18.5 %) is relatively low. Because of the low response rate, the results of this study cannot be used with confidence as a representative sample of all American cities. Descriptive statistics indicate that the respondents may represent sophisticated performance budgeting users with relatively long performance budgeting experiences.

Despite the low response rate, this method provides valuable information that other methods may have missed. It is appropriate for studying performance budgeting, a subject that is not well-defined.[17] First, it solicits rich information through respondent comments and examples with its open-ended questions. Second, this method is arguably more valid than a conventional, close-ended survey that merely requires respondents to circle a number or to check a right answer. It sets a higher validity bar: only those who have substantial knowledge about performance budgeting can write comments and examples. Finally, unlike individual case studies, the comment letter analysis reaches to far more organizations so the findings represent a broader sample.

FINDINGS AND DISCUSSION

Thirty-three percent of respondents state that legislators in their jurisdictions have used performance measures in funding decisions and provide supporting examples. One city manager describes the city’s practice: “all requests for new programming must be presented in terms of potential impact to performance measurement. If the police [department] want a new neighborhood substation, it must be justified in terms of reduced crime in neighborhood.”

In
other comments, “the funding of the city’s street paving, ground maintenance, street sweeping, and code enforcement service center has been increased in response to low customer satisfaction ratings in these areas.” “It is common to add additional resources where it is shown that workload has increased and performance has suffered as a result of not adding corresponding resources.” In some cases, performance measures are not used to support the existing spending levels, but are used to “show the need for new programs or the expansion of existing programs.”

Fifty-six percent of respondents do not believe that their cities have performance-based legislative funding. The other eleven percent of respondents do not provide adequate information for the researcher to make a determination about the use (see the Method section for the explanation of “inadequate response”). Table 1 presents organizational characteristics of the response cities, and includes a comparison between cities with and without performance-based legislative funding. The results show that cities with performance-based legislative funding are larger, have used performance measurement longer, and tend to use outcome measures more. The following section uses respondents’ comments and examples to examine when and why performance-based legislative funding may occur.

### High Quality Analysis

#### High Quality Measures and Data

Comments indicate that managers need to let legislators understand the meaning of a performance measure and its relationship to a specific allocation decision. A measure needs to be clearly defined and specifically tailored to a
program or an activity. It should be relevant and meaningful to legislators. According to a commentator,

[the administration] is responsible for providing the Council with meaningful and valid measures that give an accurate picture of the service delivery aspects of government. The Council use of performance data is impacted by the perception how measurement is conducted. For instance, in a department where the measures are always specific and meaningful, the Council will apply them. On the other side, if a department regularly fails to report data and has poor measures, the Council will be less apt to use them.

Also, a measure should be linked to service goals to be meaningful to legislators. This may pose a challenge for services that lack clear goals. One commentator argues, “Good performance measurement is very difficult to do. [Because] many of our most important functions do not have generally agreed measurements of success . . . performance measurement therefore should not be considered a legislative tool in most cases.”

Data should be compelling. A single measure may never be good enough. Multiple measures profile a more complete picture of a funding request or a funding impact. One commentator describes the necessity of multiple measures, “performance indicators can be used for or against a proposal. For example, the fire chief argued that the city spends the lowest dollar amount per capita on fire of any local cities. The Council argued back that we have the lowest fire loss of any city at the current spending.” In another comment, the city “uses a quality of life index (20 measures) to track progress such as home ownership, income, crimes, etc.”

Causal Linkage

It is important for administrations to demonstrate the impact of funding decisions on actual performance. Performance impact analyses should be conducted to examine the possible relationship between funding decisions and performance results. For example, a budget request based on police response time should demonstrate how budget change affects the response time. A good performance impact analysis consists of argument development, measure identification, data collection, and data analysis. A relationship between budgetary inputs and performance results should be the focus of such an analysis. A solid analysis, plus an effective presentation in plain language, helps legislators understand the utility of performance data and policy implications of performance funding. For example, a city manager uses crime statistics to demonstrate the need for a new crime scene analyst. His analysis shows that “hiring a new crime scene analysis is less expensive…[because] the city can save 20,000 man-hours [from releasing police officers from securing crime scenes].”
Several managers admit that it is difficult to establish a causal relationship between funding decisions and performance. For example, a funding decision to increase police budget to reduce crimes implies a causal linkage between more police funding and crime rates. This plausible linkage may not be true. Increased police budget may not have any significant impact on crime rates because crime is affected by many other factors. A respondent comments, “Performance measures show activities, but lack the ability to demonstrate the relationship between funding and performance.”

Clarity of Policy Implication

It is important to realize that even a solid performance impact analysis may not provide a clear impetus for funding choices. Measurements of poorer quality may often suggest greater service needs and therefore budget increases, presenting legislators with dilemma about making a funding decision. For example, should the police budget be increased when the crime rate increases? Would doing so reward poor performances? A commentator asks, “If a department is very effective and has great measure results, do you reward them financially or punish them by reducing their budget? Do you give them more money when they are already delivering excellent outcomes and meeting goals? If a department has poor measure results, does it make sense to reduce their budget with the likely results that services will further deteriorate? Or do you reward them for doing poor work by giving them more money.” This dilemma in funding choice exists when performance measurement is used as a financial rewarding mechanism. It demonstrates one limitation of “budgeting for performance.”

Making Political Sense

High-Profile Services with Urgent Needs

For many cities, the demonstration of urgent funding needs in high-profile services is important for performance-based funding. According to a commentator, “only the more visible performance measures are discussed and usually only after a situation has been raised by a citizen.” Commentators give many examples of performance-based legislative funding in the areas of public safety (crime protection, fire and rescue), public health, and education. “The top funding priorities are public safety (police, fire, health) and education. If they have real or perceived performance problems, the response would likely to be to increase funding.” “During a performance review session, the Mayor provided additional funding to the Health Department because he was concerned by statistics on communicable disease out-breaks.” A decision not to fund such demands can be too costly to legislators politically. Elected officials
may not need a popular decision to survive. But an unpopular decision almost ensures a political toll.

A Political Strategy

Performance measurement can be a political strategy. Numbers can be effective in building a case for funding approval. Comments show legislators use performance information for their agenda. “My experience has been that the city council use only selected data to support their positions. They definitely use (emphasis supplied by the commentator) the information, but not in a systematic process.” “Performance measurement is used on a case-by-case basis dependent upon the political nature of an issue. There does not appear to be consistent use of measures [by legislators].” “Resource allocation appears to be tied to political sensitivity.” In the cities where performance data is not used in legislative funding, commentators point to the fact that “funding levels are determined by community priorities and politics.” These comments indicate a greater chance of performance-based legislative funding if performance information is useful for a political agenda. After all, budgetary decisions are fundamentally political. Performance data may therefore be more useful when they are linked to a political strategy.

Overcoming Communication Barriers

Communication barriers exist between managers and legislators because of their different proximity to service operations. Managers are directly involved in service provisions and daily operations. They are requested to justify their budget requests through analysis of service demands. In many cases, managers are the primary producers of performance measurement information. On the other hand, legislators are not directly involved in service provisions and daily operations. Many have relatively short tenures in government. Managers’ accessibility to operations and their primary role in information systems give them an advantageous role in using performance information in budgeting. This information asymmetry between managers and legislators has a potential to become a de-motivator for the latter to use performance information. Comments show that some legislators believe that performance measurement is too “technical” and better suited to “internal management.” In a city using performance measurement for more than 10 years, the city manager writes that “[The council] would consider direct use of performance measurement as interfering in administrative matters.”

How can the communication barrier be overcome? How can legislators be made to understand the utility of performance information in performance-based funding decisions? Two strategies are used by managers to place performance information into a management context. First, comments show that the
use of strategic planning language enhances legislators’ understanding about the purposes of measures – assessment of organizational goals and missions. A commentator writes, “measures are useful to evaluate a list of potential goals complied by department directors. These goals were presented to the city council. The legislators prioritized these goals, discussing what should be accomplished in the upcoming year and what could wait. The results of the strategic retreat were communicated back to the department directors. . . . [the departments] created lists of actions for the years, which were included in the budget document.”

Another strategy is to use “benchmarking language” or performance comparisons, in which agencies evaluate their performances over time. Benchmarking also allows agencies to compare their performances with other governments. As a commentator writes, “[benchmarking] allows councils to understand how our city’s performance compares with other communities.” The results of benchmarking provide legislators with ammunition for political arguments. For example, comments indicate that legislators use benchmarking against other service providers in funding decisions of contracting-out.

Statistical Evidence

The research questionnaire also included some items designed to measure use of performance measurement practices. Some items are related to the above findings and can be used to test these findings statistically. To gauge the quality of performance measurement analysis, respondents were asked to evaluate their cities’ practices in developing performance information systems and analytical skills in performance analysis. Table 2 lists the results from these items. The bivariate analysis shows a relationship between performance-based legislative funding and capable staff and management information system (MIS) in performance analysis. Apparently, the capability of staff to conduct performance analysis improves data quality for legislative use. This result supports the earlier finding that the presence of high quality data is significant in performance-based legislative funding. On the other hand, cost accounting systems do not seem to play a role in performance-based legislative decisions. This finding suggests that cost is not a primary concern of data collection in outcome-oriented performance measurement systems. Interestingly, the relationship between activity-based accounting and performance-based legislative funding is not statistically significant (tau-c = 0.122, p > 0.05, n = 100). A larger data set is needed to prove or disprove this relationship.

In this study, there are no items that directly measure whether legislative use of performance data to makes “political sense.” However, respondents were asked to evaluate legislative support for the use of performance measurement. It could be argued that that legislative support occurs only when legislators realize political utility of performance measurement. The results in
Table 2. Performance-Based Legislative Funding Decisions

<table>
<thead>
<tr>
<th>High Quality Analysis</th>
<th>Agreement (%)</th>
<th>Association with performance-based legislative funding decisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost-based accounting</td>
<td>35</td>
<td>0.030</td>
</tr>
<tr>
<td>Activity-based accounting</td>
<td>29</td>
<td>0.122</td>
</tr>
<tr>
<td>Staff capable of PM analysis</td>
<td>55</td>
<td>0.317**</td>
</tr>
<tr>
<td>MIS to collect performance data</td>
<td>41</td>
<td>0.229*</td>
</tr>
<tr>
<td>Making political sense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legislature is a driving force</td>
<td>13</td>
<td>0.052</td>
</tr>
<tr>
<td>Legislative support of PM</td>
<td>53</td>
<td>0.189*</td>
</tr>
<tr>
<td>Overcoming communication barriers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic planning language</td>
<td>41</td>
<td>0.208*</td>
</tr>
<tr>
<td>Benchmarking language</td>
<td>77</td>
<td>0.211*</td>
</tr>
</tbody>
</table>

Notes: (1) “Agreement” (%) is the percentage of respondents who agree that their cities have these specified systems, practices, or conditions. (2) The measure of association is Kendall’s tau-c, which measures association between two ordinal variables (“Performance-based legislative funding” is treated as an ordinal variable). The values of tau-c go from −1 (perfectly negative association) to 1 (perfectly positive association). (3) The number of cases is 100. (4) PM = performance measurement. (5) *p < 0.05, **p < 0.01.

Table 2 show that legislators are more likely to make performance-based funding decisions if they support the use of performance measurement.

Finally, to measure the use of strategic planning language to overcome communication barrier, a strategic planning index was created. The index includes items measuring the development of strategic planning language in performance measurement: “performance measurement is part of our strategic plan,” and “performance measures are used to evaluate strategic goals in the city.” Similarly, an index was created to measure the use of benchmarking language to overcome communication barrier. The index includes two items: “our performances are compared with performance benchmarks of other governments,” and “our current performances are compared with performances of previous years.” The results in Table 2 support the finding that strategic planning and benchmarking language is useful in overcoming communication barriers in performance-based legislative funding decisions.

**SUMMARY**

What strategies should managers adopt to make legislators use performance numbers? Whereas it is true that funding decisions in government are made in a complex political environment that involves confrontation and compromises
of different stakeholder groups, this research demonstrates the importance of economic valuation in legislative funding decisions. The odds for funding support can be improved with high quality performance analysis, political consideration in performance-based funding proposals, and facilitated manager-to-legislator communication.

This research indicates the value of managers’ groundwork in performance measurement: good data and measures, sound analysis, and effective communication. It suggests an active role of public managers in budgeting, wherein managers are actively involved in the budgeting process by providing valuable information and meaningful interpretation of analysis, articulating political consequences of a funding decision, and by effectively communicating with legislators. The political nature of public budgeting should not deter managers from performing good analysis and making critical judgement. Politics should not be used as an excuse for sloppy managerial groundwork. In fact, as some commentators indicate, when legislators see good work, they listen.

Finally, the possibility that some legislators may abuse the performance measurement system by using it to score political gain for their own interest must be noted. A data trend can be singled out and tailored to support (or oppose to) a proposal of legislative political interests. In this study, some respondents expressed concern that legislators are selective in using performance information to support their agenda. This selectiveness represents a potential bias of legislators in using the results of economic valuation calculated via performance measurement. To public managers, this finding indicates a need to apply economic valuation in a consistent, systemic, and complete way in budget analysis.

REFERENCES


12. Three methodological steps were used in this analysis. First, the researcher applied a content analysis to summarize and code the GASB studies. In this step, the researcher conducted reading of the cases and selected the key words and sentences. Examples concerning performance funding practices in the cases were carefully examined. (For a discussion on the content analysis approach adopted by this study, also see Babbie, E., The basics of social research. New York: Wadsworth Publishing Company, 1999). Second, these words, sentences, and examples were analyzed and coded to categories of “Yes,” “No,” “Maybe,” or “no discussion.” “Yes” is assigned when a case explicitly indicates that a jurisdiction experiences performance funding. “No” is assigned when a case explicitly indicates that a jurisdiction does not experience performance funding. “Maybe” is applied when a case indicates that a jurisdiction may experience performance funding (For example, some interviewees reported an increase use of performance budgeting, while other interviewees did not observe such increase). Third, uniformed and standardized wordings were used to summarize these findings. The selection of words in question statements was based on the words in these cases if possible.
13. The selection of cities with large populations is based on an assumption that large cities have more resources and therefore are more likely to use performance measurement. Also, a limited budget of this self-funded study restricts the scope of this study. A city address file was obtained from the National League of Cities in 2001. The file includes the latest officials’ names and addresses after the 2000 election. City names and addresses were also verified with ICMA’s Municipal Yearbook. The initial instrument was pretested on a group of 50 city officials to ensure that the instrument was appropriately designed. Corrections on question wording, question sequence, and grammar were made after the pretest.

14. Among the commentators, 38.4 percent were City Managers (or Chief Administrators) or Assistant City Managers. 29.3 percent were chief finance or budget officers (finance directors or budget directors). 12.1 percent were management or budget analysts. Other commentators include performance measurement directors (coordinators), directors of administrations or operations, directors of planning, organization development coordinator, directors of organizational effectiveness, and other high-level city officials. 91.1 percent commentators say they are “familiar” or “very familiar” with performance measurement experiences in their cities. Response cities use performance measurement for an average of 7.5 years. In 63.3 percent of the cities, more than 50 percent of their agencies use performance measurement. 62.0 percent of cities use outcome measures and 60.0 percent have citizen or client satisfaction measures.

15. The coding process includes examination of the content of a comment. First, a commentator was asked to express a “view” regarding the question statement. In this step, key words of the commentators were examined to discover the response. In the second step, an overall assessment of the commentator’s comments and examples was performed to identify whether he or she agreed or disagreed to the question statement. This mode of the analysis is suggested and used by social scientists for voluminous qualitative information. See Babbie, 1999; Creswell, J. W. Research design: Qualitative and quantitative approaches. Thousand Oaks, CA: SAGE Publications, 1994; Milinki, A. K. Cases in qualitative research. Los Angeles. Pyrczak Publishing, 1999; Harris, J. (1995). Service efforts and accomplishments standards: Fundamental questions of an emerging concept. Public Budgeting & Finance, 15 (Winter): 18–37.

