A Performance Management Framework for State and Local Government: From Measurement and Reporting to Management and Improving

Public Review Draft

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National Performance Management Advisory Commission
## About the Commission

The National Performance Management Advisory Commission (the commission) is a collaborative effort of 11 leading public sector management organizations with broad representation across the United States and Canada. They have come together sharing the compelling recognition that all levels of government need to enhance results, increase and keep the public’s trust and confidence and assure accountability for performance. While governments are increasingly collecting data and reporting about their performance – an essential element in accomplishing these objectives – these practices alone do not produce the desired ends.

The commission’s intent is to provide a framework that goes beyond measurement and reporting, enunciating management principles and integrating management practices that can be adopted and shared by all levels of government alike. However, since jurisdictions vary widely in size, type, history, and challenges, the commission also intended to design a framework that would:

- Be flexible and readily adaptable to varying circumstances, rather than rigid and prescriptive regarding specific measures, systems, or reporting formats.
- Identify general approaches, practices, and techniques that are characteristic of successful performance management; and
- Support state and local governments’ efforts to develop and assess their performance measurement and management systems, for the public’s benefit.

The sponsoring organizations of the commission are:

- Association of School Business Officials International (ASBO)
- National Association of State Budget Officers (NASBO)
- Council of State Governments (CSG)
- Government Finance Officers Association (GFOA)
- International City/County Management Association (ICMA)
- National Association of Counties (NACo)
- National Association of State Auditors, Comptrollers, and Treasurers (NASACT)
- National Center for State Courts (NCSC)
- National Conference of State Legislatures (NCSL)
- National League of Cities (NLC)
- U.S. Conference of Mayors (USCM)

### Commission Members

**Jackie Nytes**, Chair (NLC), *Councilor, City of Indianapolis and Marion County, Indiana*

**Richard Devlin**, Vice Chair (NCSL), *Senate Majority Leader, State of Oregon*

**David Ammons** (NPMAC), *Professor, University of North Carolina*

**Daniel Becker** (NCSC), *State Court Administrator, State of Utah*
Rodney Bockenfeld (NACo), Commissioner, Arapahoe County, Colorado
Michael Brown (ICMA), Chief Executive Officer, County of Santa Barbara, California
Jacqueline Byers (NACo), Director of Research and Outreach, National Association of Counties
Warren Chism (NCSL), Chairman of the Texas Appropriations Committee, House of Representatives, State of Texas
Barbara Cohn Berman (NPMAC), Director, Center on Government Performance of the Fund for the City of New York and National Center for Civic Innovation
Sharon Daboin (NASBO), Deputy Secretary for Performance Improvement, Governor’s Budget Office, State of Pennsylvania
Jeffrey L. Esser (GFOA), Executive Director/CEO, Government Finance Officers Association
Peter Franchot (NASACT), Comptroller, State of Maryland
Daniel Hall (NCSC), Vice President, Court Consulting Services, National Center for State Courts
Chris Hoene (NLC), Director, Center for Research and Innovation, National League of Cities
John Kenney (NASACT), Director of Accounting, State of Maryland
Anne Kinney (GFOA), Director, Research and Consulting Center, Government Finance Officers Association
Mike Lawson (ICMA), Director, ICMA Center for Performance, International City/County Management Association
Lee Legutko (ASBO), Chief Business Officer for multiple school districts in Florida (Retired)
Clare Mazur (NCSL), Chief Legislative Analyst, Office of Program Policy Analysis & Government Accountability, Florida
John Mountjoy (CSG), Director of Policy and Research, Council of State Governments
Bob O’Neill Jr (ICMA), Executive Director, International City/County Management Association
Scott Pattison (NASBO), Executive Director, National Association of State Budget Officers
Kinney Poynter (NASACT), Executive Director, National Association of State Auditors, Comptrollers, and Treasurers
Michael J. Robinson (CSG), Senior Deputy Executive Director, Council of State Governments
Ken Rust (GFOA), Chief Administrative Officer, City of Portland, Oregon
Ron Skinner (ASBO), Assistant Executive Director, Association of School Business Officials International
Ron Snell (NCSL), Director of State Services, National Conference of State Legislatures
Cathy Spain (NLC), Director, Enterprise Programs, National League of Cities
William C. Vickrey (CSG), Administrative Director, Administrative Office of the Courts, State of California
Judy Zelio (NCSL), Program Director, Fiscal Affairs, National Conference of State Legislatures

Commission Staff

Anne Kinney (GFOA), Director, Research and Consulting Center, Government Finance Officers Association
Christina Altmayer (GFOA), Consultant, Research and Consulting Center, Government Finance Officers Association
Mike Mucha (GFOA), Senior Consultant/Analyst, Research and Consulting Center, Government Finance Officers Association
Work of the Commission

The commission organized its work into four phases: research, analysis, recommendation development, and public review and comment. Extensive input on the development of the framework was sought throughout the process through interviews; review and comments; and the engagement of practitioners, elected officials, and administrators as reviewers. The commission thanks and recognizes the collaboration of all these participants who contributed greatly to the final product.
The Performance Management Framework for State and Local Government: From Measurement and Reporting to Management and Improving, is presented in two parts. Part 1 of the report defines and describes the framework. It begins with an explanation of the framework, a definition of performance management, and a discussion of the major reasons governments adopt performance management. Next, the framework’s seven principles are described and the benefits of adopting performance management are discussed. Part 2 provides information on how governments can apply the framework. It first discusses how governments can initiate, implement and sustain performance management. Next, the characteristics of the major practice areas in performance management are identified and examples of specific performance management practices are described.
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Part 1: Defining the Performance Management Framework

About the Framework

What is Performance Management?

Why Undertake Performance Management?

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Benefits of Performance Management
About the Framework

Rationale for the Framework

The National Performance Management Advisory Commission developed the framework to help governments move beyond measuring and reporting to achieving improved results through systematic application of performance information. While the commission strongly endorses measuring and providing information on performance, there was consensus among its members that doing so is not sufficient. This is because residents, elected officials, managers, and other stakeholders are not likely to be satisfied with simply knowing how their government is performing. They are also very likely to want to know what their government is doing to make things better, or, if they are pleased with the results, what the government is doing to assure continued good performance. This is especially true in a time when governments are having trouble finding sufficient revenues to fund current programs and services.

The framework offers a way for governments to respond. It is intentionally flexible and high-level so that it can be used by all state, provincial, and local entities -- state and provincial executive, legislative, and judicial branches; cities; counties; school districts; and special districts -- to improve the results they provide to their stakeholders.

The framework is also conceptual; it is not a how-to guide, although much of the information included in this report will assist governments to implement performance management. For governments that currently have performance measures and report them in some way, the framework provides guidance on how they can apply the performance information they are producing to managing their organization and to improving results. For governments that have not yet developed performance measures, the framework provides a starting point for designing a system that goes beyond measurement and reporting from the beginning and helps build capacity for learning and improvement and enhances accountability.

In developing the framework, the commission discussed the multiple audiences that are served by performance management, both those internal to the government (e.g., elected officials, executives, managers, departmental supervisors, and staff) and external (e.g., the members of the public, neighborhood and special interest groups, non-profit organizations, the media, the municipal bond industry, and other governments). The commission believes that the framework will be useful for all of these audiences; however, the commission created the framework expressly for public managers and public officials because they are the ones who are most responsible for aligning their governments’ resources to achieve the best results possible. In the language of performance management, they are the ones most accountable for allocating and aligning inputs in a way that, based on available evidence, is most likely to produce outputs that will result in outcomes stakeholders need and want.
In the framework illustrated above, performance management principles are applied to traditional governmental practices, in the areas of planning, budgeting, operational management, and evaluation, for example. The principles transform and unite these governmental practice areas into a single, well-aligned structure for producing value for the public in the form of improved results: better services, effective programs, focused policies, and ultimately, improved community condition. Performance management practices improve as performance management is initiated, implemented, and sustained by organizational leaders and managers. Through sequential performance management cycles, the organization increases its capacity for learning from the evidence in order to improve results.

**Performance Management Principles**

1. A results focus permeates strategies, processes, and decisions.
2. Information, measures, goals, priorities, and activities are relevant to the government and the community.
3. Information, decisions, and processes are transparent (easy to access and understand) to stakeholders.
4. Goals, programs, activities, and resources are aligned with mission, priorities, and desired results.
5. Decisions and processes are driven by timely, accurate, and pertinent data.
6. Processes are sustainable over time and across organizational changes.
7. Performance management transforms the organization, its management, and the policy-making process.

**Applying the Framework**

The framework described above includes “better results for the public” that are produced through applying principles to governmental practices through sequential cycles of performance management. A question arises as to who says what results are desired and needed by the public? And how are
annual targets set? At the outset it is important to make sure that objectives and annual targets at all levels of the organization are focused on meeting the needs of stakeholders, from community-wide priorities and organization-wide objectives to operating standards for how individual employees treat members of the public on telephone calls. This focus on results for stakeholders will be addressed more fully in Part 2 in the practices section.

Throughout this report, principles and practices are illustrated through examples from governments that practice performance management. As these examples will show, there are many good and successful approaches to performance management; all, however, rely on the principles and practice areas described in the framework. Because individual governments each have unique characteristics, approaches that work well for one may not be appropriate for another.

In addition, it is important to keep in mind that the framework is a means to an end, not an end in itself. Simply superimposing a performance management process onto a traditionally managed organization is not likely to produce expected benefits. Organizational culture issues must also be addressed.

Finally, while benefits accrue from the beginning, the greatest benefits take place over a number of years, as performance management principles and practices permeate the organization. Consequently, sustaining and supporting performance management is an essential ingredient of a successful effort.
What is Performance Management?

Performance management is an ongoing, systematic approach to improving results through evidence-based decision making, continuous organizational learning, and a focus on accountability for performance. Performance management is integrated into all aspects of an organization’s management and policy-making processes and transforms an organization’s practices so that they are focused on achieving improved results for the public.

Performance management includes the concerted actions an organization takes to apply objective information to management and policy making in order to improve results. Performance management uses evidence from measurement to support governmental planning, funding, and operations. Better information enables elected officials and managers to understand stakeholder concerns, recognize success, identify problem areas, and respond with appropriate actions—to learn from experience and apply that knowledge to better serve the public.

Performance measurement and performance management are often used interchangeably; however, they are distinctly different. For decades, some governmental entities have measured outputs and inputs, and, less commonly, efficiency and effectiveness. Many governments have also tracked and reported key statistics at regular intervals and communicated them to stakeholders. Although measurement is a critical component of performance management, measuring and reporting by themselves have rarely led to organizational learning and improved outcomes. Performance management, on the other hand, systematically uses measurement and data analysis, as well as other tools, to facilitate learning and improvement and strengthen a focus on results. Performance measurement helps to monitor performance. Performance management encompasses an array of practices designed to improve performance.

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Why Undertake Performance Management?

Why is performance management important? Why should governments make the effort to implement and practice performance management?

As performance management efforts have grown and gained attention, a sense of professional – even ethical – responsibility for focusing on performance improvement has grown correspondingly. Managers are increasingly expected to incorporate performance management into their jobs. Performance management is becoming recognized as an approach that addresses three fundamental challenges of government:

**The need to focus the organization on results that are important to stakeholders** – Performance management begins with setting objectives and targets that are relevant to stakeholders’ needs and wishes, and focuses the organization’s resources and efforts toward achieving results that will make the most difference to stakeholders.

**The need to improve results within resource constraints** – Governments are constantly challenged to provide higher quality services and improved outcomes within limited resources. Performance management builds a culture of continuous improvement in which organizations are motivated to find and apply interventions that offer the best results for the least amount of money.

**The need to gain and keep the public’s trust and confidence** – Performance management promotes accountability and supports confidence in government not only by communicating results but by improving the government’s capacity to provide better services.

Early practitioners of performance measurement who relied on rudimentary measures of inputs and outputs have been frustrated that their investments did not yield the benefits outlined above. Moving beyond output measures to outcomes and moving from performance measurement to performance management helps close the gap. The Metropolitan Government of Nashville and Davidson County example illustrates how a transition to performance management from measurement can work.

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**The Metropolitan Government of Nashville and Davidson County** found that its initial investments in performance measurement did not yield expected results. Reported measures were not linked to business or strategic objectives and were not making a significant impact in its organizational culture. A study by the Nashville Office of Management and Budget found that more than half of the government’s departments did not use performance measurement information from the system for monitoring and management purposes and nearly half only collected data so that it could be published in the annual budget book. Through its Results Matter initiative, Nashville transformed its performance measurement process into one that is linked to budgeting and strategic planning. The program’s goal is to successfully bring about a cultural shift in the organization and to implement a systematic focus on achieving results. Results Matter has helped change the nature of budget discussions in the City Council, putting more focus on...
desired and actual results. While previously it was not uncommon for debate to center on line-item expenses, now council members more often discuss the outcomes that are being pursued and their relative importance. Results Matter also included a citywide effort to manage operations based on performance information. With increased reliance on performance data for decision-making, the City has been able to reduce backlogs in functional areas and streamline processes.
Performance Management Principles

The framework described in this report contains the following principles, which are described in more detail below. These principles transform and unite governmental practices in areas such as planning, budgeting, managing, evaluation, measurement and reporting into a single, well-aligned structure for improving results. Applying these principles to management and policy making creates public value in the form of better services and programs, relevant policies, and improved community condition.

Performance Management Principles

1. **A results focus permeates strategies, processes, and decisions.**
2. **Information, measures, goals, priorities, and activities are relevant to the government and the community.**
3. **Information, decisions, and processes are transparent (easy to access and understand) to stakeholders.**
4. **Goals, programs, activities, and resources are aligned with mission, priorities, and desired results.**
5. **Decisions and processes are driven by timely, accurate, and pertinent data.**
6. **Processes are sustainable over time and across organizational changes.**
7. **Performance management transforms the organization, its management, and the policy-making process.**

1. **A results focus permeates strategies, processes, and decisions.**

   A results focus is central and essential to performance management. Governments implement performance management to obtain better information on the results or impact of their services and to improve results. Community-wide plans, long-term and annual budgets, customer service strategies, and individual efforts all revolve around articulating and producing desired results.

   Traditional government processes and practices have emphasized a process compliance definition of results rather than an outcome-based definition. Compliance with prescribed processes may help to assure fairness, fiscal probity, or adherence with the law, but often has the side effect of perpetuating suboptimum programs or activities. A performance management results focus detects any suboptimum processes and strategies so they can be changed.

2. **Information, measures, goals, priorities, and activities are relevant to the government and the community.**

   Relevancy requires that an organization establish goals and performance measures that are important and meaningful to their intended audience. Some goals and measures may be highly technical, such as those related to complying with technical environmental protection laws for drinking water, for
example. Many residents, however, just want to know that they have clean and drinkable water. Thus a government might need to set both technical and resident-friendly goals and provide plain language interpretations of water quality test results. Relevancy requires that policymakers, executives, managers, and staff clearly understand how to use performance management tools and processes so that appropriate goals and measures can be developed and resources devoted to achieving expectations.

3. **Information, decisions, and processes are transparent.**

Transparency means assuring that information is available, but also that it is well organized, accessible, and easy to understand. Information that is known only by a small group or an individual does little to foster evidence-based planning, budgeting, and decision making. Making performance information widely available facilitates discussions about how to improve performance, thus offering the potential for improved resource management, better policy making and a better informed public. Further, many performance management practices result in changes to the status quo, as performance information is used to reallocate resources to better match priorities, or to reward good performance. Stakeholders will want to know whether these decisions were made fairly. Transparency is needed in order to maintain trust in the performance management system and those who manage it. Transparency of information can let stakeholders assess for themselves, for example, whether resources are being applied where they are needed most.

4. **Goals, programs, activities, and resources are aligned with mission, priorities, and desired results.**

Performance management requires that goals, programs, activities, and resources be aligned with an organization’s mission, priorities, and desired results. Further, alignment with the organization’s purpose and intended outcomes must be both vertical (from top to bottom of the organization structure and also from organization-wide goals to individual goals) and horizontal (across organizational units, and if possible, across governments serving the same population). A system in which community-wide and organization-wide goals and strategies are established and then linked with more specific sub-organizational goals and even individual goals or performance targets in a cascading process, helps to position the organization to achieve better results. Through creating this alignment, stakeholders at multiple levels of the organization are focused on the “big picture” and are able to understand how individual tasks contribute to sub-organizational goals, which lead to the achievement of organizational goals.

A lack of alignment creates two significant impediments to success: 1) the organization will act like multiple organizations rather than a single one, at a huge cost to efficiency and effectiveness, and 2) components of the organization will compete for resources rather than developing ways to cooperate.
5. Decisions and processes are driven by timely, accurate, and pertinent data.

Performance data and the integration of performance data into management and decision-making processes are essential to performance management. Policymakers, executives, managers, and staff require performance data in order to track and understand results. Data-driven decision making allows the organization to learn from experience, replicate successful strategies, and improve on efforts that fail to meet expectations.

6. Processes are sustainable over time and across organizational changes.

Performance management is not an event, a program, or a quick fix intended to address only current issues. To be successful, performance management must be part of a sustained organizational improvement effort. In addition, a performance management system must be sufficiently flexible to adapt to inevitable changes that occur over time such as leadership changes or changes in organizational structure. The benefits of performance management increase over time as it becomes the preferred and expected approach to management and decision making. Performance management requires a significant commitment by leaders to provide resources, develop or acquire expertise, and both encourage and require involvement. Performance management becomes a sustained effort when the organization uses performance management practices routinely, believes in performance management as the preferred mechanism for managing resources, and finally, makes decisions based on information about performance.

7. Performance management transforms the organization, its management, and the policy-making process.

The preceding six principles contribute to this final principle, that of transformation. The term transformation refers to radical change, not just to a few adjustments in processes or targets. In government, transformation has meant a shift from focusing primarily on inputs and outputs and status-quo programs to a concentration on achieving better results through using evidence-based planning and objective setting, organizational alignment, and organizational learning. It has also meant moving beyond traditional bureaucratic constraints toward more flexible, results-based resource allocation and management. Finally, transformation has meant changing the organization’s underlying culture from one that is heavily focused on rules and processes to one that values evidence, learning, and accountability for results as well as accountability for complying with the law and regulations.
The Benefits of Practicing Performance Management

Performance management is not a mechanical process that can be set in motion and routinely maintained. Practitioners of performance management have learned that achieving better results through the principles and practices of performance management requires a sound technical approach, strong leadership, ever-improving expertise, and a culture that constantly reinforces a results focus.

There is a cost, both in effort and dollars, to implementing performance management. In exchange, what benefit can governments and the public expect? The benefit is that performance management enables governments to produce better results for the public. Through continuous cycles of planning, resource allocation, program or policy execution, and evaluation (which provides information to support successive cycles), organizations continuously improve their ability to understand what works. This makes them better able to improve results. Staff, well trained in performance management practices, is equipped to learn from past experience and the experience of other organizations, and use resulting evidence to modify strategies and actions or implement new solutions.
**Enhanced Organizational Capacity for Learning and Improvement**

Performance management principles and practices offer the promise of better policy decisions and responses to operational performance challenges. By implementing and constantly improving practices that support performance management, government increases its capacity to improve services, programs, and policies. At the same time that it is refining its practices, a government can enhance staff expertise and reinforce a culture committed to continuous improvement. The ability to produce better results is reinforced through ongoing management focus and attention. As performance management becomes more ingrained in the organization, the organization increases its capacity to take on more difficult changes through succeeding cycles of performance management. Governments have found that investment in performance management has also generated positive changes among staff, including:

- Increased willingness to take on more challenging tasks;
- Greater belief in the capacity of the organization to address and solve problems;
- Greater collaboration among units to work cooperatively to achieve organizational results;
- Increased pride and ownership in the organization’s success; and
- Strengthened commitment to making a positive difference in the community served.

**Enhanced Accountability**

Inherent in performance management is the expectation that targeted and actual performance will be transparent and known to stakeholders. When credible information is produced and made available in a usable form, it becomes much easier to establish accountability throughout the organization.

**Improved Results for the Public**

Enhancing an organization’s capacity for learning and improvement combined with enhancing its accountability for achieving results produces a potent mixture for meeting the public’s needs creatively and efficiently. Firmly institutionalizing the technical practices of performance management is critical. Equally important is fostering an organization culture that values measurement, analysis, and evidence and sees them as the foundation for good decision making.
Part 2: Using the Performance Management Framework

Initiating, Implementing, and Sustaining Performance Management

Performance Management Practices
Initiating, Implementing, and Sustaining Performance Management

Systematic, ongoing performance management requires a sustained effort. Organizations that have implemented and institutionalized performance management know that it is a constantly evolving process, not something that works at an optimal level on day one. First, events and individuals coalesce to initiate performance management. Assuming that authorization and resources follow, the initiative is implemented. Then, if the full benefits of performance management are to be achieved, both for the organization and for its constituents, the effort must continually grow and become a regular part of doing business, which requires active management and sustained focus.

Initiating Performance Management

As with any large-scale change, something compels someone to act. A person or a group, motivated by a goal or an aspiration to break out of the status quo and make the change, champions the effort. The three motivations below are typical:

Management’s desire to improve – Public managers may decide that performance management would be an effective tool for improving services, responding to community needs, addressing citizen preferences, and/or enhancing the government’s reputation. Performance management practices coupled with better information for better decisions can lead to improved performance.

Stakeholders’ demands and expectations – Governments face myriad demands and expectations from external stakeholders – citizens, businesses, other governments, labor unions, neighborhood groups, or special interest organizations. Once governments have identified stakeholders’ needs and expectations, they can use performance management practices to accomplish outcomes these stakeholders will value.

A response to fiscal stress – As budget constraints require governments to reduce spending, officials and managers need better information in order to decide how to allocate scarce resources. While actions such as across-the-board reductions or use of reserves for ongoing costs may be expeditious, they are not sustainable. Performance measurement practices, relying on data analysis and resulting performance information, can help officials and managers to make difficult decisions about funding priorities and the limited funds available more effectively.

Implementing Performance Management

It can take years for an organization to make performance management the standard way of doing business. Initial implementation, however, can be accomplished within a single fiscal year.
Implementation Steps

Although implementation steps will depend to some extent on each government’s own situation, the following steps are representative.

1. **Present the case for performance management to the appropriate decision makers in order to enlist support, obtain authorization, and secure resources.** While organization-wide implementation is optimal, individual sub-units – agencies, departments, or bureaus, for example – may decide to implement performance management independently. Regardless of the organization’s size or scale, however, support from organizational or sub-unit leaders is essential. Without such support, efforts to implement and sustain the effort are highly unlikely to be successful.

2. **Identify key purposes and objectives of initiating performance management.** Governments usually have more than one reason to implement performance management. Clarifying and communicating key purposes and establishing specific objectives at the beginning will help to determine process design and enlist support.

3. **Define the performance management process.** There are several performance management systems that governments may choose from including 1) a strategic planning-based cascading system of objectives, strategies, and measures; 2) the “balanced scorecard” approach popularized by Kaplan and Norton; and 3) the Stats approach. Governments can adopt one of these approaches fully or partially, or select elements from several to create their own unique system. Regardless of the specific approach, performance management typically includes the following elements:
   - **A planning process that defines the organizational mission and sets organizational priorities that will drive performance.** This is the planning phase of the performance management cycle. Once strategic priorities are established that are consistent with the mission, long-term objectives, annual targets, and strategies can be set.
   - **A budget process that allocates resources according to priorities.** A complete performance management system must include a performance approach to budgeting. Rather than basing budgets on previous year’s expenditures, funding is allocated according to priorities and information on what actions are effective in reaching desired results.
   - **A measurement process that supports the entire performance management system.** A key challenge in this step is how to integrate measures both horizontally, across organizational processes and boundaries, and vertically, from a community condition level all the way down to individual employees.
   - **Accountability mechanisms.** “Accountability” refers to the obligation a person, group, or organization assumes for the execution of authority and/or the fulfillment of responsibility. This obligation includes:
     - Answering – providing an explanation or justification – for the execution of that authority and/or fulfillment of that responsibility,
     - Reporting on the results of that execution and/or fulfillment, and
Assuming responsibility for those results.” 2

- **A mechanism for collecting, organizing, and storing data.** This process assures data validity and availability.
- **A process for analyzing, reviewing, and reporting performance data.** The organization needs the capacity to analyze data, not just collect and report it, so that data can be interpreted and useful information provided to management, policymakers, and the public.
- **A process for using performance information to drive improvement.** At this stage, information is used as evidence to help the organization make decisions on whether to continue programs or activities, or to try something else. The capacity for using performance information to drive improvement includes the ability to compare current to past performance, and if possible, to compare the organization’s performance to that of other organizations. 3

4. **Communicate the plan to gain understanding, enlist support, and assure that stakeholders have the facts.** Communication is a critical component of any change effort. A well executed communication strategy is essential for successful implementation. Absent clear communication, people within the organization will use whatever information exists, whether or not it is accurate.

5. **Build organizational capacity through training, hiring, or developing in-house technical expertise; providing performance management tools and supporting technologies; and building common terminology.** While training is generally part of initial implementation, it should not be viewed as a one-time event. Existing staff benefit from recurring training, and new hires need proper introduction to the way the organization practices performance management. The organization’s efficiency and effectiveness will benefit from deeper staff understanding of performance management practices and principles.

6. **Monitor the implementation process and make adjustments as necessary.** Just as monitoring and adjusting are part of the performance management cycle, the performance management initiative itself must continually be monitored and changes made to assure that it is becoming ingrained in the organization and that benefits are being achieved.

**Managing the Change**

Although this section presents initiating, implementing, and sustaining performance management as a three-part sequence, in fact the ability to sustain a performance management initiative begins in the two earlier stages. Any major organizational change, including implementation of performance management, requires both a sound technical approach and a workable approach to change itself. Organizational change management is indispensable to assuring that performance management will become the organization’s ongoing way of doing business. At its heart, performance management is an

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3 Ibid. Each of these elements is listed in the DOE manual; however, their descriptions have been revised for the purposes of this framework.
organizational improvement process that hinges on aligning an organization’s employees with the discipline’s tools and practices. Achieving this alignment requires that the organization pay attention to key issues that employees have during the transition.

Organizational and structural issues often have the potential to impact the success of a change effort, so strategies to address those issues should commence before performance management implementation begins. Initiators of performance management should consider the specific organizational culture factor and identify potential barriers as they develop their implementation strategy. The earlier change management efforts begin, the stronger the foundation becomes to support a sustained performance management initiative. While a comprehensive description of change management is beyond the scope of this document, a sound change management process includes, at minimum, the following steps:

1. **Assess the organization’s capacity for change**  
   Review how the organization has responded to changes in the past, what the key barriers have been, and how they have (or have not) been overcome.

2. **Create a change management component**  
   Create a change management component to the performance management initiative and give responsibility to an individual or a group for addressing change management issues separate from the technical components of implementation.

3. **Establish a process for communication**  
   As mentioned above in the implementation section, communicate systematically and frequently. A communication plan that identifies key audiences, key messages, and appropriate communication channels, and then provides timely communications is an essential part of managing the transition.

4. **Provide coaching and individual attention to participants**  
   Provide coaching and feedback so that individuals in the organization are able to use performance management and understand not only why it is good for the organization, but also how each person fits into a performance management approach.

5. **Manage resistance**  
   No matter how well justified the initiative may be, acceptance levels will vary. Some individuals will enthusiastically adopt, some will adopt because it is expected, and others will drag their feet or simply refuse to get on board. Managing resistance is a multi-faceted activity that involves identifying the specific sources of resistance and developing responses that are appropriate in scale and intensity.

6. **Celebrate success**  
   Although we have emphasized that performance management is an evolutionary process, successes occur at every stage. In the beginning, gaining resources and presenting the implementation plan is an early success. Creating key organizational priorities is another. It is important to announce successes and involve employees as a way of perpetuating the message that
performance management is not itself a program or owned by a single group of people, but rather the organization’s new way of doing business.

**Key Factors in Sustaining Performance Management**

The following five factors are critical to a sustained effort. In the initiating stage, it is important to analyze the extent to which these factors are present. If deficiencies exist, there is time to remedy them or to create work-around strategies.

*Supportive Leaders:* Performance management initiatives cannot achieve optimum success without energetic and sustained support from an organization’s top managers. Leaders need to articulate a vision for performance management that tells stakeholders how they will benefit and encourages involvement. Leadership must also make clear that performance management is not an experiment and is in fact how business will be conducted.

*Internal Champions:* A small number of internal champions committed to success and to the time it will take to create a sustained effort can make performance management happen. Champions are committed to implementing performance management and are willing to use their time, talents, and resources to help develop, improve, and get others committed to the effort. This includes finding the time to do research, organize meetings, assign staff to projects, and develop fact-based arguments for countering criticism from cynics and skeptics.

*The City of Columbus, Ohio,* views performance management as a critical tool in developing the accountability necessary to achieve the mayor’s goals and objectives. When the city first implemented its system, the first step was to hire an experienced leader and create an office of performance management within its financial management division. The office of performance management was given the mission of “ensuring that city leaders and departments have the information they need to track performance, document successes, and identify opportunities for improvement in city services.” The city also identified “internal champions” to staff the office who could act as internal consultants to departments, provide support, and continue to advocate for performance management.

*Sufficient Financial Resources:* Performance management results in greater efficiency and more effective use of resources in the long run, but requires an upfront investment of resources for implementation. People, expertise, technology, and money are necessary to establish and maintain tools and practices such as revising processes, developing measures, and collecting and storing data.

*Performance Management Expertise:* Developing a successful performance management system requires much more than creating new forms and developing new measures. Performance management systems represent a fundamental change in organizational culture. Accessing expertise from individuals who have previously implemented performance management allows governments to take advantage of lessons learned and avoid common problems. Alternatively, identifying and enlisting the support of individuals within the organization who are knowledgeable about performance management, preferably those with previous experience, is another success strategy.
Performance Management Practices

Practices represent performance management principles in action – the way that performance management is applied to the ongoing operations of government. Traditional management practices become performance-driven when they incorporate the principles described previously. This section first describes the key performance management characteristics of the four practice areas that comprise the performance management cycle (illustrated below) – planning, budgeting, management and evaluation. Then it describes two cross-cutting practices – measurement and reporting – that are used in all of the four practice areas.

Because it is not possible to identify and describe all existing performance management practices here, we provide examples within each practice area. The examples come from the experience of cities, provinces, states, counties, schools, and special districts that have adopted performance management. While the commission encourages the adoption of performance management organization-wide, even if the entire organization has not implemented performance management, it believes that individual departments or programs managers can improve results for their constituents by instituting these and other performance management practices.
Planning - Defining the Results to Be Achieved

Strategic Planning
A sound strategic planning process systematically addresses an organization’s purpose, internal and external environment, and value to stakeholders, and sets the organization’s long term course. In addition to setting organizational direction, performance-driven strategic planning enables a government to evaluate performance in relation to objectives established in the planning process so that information on past performance can inform and help to improve future performance.

The Government Finance Officers Association’s recommended practice on strategic planning states that “... all governmental entities should use some form of strategic planning to provide a long-term perspective of service delivery and budgeting, thus establishing logical links between authorized spending and broad organizational goals.”

The Government Performance and Results Act says that strategic planning is “an opportunity to unify the management, employees, stakeholders, and customers through a common understanding of where the organization is going, how everyone involved can work to that common purpose, and how we will measure our progress and levels of success.”

Planning in a performance management context includes articulating the organization’s mission, establishing measurable organization-wide objectives or priorities, and identifying strategies for achieving the objectives. Although these elements may be developed without conducting a formal strategic planning process, a formal process helps to assure that key stakeholders are appropriately consulted or involved and that the resulting objectives and strategies are recognized and as the accepted future direction of the organization.

The following practices are part of a performance-driven planning process.

Mission Identification: Essential to the planning process is the definition of an organization-wide (or sub-organization) mission. Public-sector organizations cannot be all things to all stakeholders; a clearly defined mission statement says what the purpose of the organization and also helps readers understand what is outside the purpose. It therefore helps the organization to identify what it needs to accomplish, identify priorities, and set expectations. Vision statements identify a desired future state.

Environmental Scan and Analysis: This practice enables the organization to understand the internal and external forces that are likely to affect its capability to achieve desired results. Organizations need to put together a full picture of the challenges and opportunities the environment presents. From this information, assumptions can be made to guide the remainder of the planning process.

Stakeholder Perspectives on Priorities and Performance: Performance management begins with the premise that governments need to produce results their constituents need and want. Consequently,

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while other factors such as economic and demographic trends are important to understand, stakeholder priorities and expectations are crucial in setting objectives and determining strategies for achieving the organization’s mission. Collecting information in a variety of ways from a wide sampling of constituents helps to ensure that diverse views, not just those of the most active interests are factored in.

Organization-wide Objectives and Strategies: Well articulated and measurable objectives provide a yardstick by which an organization can establish annual targets and then assess the extent to which it is producing desired results. Strategies say how objectives will be accomplished. They enable managers and decision makers to align funding and activities with objectives. Supporting objectives and operational strategies can then be set consistently throughout the organization.

Creating Organizational Objectives and Strategies

Setting organization-wide objectives begins with considering what future state is desired by leaders and stakeholders. What should the community look like in five years? What should be expected in ten or more years? The main elements of a desired future state can be incorporated into a relatively small number of objectives that are clearly stated, specific, measurable (or at least falsifiable), and relevant to stakeholders. Strategies are logically linked to critical issues and describe how objectives will be achieved. For example, if the public is very dissatisfied because roadways are congested, then what condition is desirable? What is the public’s view of a reasonable travel time to get to work? A measurable objective might be established around the public’s expectation and around transportation experts’ knowledge of how quickly a jurisdiction can move from the current travel time to a time that better meets the public’s expectation. Strategies are interrelated with setting targets because strategies help to determine what can be achieved over a specific time frame. In this example, a community might consider options to automobile travel, such as light rail systems or improved bus service, improved roadways, or decreasing the number of traffic interruptions due to accidents – or all of these strategies.

Operational Planning

Operational plans (often called business plans or action plans) translate high-level objectives into policies, programs, services, and activities aimed at obtaining organization-wide objectives. Operational plans need to clearly explain the connection between activity and results, and provide specific measures so that progress can be evaluated. Operational plans typically cover a 2- or 3-year period and are updated annually. Some governments, such as Charlotte, North Carolina, have merged their budgets and operational plans to help keep the spotlight on performance. Others, including Minneapolis, require each department to develop a business plan.

In 2005 the City of Minneapolis, Minnesota, started a new strategic planning process that identified six city goals and 31 strategic objectives. Each department prepares a business plan that says what it will do to support the six city goals and 31 strategic objectives. A departmental business plan includes the department’s organizational chart, mission statement, a brief description of primary business lines, department goals and objectives, and the identification of
the department’s alignment with city goals and performance measures. The link between city goals, department goals, and department objectives is clearly designated in table format. Plans are updated every five years, and yearly progress reports are provided.

**Performance Budgeting - Allocating Resources to Desired Results**

Performance budgeting begins where the strategic plan and/or operational plan ends, using the objectives and strategies from the planning process as the basis for developing a spending plan. The primary purpose of performance budgeting is to allocate funds to activities, programs, and services in a manner most likely to achieve desired results. A performance approach to budgeting emphasizes accountability for outcomes (that is, what constituents need and expect from their government), whereas line-item budgeting focuses on accountability for spending from legally authorized accounts. (Spending from appropriate accounts is, of course, also important in performance budgeting, but does not drive the process.) There are many valid approaches to performance budgeting. What they all share is the goal of assuring that funding is directly linked to achieving high priority results. Common elements include:

*A shift of emphasis from budgetary inputs to outcomes.* Inputs – dollars, people, supplies, equipment – are justified based on how they are expected to contribute to the achievement of desired results.

*The integration of budgeting and strategic planning and an associated focus on long-term results.* Performance budgets are developed within the context of long-term objectives and strategies established in strategic plans. Traditional budgeting focused much more on tactical approaches and a short time horizon.

*Greater attention to the needs of residents and businesses.* Traditional budgeting, due to its focus on inputs and tactical nature, tend to look inward, on the priorities of departments and agencies. Performance budgeting practices, by emphasizing the relationship between spending and community condition, causes more attention to be focused outward, on what is relevant to the community.

While as stated above, a basic tenet of performance budgeting is that spending should be aligned with a jurisdiction’s key objectives and strategies, a significant limitation in most budgeting processes – even performance budgeting processes – is that budget requests are prepared by individual departments, where the link between spending and key organizational objectives and strategies often becomes obscured. Budgeting for Outcomes (BFO), described in Osborne and Hutchinson’s *The Price of Government,* offers a way around the department-by-department barrier, as described below.

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Management Practices - Aligning Operations to Achieve Targeted Results

Management practices are an organization’s operational strategies for achieving results through its work processes, its staff, and its external partners and contractors. Performance management practices are results focused and tested by evidence.

In theory, using performance data to make operational decisions is a common-sense, logical approach. In practice, it may run counter to an organization’s ingrained decision-making processes, which are often based more on hierarchical position, perceived professional expertise, or tradition than on evidence that has been systematically collected and analyzed. “Evidence-based management entails a distinct mind-set that clashes with the way many managers and companies operate. It features a willingness to put aside belief and conventional wisdom – the dangerous half-truths that many embrace – and replace these with an unrelenting commitment to gather the necessary facts to make more informed and intelligent decisions”.7

The practices below illustrate a sampling of sound performance management approaches. They are organized in three categories:

- Managing operational processes,
- Managing staff through human resource practices, and
- Managing external relationships, primarily partners and contractors that assist organizations to achieve results.

MANAGING OPERATIONAL PROCESSES

This category relates to approaches that drive performance through continuously measuring and analyzing performance compared to targets or to the results achieved by similar operations or programs in other organizations. A key component of each of these practices is a process that enables managers and staff to analyze and discuss performance information, and reach conclusions that lead to changes intended to improve results.

Stat Systems: The term Stat refers to a performance management system based on the New York City CompStat model that was adapted by the City of Baltimore as CitiStat. Broadly, it can be defined as:

A series of regular, periodic meetings during which the leadership and/or leadership top aides use data to discuss, examine, analyze with the individual director of different agencies past performance, future performance objectives and overall performance strategies.8

Since 2000, this model has been replicated and expanded by numerous public entities as a way to track and evaluate results against targets in an open, transparent, and problem-solving way. Stats meetings are typically held at least quarterly.

Four key elements have been associated with successful Stat programs9:

- **Accurate and timely data shared by everyone at the same time** – Performance data anchor discussions. Data are displayed against agreed-to targets in graphical and table format to facilitate understanding of actual performance against plan. Meetings are generally widely attended by all those with an active role in contributing to positive performance. This may include administrative support functions such as human resources, contracting, and information technology as well direct operations and/or program staff.

- **Regular and frequent meetings to accelerate learning** – Meetings are held on a regular schedule to reinforce the commitment to results and to monitor how agreed-to corrective actions are impacting the results. The meetings provide the forum in which alternative performance strategies are explored, discussed, and prioritized.

- **Relentless follow-up and assessment** – A common component of Stat meetings is the generation of commitments – specific actions that the agency, department, or unit will commit to undertaking before the next performance review meeting to improve results. Future meetings are then used to continuously compare actual results against plan and determine whether further corrective strategies are warranted.

- **A problem-solving model that works for the organization** – The emergence of Stat systems as a performance management strategy might imply that it is a uniform approach. While the core tenets as identified are common, how they unfold reflects the culture of the organization

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and its leadership. In applying Stat, an organization must adapt this approach to make it work within its culture and structure.

**Benchmarking:** Benchmarking provides a way to understand organizational performance by comparing performance to that of organizations having similar missions, scope, and responsibilities. Benchmarking is particularly useful in the public sector where information sharing is the norm and services are similar. Efforts such as those supported by the ICMA’s Comparative Performance Measurement Program assist cities and counties in the United States and Canada with the collection, analysis, and application of performance information. They provide the ability for interagency benchmarking as well as internal performance improvement comparisons.¹⁰

Multiple jurisdictions develop and use standard measures, and a formal process exists for collecting, validating, and sharing data. Ensuring comparable data requires uniform guidelines for data gathering (for example, whether or not to include overhead costs in calculating operating costs) and a comprehensive data-cleaning effort. While the most visible benefit of participating in a comparative benchmarking project is the ability to assess an organization’s performance against its peers, the underlying and perhaps most important benefit occurs for organizations that exchange information on practices and effective strategies following data comparisons.

**MANAGING STAFF**

Performance-driven human resources practices are focused on engaging and motivating employees to actively support achievement of results, often by tactics designed to help align individual objectives with organizational objectives. A culture that motivates increasing levels of performance is created through a system of rewards, financial and nonfinancial, and recognition.

**Pay-for-Performance:** Pay-for-performance is a broad name for practices that relate to rewarding and/or compensating individuals or teams of employees for achievement of performance targets. Target-based systems are especially reliant on credible data. One practice has been incorporated into individual performance evaluation practices, budgeting, and recognition and reward systems. The fundamental tenet is to motivate employees to achieve targets and to specify the reward or recognition commensurate with achievement of the result.

**Task Systems:** Common in meter reading and solid waste collection, task systems encourage the diligent completion of the day’s tasks, determined to be a fair day’s work. Upon completion, the

¹⁰ See ICMA Center for Performance Measurement project information available at [www.icma.org](http://www.icma.org).
employee or crew is free to leave for the day, providing service quality has been maintained. Task systems have been credited with improving efficiency and route completion and reducing overtime.

Gainsharing: In the most common form of gainsharing, an organization engaging in this performance management practice awards bonuses to employees or employee groups that achieve key departmental or organizational objectives at lower-than-budgeted costs. The bonuses, then, are paid from a portion of the savings. In other cases, the practice extends to revenue-generating and quality-enhancing performance, too. Three characteristics of ideal gainsharing programs are:

1. They focus on opportunities to reduce costs or increase revenue and this allows them to be self-funded;
2. They feature meaningful employee participation, not simply in submitting suggestions but also in collaborating with other workers and management in brainstorming and decision making; and
3. Employees earn financial bonuses based on group success in securing desired gains.¹¹

MANAGING EXTERNAL RELATIONSHIPS: CONTRACTORS AND PARTNERS

Increasingly government relies on private and non-profit vendors in service delivery and program execution. Governments partner with private entities to acquire specialized expertise that would be too costly for government to develop in-house or to secure a more cost-effective service delivery alternative. Whether the operation is in-house or contracted, opportunities exist to institute performance management practices that drive improved results.

Performance-Based Contracting: Outcome-based or performance-based contracting represents a shift from the contracting for the delivery of specified services to the contracting for the delivery of results. Performance contracting agreements are typically silent on the methods the contractor will use to achieve agreed-on results, thus creating incentives for developing innovative solutions to achieve the desired results. (There are obvious limitations to that discretion, such as regulatory or legal requirements.)

Performance-based agreements, although complex in development, share the following elements:

- **Service objectives prioritized** – What are the intended results of the services to be provided? This requires organizations to prioritize the most important objectives for the service and to be explicit when elements of the components of service delivery may be competing for resources. What is the target level of quality? What are the cost limitations?

- **Data collection and reporting system established** – A key implementation issue in any performance-based model is the collection and management of performance data. Data collection and management can be broken down into three activities: (1) defining what

¹¹ Ibid.
specific metrics will be collected; (2) defining how that data will be reported or submitted (format and the use of targets for comparison); and (3) defining how data will be submitted and to whom.

- **Provisions set for meeting, exceeding, or not meeting performance** – Will contractor incentives be included for meeting or exceeding targets? Will there be penalties for falling short? Generally, the incentive is linked to achievement of milestones related to the performance of service, not to activities. For example, performance-based contracts have usually been successful in child welfare systems when providers are paid based on children achieving increasing levels of safety and permanency.12 In general, there are three basic forms of monetary incentives: (1) payments for achieving pre-established results/milestones; (2) liquidated damages for failing to achieve agreed-upon results/milestones; and (3) bonus incentives for high achievement of key contractual results or goals. While monetary incentives represent the most traditional form of performance-based contracting, they are not the exclusive method.

- **Future procurement decisions linked to contractor performance** - Three types of procurement incentives reach beyond the current contract term: giving preferential treatment in future procurement processes to well performing contractors; determining whether to extend a contractual option period based on performance; and precluding unsuccessful contractors from participating in the next procurement cycle or terminating their contract.

- **The final agreement reflects the provisions outlined above as well as the process for regular performance monitoring.** Regular feedback on performance should be incorporated into all performance agreements.

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12 The State of Tennessee Department of Children’s Services has used performance contracts for its child welfare system.
Evaluation – Verifying, Understanding, and Applying Results

Evaluation is a critical component of performance management because understanding the relationship between the activities government carries out and the results it achieves is essential to learning, improvement, and accountability. Performance evaluation methodologies have existed for decades, but mature evaluation programs inside government are rare. This reality is consistent with the traditional input focus of governments and also with the traditional focus on accountability for process compliance, as opposed to accountability for results. Financial audits and compliance audits support this traditional approach, while performance evaluations and performance auditing are the practices of choice for performance management. If performance evaluations and audits are to provide useful information for improving performance, they must go beyond assessing whether measures are valid and accurately reported. They must provide information that helps the organization to understand why programs succeed or fail: Was a program underfunded? Was it improperly implemented? Were the solutions inappropriate to the targeted community? Performance evaluations and audits must also begin with an understanding of their task, which is to provide information for learning, improvement, and accountability, not to place blame or support punitive actions. Specific performance-based evaluation and auditing practices include the following components:

**Detailed performance reviews:** Detailed performance reviews attempt to answer specific questions about program efficiency, effectiveness, or possibilities for improvement. Performance reviews should contain the following four phases:

- Defining the question,
- Establishing a data collection strategy,
- Collecting data, and
- Analyzing data and reporting conclusions.

**Ongoing performance evaluation capabilities:** Learning and improvement is a continuous cycle, not a once-a-year event. To support continuous improvement, organizations need the capability to regularly review program performance and provide information so that corrective actions can be taken. Reviewers should be familiar with the services being provided, yet be objective. Key questions for evaluators to address include: Did the program actually achieve results? Are measures appropriate for intended results? Are programs contributing to organizational success?

**In-depth evaluations that examine the link between action and result:** Organizations learn and improve by looking beyond the data to understand why and how. Most measures are only indicators of an activity, condition, or result. In-depth evaluation of the relationship between what was done and the results achieved helps organizations produce better results over time.
Cross-Cutting Practices: Measurement and Reporting

The major practice areas of planning, budgeting, management, and evaluation are supported by two ubiquitous cross-cutting practices among organizations engaged in performance management:

- Measurement – Practices used to develop, collect, and store information for the purposes of analyzing, understanding, and improving results
- Reporting – Practices used to communicate, display, and compare actual results to targets.

Measurement

Performance measures gauge the quantity, quality, efficiency, and impact of the work of government. While the focus of this framework is on the use of that information for policy and management decision making, evidence-based decision making becomes difficult or impossible without the availability of credible, timely performance data. A good set of measures provides a complete picture of an organization’s performance.13

Key aspects of performance measurement that facilitate its usefulness for performance management include:

- **Credibility and utility of information collected** – The focus of performance management systems is on using performance information to make decisions. It is critical that managers and decision makers have confidence in the information.
- **Relevance to stakeholders** – If measures are not relevant to the situation and meaningful to the audience, they will not be used. Measures serve multiple audiences: management and staff need information to improve performance, policymakers need data to make good decisions, and constituents require current information on community services and conditions important to them. To accommodate this diversity of interests, many governments have developed measures that serve multiple stakeholder groups.
- **Timeliness** – Because performance information will drive decisions, the shorter the lag between the period of time measured and the availability of performance information, the faster information can be analyzed and corrective actions taken, if necessary.
- **Costs of collecting data versus relevance** – The value of collecting the “best data” must be weighed against its cost. Users of the information may need to make trade-offs so that performance management is affordable for the organization.

Reporting

Communicating performance information is essential to engaging managers, policymakers, and staff in improving results and in keeping stakeholders informed and actively interested in their governments. The creation and distribution of performance information can provide the vehicle for understanding results.

Successful strategies for performance reporting include:

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• **Distributing performance information both internally and externally, in formats appropriate to targeted audiences** – Performance information has many and diverse stakeholders. As stated in the Governmental Accounting Standards Board’s *Proposed Suggested Guidelines for Voluntary Reporting*, “Users have different purposes…as well as different interests, needs, levels of understanding, education, and public involvement.” Consequently, it is important that governments understand stakeholders’ differing information needs and provide types and levels of performance information accordingly, to the extent possible within available resources.

• **Producing performance information regularly and making it accessible through multiple methods** – An established culture of performance will generate the expectation for performance information. Governments should produce performance information regularly (monthly, quarterly, semi-annually, annually) to meet this demand. Performance information can also be incorporated into various governmental communications and communication channels – for example, in quarterly performance updates, annual budgets. Technological innovation has changed the way the public accesses information. The multiple communication channels available at relatively low cost provide governments with new ways to provide performance information to their varied stakeholders.

• **Providing clear, unbiased information.** One of the challenges with government’s historical focus on inputs and outputs is that it makes the determination of good performance difficult. Performance should be self-evident to the user of performance information. Users should be able to tell easily whether the trend is going in the planned direction and whether performance is on target. Similarly, the purpose of performance reports should not be to convince the public of the government’s effectiveness, but to provide an objective assessment.

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Glossary of Performance Management Terms

Balanced Scorecard
The balanced scorecard is a management tool, originally developed by Robert Kaplan and David Norton, which translates an organization’s mission and strategy into a comprehensive set of goals and performance measures that are organized into four distinct perspectives (categories) that are vital to a healthy and successful organization over the long term. The standard scorecard, as adapted for the public sector, measures organizational performance across four perspectives: financial, customers, internal business processes, and learning and growth.

Benchmark
A benchmark is a level of achievement against which organizations can measure their own progress. Benchmarks may be used for comparisons of organizational processes or results against an internal or external standard.

Cascading System
The cascading system of performance measurement represents a formal approach to linking individual and departmental objectives and strategies with organization-wide goals and priorities. Performance measures are linked to goals and objectives in a strategic plan or by formal, written organization-wide priorities. Goals (and associated measures) cascade downward from organization-wide goals to the goals and objectives of subsidiary units (e.g., departments, divisions, or other subsets).

Goal
A goal is a statement of direction, purpose, or intent that describes the future state of a condition or result to achieve. Operationally, a goal is a broad statement of what is expected to be achieved sometime in the future. Although a goal is usually considered to be more broadly defined than an objective, the terms goal and objective are sometimes used interchangeably in practice.

Indicator
An indicator is a value, characteristic, or metric used to track the performance of a program, service, or organization, or to gauge a condition. Synonymous with “measure.”

Measure
A measure is a value, characteristic, or metric used to track the performance of a program, service, or organization, or to gauge a condition. Synonymous with “indicator.”

Outcome
An outcome is the result of a program, service, set of activities, or strategy. Outcomes are often identified as immediate, intermediate, and long term.

Output
An output is unit of a product or service produced through various activities and programs, for example, clients served, lunches served, tons of waste removed, and applications processed.
**Evaluation**
While performance measurement and reporting provide data to explain what happened, performance evaluation activities attempt to provide answers to questions such as: Why did it happen? How did it happen? Was this the most efficient use of resources? How effective was the intervention? How can we improve upon the result?

**Stat System**
A Stat system is a performance management technique that includes the regular review of operational data, discussions on whether programs, services, and strategies are performing as expected, and rapid decisions to correct problems.

**Strategic Planning**
Strategic planning systematically addresses an organization’s purpose, internal and external environment, value to stakeholders, and current and future plan for action.

**Target**
A desired number or level related to a performance measure. Targets are the performance objectives that an organization is striving to reach.