Symposium on Performance-Based Budgeting

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Introduction to the Symposium: PBB—Works Like the BCS?

Performance-based budgeting (PBB), defined as a process for developing and incorporating measurements of the performance of government operations, services, and programs into the budget process, is intended to introduce some “rationality” into a traditionally subjective and political decision-making process. Robert D. Behn (2003) reminds us that the emphasis on measuring performance was not necessarily a goal in itself, but an avenue toward assisting managerial processes and improving the accountability of government to citizens. Still, PBB remains a target of naysayers. Critics allege that PBB is complicated, too data driven, and incompatible with the principles of democratic governance. These arguments against PBB echo the ongoing criticisms against the Bowl Championship Series (BCS), which matches two teams in a national collegiate football championship game while pairing other top teams in competitive contests in additional bowl games. The BCS system, which replaced a bowl system that determined matchups based on traditional (political) agreements between conferences and bowls, is based on a numeric formula and ranking that factors in information from polling of coaches and experts, computer rankings, the strength of team schedules, and win–loss records. Over time, the formula used by the BCS has been refined to better reach its goals. Critics argue that the BCS system is too complicated, formulaic, and unfair to certain schools. These critics point to isolated examples of perceived inequities in excluding a particular team from the championship as proof that the system as a whole does not work.

This symposium examines PBB as it is applied in American governments, in part to address the foregoing criticisms. According to Bill Herzog (2006), “to improve understanding, and improve practice, scholars and practitioners need to continue to provide descriptive documentation on the successes, challenges, and failures of performance budgeting.” This symposium is an effort at such documentation, with the goal of answering the following questions about PBB:

• How has PBB been practiced in the past, and for what purposes?
• Do these systems serve governments well? If so, in what way(s)?
• Are the data generated by such systems useful to budgetary decision making in American governments?
• What conclusions can be drawn from government experiences with PBB?

What you will find in the following pages are the results of research that has been conducted over the last two years to answer these questions. We focus this work on PBB applications in government at the federal, state, and local levels in the United States only and for budgeting decisions in particular. These applications are assessed by academic experts and seasoned practitioners, each providing useful consideration of the value of past efforts and future system sustainability. On the other hand, we do not speak to efforts by other governments around the world—in developed or developing countries. Other countries and governments offer distinct contexts.

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that may or may not square with those we examine here. Each academic provides a window into past, current, and future PBB applications. The research then is reviewed by practitioners who, collectively, have many decades of career experience in government management, performance measurement, and program analysis. These experts add their insights to the research findings presented. The results of this collaboration, we believe, afford the reader a road map of possibilities for using performance measures and information for budgetary decision making.

Philip G. Joyce, professor of public policy at the University of Maryland, opens the symposium with an assessment of the Barack Obama administration’s effort to advance performance budgeting in the U.S. federal government. In addition to his academic career of 15-plus years, during which time he has produced several books and many articles about American national budgeting, the work of the Congressional Budget Office, performance budgeting, and public budgeting more generally, Joyce spent a dozen years in the public service—including time as an analyst with the Illinois Bureau of the Budget as well as with the Congressional Budget Office. He explains the importance of understanding how performance information can be realistically integrated into a public budgeting process, as this sets the stage for expectations about the results of reform implementation. He then explains efforts by the U.S. federal government to generate and use performance information for budgeting over the last 50 years.

Joyce places the current Obama agenda in the context of past efforts to bring performance information into federal budgeting, most recently by the George W. Bush administration. He determines that the Obama administration has illustrated some effort to carry forward the legacy of PBB. Positive aspects of these efforts include a concentration on measurement, analysis, evaluation, and transparency. On the other hand, Joyce notes that the current administration suffers from the familiar problems of effectively integrating performance information into resource-allocation decisions, including a protracted fiscal crisis, questionable measurement quality, and a heretofore lack of buy-in from Congress. Most importantly, though, Joyce explains that the country’s tremendous, long-term fiscal problems simply overshadow the effective use of performance information when making budget decisions.

J. Christopher Mihm, managing director of strategic issues for the U.S. Government Accountability Office, couples his vast knowledge of federal operations, management, and policy with Joyce’s conclusions. He explains the importance of networks to help advance any future PBB efforts—moving across organizational boundaries to tackle complex problems in a comprehensive way by engaging “the full array of policy tools.” Mihm concurs with Joyce regarding the importance of congressional buy-in that is required for performance-oriented budgeting, as well as the improved capacity that is necessary within agencies to “let managers manage.” Mihm is most positive about “ensuring transparency” at the federal level in the future, given technological advancements that will continue to improve our ability to gather, analyze, and present data. Relatedly, citizen engagement improvements at the federal level (which have been somewhat slower than certainly the local and even state levels) must be continued, improved, and expanded in order to generate a truly performance-based budgeting system at the federal level.

A few points that surface from Joyce’s conclusions and Mihm’s insights offer some light at the end of the federal PBB tunnel. As Joyce explains, past reforms should not necessarily be considered failures, as there is much that has been misinterpreted. Joyce reminds us that the emphasis should be on the outcomes of a “performance-informed” budgeting system over one that is “performance based.” Also, the economy is beginning to stabilize and should continue to grow, albeit slowly. This affords an opportunity to grow the use of PBB slowly and over time, continuing to build on past efforts.

Next, continued leadership that draws attention to performance, measurement development, and evaluation of results can help advance data quality over time. Perhaps most importantly, the 112th Congress, with the largest class of freshman in 60 years, provides the possibility for changed decision making. That is, research shows that novice budget analysts (and legislators) are more likely to anchor decisions on “rational” criteria such as workload and efficiency measures than seasoned analysts (or veteran legislators), who are more likely to engage incremental or political criteria (Bourdeaux 2006; Willoughby 1993; Willoughby and Finn 1996). This new group, with an eye toward “increased fiscal stewardship,” may be more likely to engage a broader range of decision criteria—inclusive of performance information—to inform budgeting decisions. The caution here, however, regards the possibility that this freshman class may apply performance information in only one direction, as Joyce points out, for solely “data-driven budget reduction” decisions in light of the current fiscal environment. Such application would certainly hamper, if not in fact end, any evolving PBB effort.

Our examination of state-level PBB efforts is presented by Yilin Hou, the Stanley W. Shelton Professor of Public Finance in the School of Public and International Affairs at the University of Georgia and his three UGA graduate students, Robin S. Lunsford, Katy C. Sides, and Kelsey A. Jones. Hou served as department vice chair at Tsinghua University in China in linguistics and foreign language education prior to completing his award-winning dissertation in state fiscal policy at the Maxwell School at Syracuse University in 2002. He has since conducted extensive research on state and local fiscal problems simply overshadow the effective use of performance information when making budget decisions.

Hou provides readers with an overview of PBB as it has matured in the states across three distinct time periods: the burgeoning of modern PBB in the 1990s, the stabilization of systems in the first decade of the 2000s, and during the Great Recession. He presents an analytical framework in which to understand the various state applications of PBB. His model incorporates principal–agent theory and a conception of human behavior to frame the context in which PBB is implemented. Government is distinct from the private sector; budgeting is a governance tool engaged as a fiscal
steward to support accountability. Incentive mechanisms to elicit various behaviors within such systems are compromised given the public nature of government operations, activities, and services. Hou applies a stricter definition to the successful PBB system for budgetary decision making—such a system must fulfill all of the roles essential to fiscal stewardship: planning, allocation, management, and evaluation. His assessment of systems as implemented in the 11 sample states leads him to conclude that effective use of PBB for budgeting is crippled in a poor economy.

A stark example of this phenomenon can be found in Oregon, where the demise of the Oregon Progress Board, a centralizing force in that state’s well-known and long-standing PBB system, has compromised the state’s traditional emphasis on performance measurement and its use for budgeting. Still, in spite of this conclusion, Hou admits that anomalies exist. Maryland and Louisiana offer two examples of states in which the economic downturn has only strengthened the use of performance measurement for budgetary decision making. Finally, Hou’s findings confirm past research that PBB has been more effectively used for management than for budgeting decisions.

Scott Pattison remains sanguine in the face of Hou’s research findings. Pattison has served as executive director of the National Association of State Budget Officers for a decade. Before working for this state financial management and budgeting support organization, Pattison was in the public service—for the state of Virginia as its budget director in the Department of Planning and Budget, as counsel in the state’s Attorney General’s Office, and for the federal government at the Federal Trade Commission. Pattison also has been an adjunct faculty member and board member of several Virginia universities.

Pattison confirms Hou’s sample as representative of the 50 states and agrees that a poor economy hinders the use of PBB, a finding that is confirmed by state officials in numerous conversations. Pattison regrets the reversion to “traditional,” across-the-board cuts commonly made by states during fiscal crises. But this alone is evidence that government officials need to be reminded of the possibilities of support that PBB offers to budgetary decision making—by providing information that more fully differentiates between effective and noneffective government operations, programs, and services. Pattison also recognizes that PBB, in the past and as evidenced in the sample states, is more effective as a management tool than as a budgeting tool. But here again, he views this finding positively. If PBB is a constructive aid to management decision making, then such systems can support other decision-making efforts, including budgetary ones. Pattison views the freshman class of governors as a window of opportunity for using PBB for budgeting in the states because, like the new class of U.S. congressmen and women, these novice state-level chief executives may be more amenable to using performance information to “better inform” their decisions about state budgets.

The presentation of the evolution of PBB at the local level in the United States is provided by Alfred Tat-Kei Ho, associate professor in the Department of Public Administration at the University of Kansas. Ho is a well-respected scholar of local government management, performance budgeting, citizen engagement, and e-governance. Ho conducts a case analysis of the city of Indianapolis and its IndyStat program, implemented by Mayor Greg Ballard. Ho drills down to the subdepartmental (program) level to analyze the application of performance measurement for budgeting decisions. Ho couples his quantitative analysis of budgetary change in Indianapolis city programs with qualitative data gathered from interviews, shadowing, and attendance at numerous meetings with the mayor, other city officials, department heads, and staff over one year. His findings indicate that performance measures “may provide a department more internal funding stability in the budgetary process.” And his results show that performance measures are used in city programs when making budgeting decisions.

Though it may be difficult to see how performance information influences budgeting at the departmental level, drilling down to the program level reveals a relationship between measurement and budget change. Ho fleshes out the program management environment in Indianapolis by detailing the integration of IndyStat with the city’s Six Sigma effort. Ho’s work provides a strong methodology for studying the impact of performance measurement and data on budgetary decision making by examining budget change over time. While Ho is optimistic about the possibilities of PBB integration into budgetary decision making in large American local governments, especially at the subdepartmental program level, he acknowledges the challenges to integration for smaller city and county governments, due to lack of management capacity, no political incentive, or both.

Donald Gloo provides commentary on Ho’s research about Indiana- polis’s application of PBB. Gloo is a senior management associate with the International City/County Management Association in its Center for Performance Measurement, where he leads an effort to overhaul data query and reporting services. Previously, Gloo was in the public service—as assistant city manager in Urbandale, Iowa, in the central budget office of Arlington County, Virginia, and, before that, eight years with the federal Bureau of Labor Statistics and the Office of Personnel Management. Gloo agrees with Ho’s findings as they relate to PBB implementation in a large city such as Indiana- polis. But he takes issue with any consideration that the findings are definitive for all local governments, and rightly so. That is, Gloo recognizes that in highly complex and multilayered organizations, such as those found in a large American city, the distance between measurements and final budget decisions can be dramatically different from that found in small or rural cities and counties. In fact, in this case, smaller may be better—elected officials in small governments are more likely to be “closer” to the performance information coming out of departments than those in large governments. In other words, Gloo finds the potential for using performance measurement in budgeting even stronger in small governments compared to large ones.

On the other hand, Gloo recognizes, like the other symposium contributors, that the current fiscal crisis places an added burden on governments and strains their flexibility to develop and apply measurement to budgeting decisions. According to Gloo, “it is even more telling to know that the fiscal climate is forcing local governments to make very painful choices, including some that are detrimental to the performance measurement and management reform effort.” Just as Pattison notes for states, local governments revert to crisis budgeting
the No. 1 and No. 2 teams. The system has worked without a hitch since 2006. That is when an additional BCS game was added to match its success should only be judged since sports writer Ron Morris (2010), “the BCS formula, which considers data and information about performance, more often than not has matched the top two collegiate teams in the championship game, certainly more often than the old system did.

Likewise, the old-fashioned way of pairing teams according to traditional agreements between conferences and bowls without regard to on-field performance often did not result in a match between the two top teams for a true championship game. The BCS formula, which considers data and information about performance, more often than not has matched the top two collegiate teams in the championship game, certainly more often than the old system did.

This leads to another important conclusion—that consistent yet flexible application of a system is necessary for success with PBB, and the BCS. As the scholars here explain, PBB initiatives have been engaged at all levels of government in the United States for decades. These efforts at the federal, state, and local levels have built on past systems, adding new components, discarding those that do not work, and including innovations along the way. Similarly, refinements to the BCS system have made for better pairings. According to sports writer Ron Morris (2010), “the BCS and its success should only be judged since 2006. That is when an additional BCS game was added to match the No. 1 and No. 2 teams. The system has worked without a hitch since.” Of course, this means that both systems must be open to change in the future to ensure continued success.

Obviously, PBB and the BCS are not perfect, but experience shows that these rational decision aids can succeed in their intended purposes. In the case of PBB, this means that a system can inform budgetary decision making when its intent is understood, the system is well integrated into the budgetary process, and reliable measures are used. Flexible systems, championed by public leaders and improved incrementally, strengthen the results that are possible from PBB. Similarly, while the BCS is not perfect, and may be inferior to a playoff system, it succeeded again this year in matching the top two collegiate football teams in a national championship game. According to Bill Hancock (2010), executive director of the BCS, “The fact is the BCS accomplishes its mission with a stunningly popular national championship game. It regularly draws more viewers than the NCAA Final Four, the World Series, the NBA Championships and the Stanley Cup Playoffs. And it does this while maintaining college football’s wonderful regular season and also by preserving America’s unique multiday bowl tradition that rewards student-athletes with a celebratory bowl-game week.” In a decade or two, perhaps PBB will experience a similar level of success and enthusiasm in the arena of public budgeting.

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References
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